

# Income diversification through philanthropy in UK higher education

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Based on a short review on the importance of philanthropic giving in UK and in the United States, this article highlights the relevance of fundraising to generate additional income. It identifies fundraising as a competitive business, which needs to be an integral part of a university's strategic development, and which demands resources as well as leadership.

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## 1 Why diversify?

Universities are engines at the heart of national and international prosperity. Yet, they are inherently costly to run – let alone to grow. With reducing levels of public funding and increasing competition, universities must work harder than ever to secure sufficient resource to support world-leading research and teaching. In England, universities have recently learnt that 12.6 per cent of public funding for teaching, research and university buildings will be cut in the next academic year – a total of 940 million pounds. With this intense pressure on funding, income diversification is an important strategic driver in helping universities to become more financially sustainable. Diversification can take many forms: exploitation of intellectual property, research and teaching contracts (including student fees), generating revenue from estates and conferencing, or consultancy, but income from philanthropy is an increasingly significant component of this funding mix.

Philanthropic income is particularly appealing to universities as it provides a flexible income stream to support the projects and activities that shrinking core funding cannot finance. It enables universities to build upon their strengths, enhance their student experience, extend their research programmes, and to create the best possible environments within which people can excel. It also builds networks of friends and supporters who contribute to the long-term well-being of the university in many ways in addition to a direct financial benefit, e.g. acting as ambassadors, providing links with industry, and mentoring current students. University of Cambridge Professor Robert G. Edwards, winner of the 2010 Nobel Prize in Medicine, was unable to secure fund-

ing to push forward his pioneering research on in-vitro fertilisation until a private donor stepped forward and offered to help.

## 2 Lessons from history

Contrary to popular opinion, philanthropy in UK higher education is not a new phenomenon. Looking to the past, we learn how many of the British institutions were founded on philanthropy. Oxford, the oldest university in the English-speaking world, traces its origins to early in the 11<sup>th</sup> century. It is founded on the generosity of royalty, church leaders and other far-sighted benefactors. In the 19<sup>th</sup> century, the growing wealth of Britain's industrialists demanded and depended on an educated middle class who could provide expertise in medicine, applied sciences and engineering. This need led to the establishment of colleges and universities throughout the country, some of which have evolved into universities like the University of Manchester. Nearly 150 years ago, a Mr. E. R. Langworthy of Manchester left a 10,000 pound legacy "to encourage discovery in physics" establishing the University of Manchester's Langworthy Chair of Physics. Last year, Professor Andre Geim became the fourth holder of this position to win a Nobel Prize following in the footsteps of Rutherford, Bragg and Blackett – a spectacular example of earlier fundraising efforts reaping long-term returns.

Newer universities, including many of the former polytechnics that became universities in the early 1990s, also have a heritage of philanthropy. The University of Wolverhampton traces its roots to the Wolverhampton Mechanics' Institute, founded in 1835 by public subscription, and De Montfort University still uses a building built in 1897 for the Leicester School of Arts at a cost of 25,000 pounds, again raised by a fundraising appeal. This sum equates to around 14 million pounds today.

Durham University's founding has a contemporary edge – a visionary clergyman persuaded his bishop, who had an embarrassing surplus of riches not dissimilar to that of the bankers of the early 21<sup>st</sup> century, to found a university. One man's vision and courage to ask, combined with another man's wealth and propensity to give, created something worthwhile and enduring.

Examples like these prove that higher education institutions of all types in the UK can trace a long history of philanthropic support. It is only natural and logical that today's universities should reflect that tradition and diversify their income through fundraising. It is misleading to say that non-US institutions have no modern tradition of giving to higher education. We should all be inspired by the successes of our predecessors and learn from the experiences of those who are leading higher education fundraising today.

### **3 Looking to America**

European universities are often told to look to America for guidance and inspiration when approaching fundraising. Our American colleagues have achieved impressive results. In 2010, Harvard raised 596 million dollar in cash despite the difficult economic times and Yale experienced a 6.4 per cent rise in donations receiving 380.90 million dollar. Figures like these can be daunting for European universities but one should be careful to ensure to compare what is comparable. British universities, such as Oxford and Cambridge, which compete globally with US Ivy League institutions, can fundraise just as effectively, especially when they invest in professional development staff to help deliver this. Oxford announced in October last year that they had just passed the one billion pound milestone in a fundraising campaign that began in 2004 and Cambridge's record of achievement is similar.

However, not every UK university ranks in the international top twenty and it is probably a truer comparison to look at the UK's research-focused universities alongside the public research universities in the US and Canada. For teaching-focused universities, especially those with a high proportion of local and part-time students, there is much to be learned from the US community colleges. It is important not to be seduced into seeing all US university fundraising as a single entity but to differentiate, selecting as comparators the universities and fundraising programmes that are most pertinent to one's university's own profile and activities.

It is commonly said that the US benefits from an innate culture of giving, but in reality, until recently, this was largely limited to the private universities and colleges. In a speech in October 2010, Professor Louise Richardson, principal of the University of St Andrews, noted that in 1975, the total fundraising income at five leading public universities in the US was just ten million dollar. In 2005, the same five universities raised 256 million dollar. Achieving significant growth in giving in the US has taken just one generation and, as in the UK, this has been against the background of significant, continuing cuts in government support. European universities should be encouraged by this cultural shift.

### **4 Making a convincing Case**

Fundraising is a competitive business and each university must make a strong case for support in order to stand out from other deserving causes. The 2010 Coutts Million Pound Donor Report found that higher education and the arts were the preferred recipients of million pound gifts; in the same year 163,000 people donated to UK universities, the vast majority of whom were giving at relatively modest levels. Whatever the value of their gift, they all had to be motivated to give by a convincing 'ask'.

The Council for Advancement and Support of Education (CASE) collates statistics on giving to higher education and regularly looks at donor motivations. Speaking on the subject of regular giving at a CASE event, Rich Mintz of Blue State Digital, one of the architects of Obama's online fundraising campaign, dismissed the notion that communicating a sense of obligation motivated alumni to give more. On the contrary, he argued, it makes graduates instinctively more resistant to the case being made. Donor motivation is more concerned with the impact of a gift – the difference it will make and why this is important to the beneficiary. Joanne Finnie-Jones, Senior Development Manager at the University of Edinburgh, confirms this observation, *"We have to get away from the begging-bowl language of 'seducing' alumni into giving and 'getting alumni to cough up', and move instead to the much more wholesome and convincing language of persuading people to give to important causes."*

In 2010, King's College London launched its 500 million pound fundraising campaign with the strapline *World questions/King's answers*. The Campaign focuses on how King's is responding to world challenges in three key areas: cancer, leadership and society, and neuroscience. Prospective donors are invited to join King's in finding solutions for the complex issues that characterise these challenging areas. The clear message to donors is that their gifts will have substantial and significant social impact – they will make a difference not only to the university but also to the world. Chairing the campaign is former UK Prime Minister Sir John Major, who in his campaign introduction puts forward a compelling case: *"Our modern world throws up problems of great complexity, and questions that seem sometimes impossible to answer. The easy option is to leave the most challenging issues for others to address, easy but wrong. In their own areas of expertise, King's is determined to remain at the forefront of research that will not only benefit and enrich our own lives, but those of our children and our children's children. So I hope that you'll be as inspired as I am by the work of King's, and join with me in supporting our World questions/King's answers campaign."*

King's College London is a good example of where committed leadership and steady, sensible, systematic investment in fundraising has reaped rewards. The development office opened in 1991 with a target of raising 124,000 pounds in its first year. Twenty years on it is confidently setting a target of 500 million pounds, half of which is from purely philanthropic funding.

## 5 Creating the right environment

Income diversification through fundraising needs to be an integral part of a university's overall strategic development. To be successful, it demands resources, leadership and above all patience. It can be at least two to three years before a fundraising unit is fully operational and achieving results.

There are several fundamental characteristics of successful university fundraising. Vice-Chancellors/Rectors and senior staff across academic and non-academic functions must take ownership and responsibility for philanthropy. A fundraising office facing internal resistance and a lack of endorsement or leadership from senior managers will fail to flourish. Engaged donors want to be reassured that their money will be safe and well used and may have questions about the governance and effectiveness of the senior management, which can only really be answered convincingly by involved senior managers. The University of Bath's Director of Development and Alumni Relations, Siôn Lutley, agrees with this assertion: *"If fundraising activity is directed properly with long-term investment and support from across the institution it can really work. At Bath we've seen 100 per cent growth in donations raised each year for the past three years."*

Real partnerships are needed between the development staff orchestrating fundraising, institutional leaders who hold the vision, and academics who embody the university's impact. No single group can succeed in isolation. They must all commit to a clearly articulated, compelling vision of what the university wants to achieve through fundraising. Without defined fundraising goals, a compelling explanation as to why these goals are important and an understanding of the difference they will make, both to the university and beyond the campus boundaries, it will be impossible to convince donors to give their support. This carefully devised, shared vision is the backbone of the university's case for support and the springboard that will inspire support from donors and enthusiastic cooperation from staff.

There is much talk about creating a "giving culture" but of equal importance is fostering an "asking culture". There is an old saying "if you don't ask you don't get" and this is certainly true in fundraising. A skilled development professional will have no apprehensiveness about asking a prospective donor for a gift. If they have done their job properly, the "ask" is unlikely to come as a surprise and the answer is more likely to be yes. For Vice-Chancellors/Rectors, academics and senior staff, asking for gifts or donations may be a more daunting proposition. By working closely with the development office team, university leaders and other staff can be supported in their asking as they grow in confidence and experience. If a Vice-Chancellor leads by example, senior academic staff are more likely to embrace a culture of philanthropy and engage with fundraising. Developing a culture of philanthropy has an important third element that extends beyond asking and giving and one in which Vice-Chancellors and senior academic staff are essential – saying thank you. Thanking, acknowledging and providing recognition for donors and communicating the difference their gift has made is an enjoyable experience for all parties and one which increases the donors' tendency to give again and to give in increasingly higher amounts.

On a practical level, a development office that is not fully integrated into the wider university or properly resourced can find its capacity to fundraise significantly reduced by operational burdens such as gift processing and database management. Fundraisers need freedom to fundraise, backed up by an efficient operational framework that should not be underestimated when allocating resources. It is particularly important that the development office and the university's finance function have strong lines of communication. Donors need to know that their gifts are "in safe hands", being appropriately recorded and managed. The university needs to be able to differentiate philanthropic income in order to monitor the effectiveness of the development office and inform future strategy.

In this turbulent economic climate, one of the key challenges is finding the justification and resources to invest in development programmes. Data from UK universities seem to show clear correlations between sustained investment in development programmes and returns. 27 higher education institutions, which received investment from two successive government-led capacity building schemes, are now all raising around one million pounds a year. Fundraising staff are an important component of any university's external-facing activity. As representatives of the institution, they need to reflect the institution's positive values to potential donors enhancing the university's reputation and building long-term relationships with supporters. Not everyone has this ability and investing in the recruitment and retention of the right people is key to success. Investment in sufficient skilled staff, and embracing the highest professional standards will enhance the standing of the university and increase the return on investment. In the UK, some universities have failed to make a sustained investment in their development offices and have fallen into a stop-start pattern, which has proven counterproductive in the longer term. While it is tempting to make cuts across the board, senior managers should see the income-generating development offices as a separate case and take a long-term view. Siôn Lutley from the University of Bath observes, *"Universities need to realise that fundraising, from alumni in particular, isn't something that can be turned on and off like a tap. It requires at least a medium-term, if not long-term, strategy if it is to deliver an alternative, sustainable source of income."*

Creating the right environment is not just about the internal culture of the university. Universities need to work together to create the best possible external environment for fruitful fundraising. This involves the political, economic, social and legal context of fundraising. Lobbying policy makers to develop a tax system that is favourable to donors, especially those capable of making substantial gifts, creates additional incentives for giving. Simplifying the legal framework around issues like data protection and sponsorship makes fundraising easier. Raising professional standards by investing in training, career development for young fundraisers and knowledge dissemination is a worthwhile investment in the future. Philanthropy must also be perceived as a desir-

able thing to do – we need to celebrate the heroes of philanthropy – J. K. Rowling's gift of ten million pounds to the University of Edinburgh to battle multiple sclerosis, James Dyson's five million pound gift to the Royal College of Art for new facilities, including business incubator units – these are admirable applications of wealth, deserving of recognition and celebration and which will inspire others to give.

A great example of where the external environment has transformed the landscape of university fundraising in the UK is the government-led funded Matched Funding Scheme for universities in England and Wales. The scheme has been running for nearly three years, concluding in July 2011. It has increased voluntary giving to the higher education sector by match funding eligible gifts from a total fund of 200 million pounds in England (and ten million pounds in Wales). The scheme has already contributed to a 25 per cent increase in donors, which now number over 185,000. In the first two years of the scheme, over 300 million pounds in match-eligible philanthropic income was raised. By enhancing a donor's incentive to give, the scheme has helped to strengthen a culture of giving towards universities. The level of matched funding for each institution is capped in accordance with a tier system based on the differing degrees of fundraising experience of each participating institution. Institutions with less fundraising experience have been able to access a higher level of matched funding and have been offered extra support to help them to build their fundraising capacity.

## **6 Across Europe**

While the influence of US fundraising on UK universities has been substantial and positive, it has not diminished the UK's sense of individuality. UK universities have become skilled at identifying best practice from the US and adapting what will work for their own institutions. As more European universities embark on fundraising, it is interesting to share experiences to see what structures and activities work best in each country. It is important to remember that the legal and economic context of each country can vary considerably and affect the fundraising efforts of universities accordingly. When benchmarking fundraising performance with US universities, it is important to compare like with like. Fundraising activity in Europe is only likely to continue to grow in the coming years. The EUDIS project revealed that 71.7 per cent of participating institutions had identified upgrading fundraising capacity as a priority in their income diversification strategies.

Europe has a tradition of public spending for education and research but there is a growing propensity to diversify income to increase autonomy and develop the flexibility and resources to respond quickly to change and remain internationally competitive. The French Ministry of Defence has funded École Polytechnique since 1794. In recent years, with pressure to compete on a global level, École Polytechnique has success-

fully turned to philanthropic support to extend its activities beyond the traditional funding reach of the Ministry. Already, the campaign has enjoyed considerable success. Having begun in 2008, École Polytechnique is on target to raise 35 million Euro by 2012. In 2003, École Polytechnique only had one sponsored chair – today there are twenty. Campaign Director Marie-Stéphane Maradeix attributes this success to strong leadership, a clearly understood methodology (this is her third campaign) that has been adapted not only to the French context, but also the specific profile of the institution and the outstanding response from alumni and donors which exceeded all expectations. Marie-Stéphane's story is inspiring and increasingly repeated across Europe.

## **7 What does the future hold for UK higher education philanthropy?**

It seems that, in respect of philanthropic income, this is a time of threats and opportunities. There is, rightly, considerable scepticism and concern about the extent to which the ongoing changes to the public funding of universities will create a private market for the university sector in England. Paradoxically, this may prove to be a further leverage opportunity to university development as some donors may be attracted to universities that have more control over their own destiny.

It is also unclear whether charging higher university fees will encourage or discourage donations by alumni. Most charities find that it is easier to get older people to give than younger ones, usually attributing this trend to greater maturity and more disposable income. University alumni are a little different. There is evidence that alumni who paid fees are more likely to give than those older graduates whose education was free. This supports the premise that you value what you pay for. The other divergence from normal charity behaviour is in the 45–55 age group, where a generally expected rise in giving with age is diminished. This has been attributed to the growing cost of their own children's university education reducing their propensity and capacity to give. Only time will tell whether the students of today who are once again paying substantially for their education will be willing to give back later in life and whether their giving will increase as they age.

In the immediate future, planning fundraising activities is an exercise that needs to factor in the slow climb out of recession. It should not be forgotten that universities play a crucial role in stimulating economic revival and perhaps this should be emphasised in campaign messages. Similarly, it will be interesting to see whether the accelerating affect of the government-led Matched Funding Scheme can be sustained after the scheme ends this summer. It has been hugely beneficial to the sector.

Philanthropy has been a good friend to higher education for centuries and if nurtured, it is a friendship that will endure. The great philanthropist Andrew Carnegie put universities at the very top of his list of deserving causes saying, *"If any millionaire is at*



*a loss to know how to accomplish great and indisputable good with his surplus, here is a field which can never be fully occupied, for the wants of our universities increase with the development of the country."*

## Addendum

### UK

Philanthropic cash income raised by UK universities has exceeded 0.5 billion pounds for the two consecutive years (2008-09 and 2009-10), according to data from the Ross-CASE survey.

This, combined with 25 per cent growth in donors in the same period (now over 185,000) has been accelerated by the government-led Matching Funding Scheme for England and Wales that matched donations to higher education institutions.

UK universities also receive more million-pound gifts than any other fundraising sector. Figures from the 2010 Coutts Million Pound Donor Report show that universities received 37 per cent of the total value of all gifts of at least 1 million pounds made in 2008-09, and more than half (58 per cent) of all "spent" donations, i.e., those given directly to a cause rather than placed in a foundation or trust for later distribution.

### US

Gifts made to US colleges and universities dropped by nearly 12 per cent during 2009, to 27.9 billion dollar (18.8 billion Euro) – the biggest decline on record. This was attributed to the global downturn. After this dramatic decline, fundraisers were heartened by a 0.5 per cent increase in private giving to higher education during 2010. This modest increase suggests that it may take two or three years, or longer depending upon the pace of the economic recovery, to reach or exceed the high point of 31.6 billion dollar in philanthropic support in 2007-08.

In the previous decade, contributions to higher education institutions increased by an average 4.1 per cent a year.

The 20 US universities that raised the most in 2009 picked up 7.28 billion dollar between them – 1.13 billion less than the previous year – while the overall number of contributing alumni declined by almost 6 per cent. In 2010, the top 20 raised 7.15 billion dollar and alumni giving declined slightly by another 0.4 per cent.

### Australasia

89 per cent of higher education institutions in Australia, New Zealand and South East Asia have alumni programmes, although most were established after 2003, according to the 2008 Association of Development and Alumni Professionals in Education (Adape) report.

The average Australasian university sought to raise 22 million Australian dollar (16.2 million Euro) in 2008, up from 13 million Australian dollar in 2005. Over the past two years, 48 per cent said they raised in the range of 1 million to 5 million Australian dollar.

### Europe

Income from private sources is very low in most Europe countries compared with the United States with the exception of Germany and the United Kingdom who attract 15 per cent of private financing.

Of the approximately 71 billion Euro spent on research and development in Germany each year, only 0.5 per cent or 350 million Euro actually comes from philanthropy. In 1999, The Technical University of Munich was the first in Germany to embark on a professional fundraising campaign. To date they have raised in excess of 188 million Euro and they are in touch with a growing network of over 27,000 alumni.

While traditionally State or Church funded, Italian universities have been steadily increasing their fundraising activities. Early successes by a number of universities are stimulating further investment in fundraising. The University of Bologna has attracted a multi-million Euro legacy from Federico Zeri and Milan based Università Bocconi's ten year 100 million Euro Campaign launched in 2006 has already raised in excess of 31 million Euro.

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