

# Stanford SOCIAL INNOVATION REVIEW

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## **The Mouths of Gift Horses** By Henry E. Riggs

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## The Mouths of Gift Horses

Nonprofits should court contributions that help both themselves and society **BY HENRY E. RIGGS**

A COUPLE OF YEARS AGO, Harvard University decided to offer full-tuition scholarships to all admitted students whose families' annual incomes were below \$100,000. This policy is funded by gifts past (that is, from endowment), present, and future. Observers widely praised the university for this action because it helps Harvard compete for the best and the brightest students, including those from middle-income families. In addition, the policy could potentially enhance the diversity of Harvard's student body.

To afford this new policy, Harvard must lean on its donors. But is this the best use of charitable gifts? Wouldn't society be better served by directing these gifts to an expansion of Harvard's enrollment (perhaps in a locale away from Cambridge, Mass.) so that more—not just more middle-income and affluent—young people could benefit from a Harvard education? Or why not forgo donating to Harvard altogether and instead direct gifts to universities and colleges that cannot now meet the aid requirements of truly needy students?

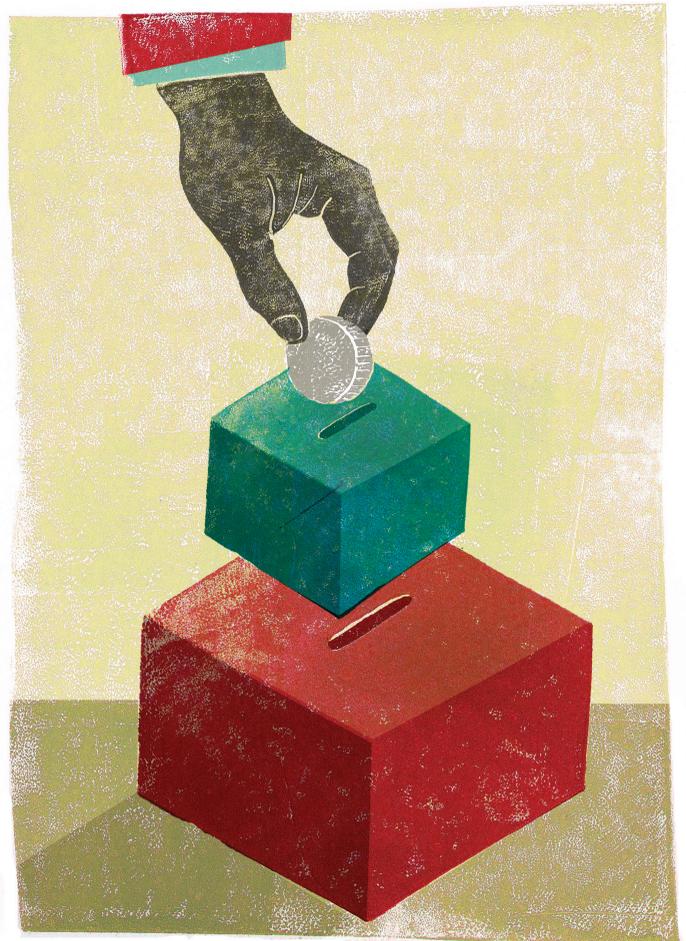
Not all charitable gifts are created equal. Many help the institution to which they are directed but do little for society as a whole. Some pay for programs that benefit society but extract too high a price from the charitable institution. A few help the donor so much that calling them "gifts" is questionable.

Yet the most valuable gifts—those with the greatest utility, to borrow the economist's term—help both the nonprofit and the society in which the nonprofit is embedded. Sophisticated fundraisers and donors intuitively understand gift utility, although I know of none who tries to measure it rigorously when defining gift opportunities or making gifts. Donors want their gifts to have "significant impact," and they can be encouraged to define that impact in broader terms: the needs and opportunities not only of the donee institution but also of society as a whole.

Donor, institutional, and social needs and objectives are often not well aligned. When deciding whose utility to maximize, donors often err on the side of their own or the receiving organization's, rather than society's. To correct this imbalance, I urge donors—both individual and institutional—to consider more thoroughly the social impact of their giving. And nonprofits can work harder to create giving opportunities that simultaneously serve their donors, their organizations, and society at large.

### MYOPIC DONATIONS

Harvard is not alone in using philanthropy to improve its own position at the expense of overall social benefit. Still more troublesome is the practice of some colleges and universities (not Harvard and its



elite peers) of diverting gift funds from need-based to merit-based scholarships to induce affluent students to enroll. When excellent college A offers a merit scholarship to a student whose family's income disqualifies him or her for need-based aid and who, absent the monetary inducement, would enroll in excellent college B, C, or D,

where is the benefit to society? College A enhances the quality of its student body, but turns a financially needy student away.

Another example of gifts with less than optimal utility is donations that fund elegant student lounges, state-of-the-art recreational and sport facilities, and other lifestyle amenities to make the school more attractive to prospective students. The resulting facilities

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arms race among colleges does not benefit society at all. To the contrary, it heightens the anxiety of high school students (and their parents) as they seek admission to the most prestigious and affluent schools. And the operating expenses of these facilities put additional pressures on the school's annual budget.

Consider also the lavish gifts to intercollegiate athletic programs: endowed coaching positions, new stadiums with skyboxes, indoor practice facilities even in temperate climates, scholarships that are awarded solely on the basis of athletic prowess. Do these have any redeeming social benefit, and if not, why are they accorded tax deductibility?

Likewise, many arts organizations raise funds with little thought given to the needs of the broader society. Though donors get excited

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about elaborate new museums and concert halls—preferably designed by Frank Gehry—charitable gifts to these splendid edifices mean fewer and smaller donations to more pressing social causes. For instance, in Los Angeles the hilltop Getty Center—a \$1 billion project—and the Walt Disney Concert Hall, costing north of \$250 million, may have enhanced the city's civic pride, but they did nothing toward addressing its vast social welfare problems—nor even expanding the audiences for art at the Getty or music at Disney Hall.

Should such myopic gifts be prohibited? Heavens no. Shouldn't well-heeled people be permitted to use their wealth as they see fit? You bet. Should they receive tax deductions for all these gifts? Maybe not. (For more on what causes should receive tax deductions, see "A Failure of Philanthropy" in the winter 2005 issue of the *Stanford Social Innovation Review*.)

### GREAT GIVING

By no means am I arguing against the philanthropic support of higher education or of arts and cultural organizations. They need and deserve our support. I also don't agree with people who argue that the only meaningful gifts are those addressing the ills and inequities of our society.

Instead, I am a proponent of gifts that enhance the strengths of our society. And I see that many giving opportunities serve this goal, as well as the goals of the receiving institution. For instance, both Princeton University and Amherst College are using gift funds to increase the sizes of their student bodies—providing more young people a shot at a first-rate education—rather than using those funds to enhance already generous financial aid programs and already luxurious student amenities.

Colleges and universities can offer donors many other ways to serve both their alma maters and society. One of their first goals should be to ask donors to help meet the demonstrated financial need of students. They can also solicit funding for international study, which can enhance our society's global competitive position. They can invite donors to help reduce dropout rates in engineering

departments through curricular enrichments, again contributing to our nation's competitiveness. They can help raise funding for scientific research efforts, which would not only address society's most pressing challenges, but also reduce scientists' dependence on federal funding while increasing research opportunities for faculty and students. Professional schools in particular should solicit gifts that underwrite students' activities in underserved communities, as these activities provide great training for the students and also beneficial services for the communities.

Music, dance, and other cultural organizations likewise have ample opportunity to cultivate gifts that serve both their own and societal missions. Funds for programs to educate young people about the arts, for example, not only help assure appreciative future audiences but also enhance the intellectual capacity of our citizenry. Many cultural institutions have solicited gifts to initiate teaching activities as a symbiotic addition to their other activities. Natural history and technology museums often form productive partnerships with K-12

schools to educate students.

Some gifts go too far: They provide outstanding societal benefit but little or no institutional payoff. For instance, gifts of unusual collections of art or books sometimes require museums, libraries, and educational institutions to expand their facilities or otherwise accommodate the new largesse. When the costs of these measures outweigh the benefits that the collections bring, the donations, in effect, have negative utility to the institution. In cases like these, the receiving institution should graciously but firmly reject the gift. These collections will likely find comfortable homes in more appropriate institutions.

At the same time, nonprofits should recognize that donors sometimes more accurately assess the utility of a proposed gift. I recall a donor's offer to renovate and maintain the landscaping at the main entrance to Stanford University. The donation was a handsome one, and certain faculty members were outraged at what they perceived to be a misuse of gift funds. Yet the improvement turned out to be a lucrative one because it enhanced alumni pride (and donations) and student recruitment. "Thank goodness not all donors leave me the task of assigning priorities for gifts," commented one senior administrator.

Encouraging gifts that redound to the benefit of both the institution and society may ultimately serve the institution twice, as these giving opportunities can attract a new base of donors. Projects that narrowly serve an alma mater, favorite art space, or other institutional pet project often appeal only to devoted alumni and passionate patrons, who are already generous donors. But projects that serve both the institution and society can attract new donors with whom the institution has had only loose connections. These high-utility giving opportunities can also reenergize donors seeking broader impact for their giving.

Over the next generation, donors will transfer an unprecedented amount of wealth. Greater attention to gift utility can leverage the impact of those transfers and thereby enhance the satisfaction of donors, the benefits to fundraising institutions, and the payoff for the larger society. ■