Chapter 1

Philanthropy Versus Charity

Before attempting to understand the philanthropic world, a common definition for entrepreneur should be articulated. Many definitions can be found, and they are all fairly similar. According to Merriam Webster's online dictionary, an *entrepreneur* is one who organizes, manages, and assumes the risks of a business or enterprise. The Internet site Wise Geek defines an entrepreneur as "an individual who accepts financial risks and undertakes new financial ventures." The word itself is derived from the French words *entre* (to enter) and *prendre* (to take).

The term *entrepreneur* is therefore often used to refer to any person who undertakes the organization and management of an independent enterprise involving risk as well as the opportunity for profit. In the following pages and chapters, the great value added to society, communities, and the world by the presence of entrepreneurs will become apparent.

UNDERSTANDING THE NONPROFIT WORLD

I am often asked, "What is a nonprofit organization?" Although I would like to give a specific and definite answer, that is still not possible. Nonprofit organizations can be defined in many ways, but most are defined by their tax-exempt status. There are even many different names to describe the nonprofit sector, such as the following:

- Not-for-profit
- Nonprofit
- Nonprofit organization
- Tax exempt

- Civil
- Independent
- Charitable sector
- Social sector
- Third sector
- Voluntary sector
- Charities
- Foundations
- Nongovernmental organizations (NGOs)

One of the first things to know is that organizations in the nonprofit sector are simply trying to create a better world. You only have to read the mission and vision statements of nonprofit organizations to see that this is the ultimate goal. However, they don't always agree on what makes a better world. Two nonprofit organizations may have completely opposite mission statements, such as Planned Parenthood and National Right to Life, two nonprofit organizations with contrasting ideas of what would constitute a better world. Nonprofit organizations with completely polar opposite missions coexist in this world. Using the same example, it can be noted that nonprofit organizations, such as Planned Parenthood and National Right to Life, exist along the entire ideological spectrum from liberal to conservative. Each has very different agendas, each is on opposite ends of the liberal/conservative spectrum and each is a nonprofit organization.

Also, multiple nonprofit organizations may be doing the same type of work. One only has to think of the more than 200 food banks that constitute the network of Feeding America (formerly America's Second Harvest). Each one is dedicated to feeding hungry people in America, but each does it a little bit differently in a specific geographic area. That said, there are many more nonprofit organizations that exist to feed hungry Americans than these 207 organizations, with some even coexisting in the same geographic service area. It does not mean that one is better than the others, but simply that each nonprofit organization when it began had a mission to feed hungry people. However, the methodology for achieving the mission for each might be either subtly or drastically different.

Feeding America feeds more than 25 million people annually. Think about it this way: the number they feed is more than the population of many states, including Texas. However, there are 35.5 million Americans who are food insecure, meaning they do not know where they will get their next meal.

HISTORY AND INFORMATION

I think it is important to remember how philanthropy began in this country. When the Pilgrims and first colonists arrived, there were no hotels, supermarkets, or businesses waiting to greet them when they disembarked from their boats. They got off the ships and began building a community, which turned into a colony that was governed by England. As we all know, that first winter was rough and half of the colonists died. But those who survived were determined to make a new world.

While they built their homes, stores, and businesses, they recognized there were no hospitals, libraries, schools, or universities. The individuals living in the "New World," as it was called, needed to develop a system whereby things that were commonplace back home—hospitals, schools, libraries, poor houses, orphanages, museums, and soup kitchens—would come into existence for the benefit of the population. Although all of these things could be found in the countries they had left, these entities and institutions were founded and funded primarily by monarchies ruling those nations or by established churches such as the Catholic or Anglican Church. The new colonies, whether settled by the English, the Spanish, the Dutch, or the French, were far removed from their homeland, and the hopes of having a king or queen build a school or hospital in the new land were small. The colonists had to become entrepreneurial in thinking of ways to develop medical care infrastructure, educational systems, and religious establishments without a monarchy or national religion to provide the funding.

Out of this chaos, a nonprofit sector was born—a sector that now employs more than 12 million individuals and accounts for 9% of the workforce in the United States. Neighbor helping neighbor, friend and foe working side by side to accomplish a shared goal, whether it be providing medical treatment, building schools, restoring homes, or ensuring an adequate food supply, Americans have always been philanthropic. They have always been willing to jump in and help their family, friends, and strangers and, yes, even their enemies.

Think also of the great western migration in the mid-1800s of families looking for a better place to live and work. Quilting bees, barn raisings, and harvest days became a tradition, but they were really born out of need—a need allowing individuals from all over to come together to resolve. American history has many examples of the philanthropic tradition, but the important thing to note is that this philanthropic spirit still exists today. Although the nonprofit sector and the individual charities within it might appear to lack a cohesive strategy that will achieve the outcomes desired, there is a long track record and history of success throughout the past 400-plus years of documented civilizations in this hemisphere.

The reasons nonprofit organizations continue to exist today are the same as in the past: the community—in this case the American people and society—wants things that businesses and the government cannot provide. Citizens take action recognizing that what businesses cannot profit from and governments do not provide still need to exist for the benefit of humanity. Surprisingly, not a lot has changed in almost 400 years. Citizens, meaning everyday people, are still the reason the majority of nonprofit organizations are created today.

The nonprofit sector provides societal benefits that are large and varied. Just think of all the different types of individuals, corporations, and foundations involved in philanthropic work. There is no stereotypical nonprofit organization or constituency either in terms of services provided or of donors aligned with it. This lack of stereotypes—in other words, its diversity and differentiation—is what makes the nonprofit world exciting, dynamic, interactive, and vibrant.

From these humble beginnings to today there are more than 1.5 million nonprofit organizations in the United States, and as stated earlier, employing millions of individuals. Another way to look at it is that one in ten workers in the United States works in the nonprofit sector. And it is important to remember the nonprofit sector employs more than charity leaders and fundraisers. Nonprofit sector jobs and positions include accountants, bookkeepers, case workers, janitors, attorneys, marketing directors, communications and public relations staff, information technology staff, chief financial officers, receptionists, security personnel, cooks, social workers, program managers, administrative assistants, nurses, doctors, engineers—the list goes on and on. I often tell the groups to which I am speaking that every position found in the business world can usually be found in the nonprofit world.

Further, in 2007 while nonprofit organizations raised more than $300 billion for the first time, they had more than $2.9 trillion in assets, which is equal to one-third of the U.S. gross domestic product, according to "The Idealist Guide to Nonprofit Careers: What Exactly Is a Nonprofit?"

According to Idealist.org, here is a picture of the nonprofit world:

- 70% of the nonprofit organizations that exist have operating budgets under $500,000.
- Approximately 4% have budgets over $10 million.
- 31% of the funding for nonprofit organizations comes from government contracts and grants.
- More than 100 new nonprofit organizations file daily with the Internal Revenue Service (IRS).

It is also important to remember that nonprofit organizations work in both urban and rural communities, providing the support—and often the infrastructure—needed to deliver services, programs, and activities that otherwise would not happen.

LIFES Tip

The larger budgets in the nonprofit world tend to belong to universities, colleges, and hospitals, whereas the smaller budgets are often aligned with nonprofit organizations in the arts, culture, environment, and social services areas.

DEFINITIONS

In the nonprofit world, the words *philanthropy* and *charity* are often used interchangeably. Although there are a lot of similarities, there are some definite differences of which the reader needs to be aware. Both words are nouns describing the act of helping or goodwill to people. They are also defined as an act or a gift of supporting or of distributing funds to help others. The biggest difference often lies in how they are perceived by individuals in the community. *Charity* is often thought to be helping someone or something right now by giving directly to solve the problem, not necessarily through financial contributions. It could be direct aid and is generally aimed toward the needy or suffering. *Philanthropy*, on the other hand, is love of humankind, the act of improving the situation of others through charitable aid or donations. Individuals also state that philanthropy in their opinion is long term, whereas charity is immediate and often short term in focus.

Although the difference between the two words can be perceived as subtle, I like to use the story of helping someone who is hungry. I think all of us have heard the adage that if you give a person a fish, he will eat for a day. If you teach him to fish, he will eat for his entire life. Charity at its basic sense is giving the person a fish, whereas philanthropy is teaching the person to fish.

A recent example that illustrates the difference between charity and philanthropy is the short-lived television series *Oprah's Big Give*, which took philanthropic work and made it into a reality show. Although I applaud Oprah loudly and vigorously for her efforts in bringing philanthropy into the lives of everyday Americans via a medium, television, with which they are comfortable, I am frustrated, if not angered at times, at the message that was sent. The message to me seemed to be to find someone or some organization in need, throw money and resources at it, fix it immediately for the short term, and move on. This is not philanthropy. This is charity. As long as we all understand the difference, it is all right. But I believe at times the show reinforced negative stereotypes of what constitutes philanthropic work.

One of the recipients in the first episode voiced criticism, for example. She was a homeless woman who had received a down payment for a house, a new car, and scholarships for her two children. Her comment after the interaction with the contestants from *Oprah's Big Give* was that she wished she had been trained for a job. In my opinion what she was really saying was, How am I going to keep up the payments on this house I am supposed to purchase, put gas in this new automobile, and purchase insurance for the car without a job? I am inferring this because she believed she did not have the job skills necessary to secure a sustaining job. She was given a fish, not taught how to fish. Once the show and the contestants left Los Angeles, she was on her own. Most entrepreneurs I talk to are willing to give someone a fish, but they want to be sure he or she is also taught how to fish. Sustainability in making a difference is key for entrepreneurs.

I am also often asked if there is a difference between *contribution* and *donation*. There is generally not a difference. Both terms are used interchangeably throughout the nonprofit literature.

The final word that causes much confusion is *nonprofit*, in reference to whether the term should be *nonprofit* or *not-for-profit*. Again, both words are interchangeably used and reflect an organization's conduct in working on or for something without the goal of making a financial profit. There is a social profit, however.

One might ask why there is confusion about the terminology used in the nonprofit field. Given that charity and philanthropy have been around since the beginning of time and exist in every culture throughout the world, shouldn't there be more clarity? I believe the reason the confusion exists is that the nonprofit field is not an academic discipline yet. Think about it. Nobody grows up and says, "Hey Mom and Dad, my career choice is working for a charity." There are still very few educational programs dedicated to training people to work in the nonprofit arena, especially at the undergraduate level, but they are emerging and growing, especially the master's degree programs. This is a field ripe for entrepreneurial involvement because it is not yet completely formed and is always looking for new opportunities.

HOW DOES AN ENTITY BECOME A NONPROFIT ORGANIZATION?

As stated earlier, there are 1.5 million nonprofit organizations in existence, with most of them serving different missions; however, there are some common features of which everyone should be aware. They are as follows:

- To be tax exempt, an organization must be recognized by the IRS, meaning the work the group is doing or proposing to do must fall into one of the exempt purposes of the IRS code as defined by section 501(c) (3).
- Tax exemption means the nonprofit organization does not have to pay corporate taxes to the federal government on the revenue it generates (e.g., fundraising, grant making).
- By being recognized as a 501(c) (3) organization, donations are tax deductible to the donor.
- Nonprofit organizations must file a Form 990 annually with the IRS, unless the annual budget of the organization is below $25,000.
- Churches are exempt from filing a Form 990 even though they are considered nonprofit organizations.
- Organizations with an annual budget below $5,000 do not have to register with the IRS.
- 501(c) (3) status applies to both public charities (e.g., UNICEF, American Red Cross, Salvation Army) and private foundations (e.g., Rockefeller Foundation, Bill and Melinda Gates Foundation).
- Nonprofit organizations must still pay some taxes.
- 501(c) (3) organizations are prohibited from doing anything that affects the outcome of an election for any public office.

LIFES Tip

The biggest difference between a private foundation and a public charity (although both are classified as 501(c) (3) organizations by the IRS) is that a public charity must derive at least one-third of its funding from gifts and other sources, meaning there cannot be one source for the funding. Broadly speaking, foundations differ from "public charities or nonprofit organizations" in that most engage primarily in direct service, although a few do some grant making (more on this topic can be found in Chapter 12). One person cannot create a nonprofit organization and fully fund it for his or her own purposes. Others must always be involved, with at minimum a requirement of three board members to create a 501(c) (3).

Although the 501(c) (3) designation is the most common for nonprofit organizations, there are 25 other designations within the 501(c) classification. There are also nonprofits that operate under the 501(d), (e), (f), 521, and 527 classifications. These usually belong to credit unions, chambers of commerce, labor unions, membership groups (e.g., medical societies), political action committees (PACs), retirement funds, advocacy groups (e.g., Right to Life), and alumni associations, and the donations they receive are usually not tax deductible.

LIFES Tip

Besides government funding, there are only three ways for nonprofit organizations to generate funds:

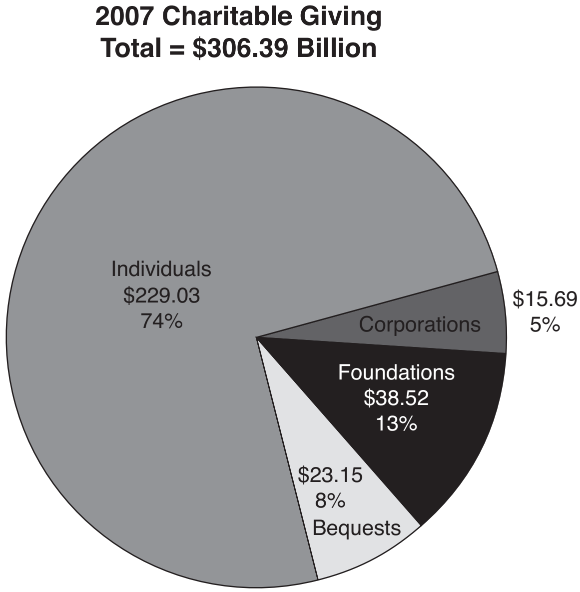
- Providing and selling products and services (e.g., childcare operations at a social services agency or tuition paid by students at a university or college)
- Selling membership fees (e.g., a National Public Radio campaign or the Sierra Club)
- Raising philanthropic dollars through donations (e.g., contributions from individuals, corporations, foundations, bequests)

WHO ARE THE REALLY BIG DONORS IN THIS COUNTRY?

In the United States, the great philanthropists have first been great entrepreneurs. When one thinks about the benefactors of the 20th century, names such as Ford, Carnegie, and Rockefeller come to mind. They built the great museums, hospitals, educational institutions, and libraries of the last century. They also began small businesses that became major national and, in some cases, international corporations. All three of the individuals just listed—Henry Ford, Andrew Carnegie, and John D. Rockefeller—did philanthropy as a primary focus of their nonprofit work. I am sure each of them did charity on occasion, but they each had a strategic philanthropic plan in mind when they began working on their various initiatives.

If you work in the nonprofit world, you probably already know that approximately 82% to 85% of all charitable donations annually in the United States are made by individuals: people interested in changing the world, making it a better place in which to live.

In 2007, $306.39 billion was given in America to 1.5 million nonprofits, including international causes (Figure 1–1). It was the first time annual donations surpassed the $300 billion dollar mark. I believe more important to note than the large aggregate amount donated to this sector is that individuals donated $252.18 billion, or 82.4% of the total amount when you include bequests, which totaled 7.6%. Think about it this way: If you knew 82% of your sales base for your company was in one sector, I assume you would spend the majority of your time cultivating and working that sector.



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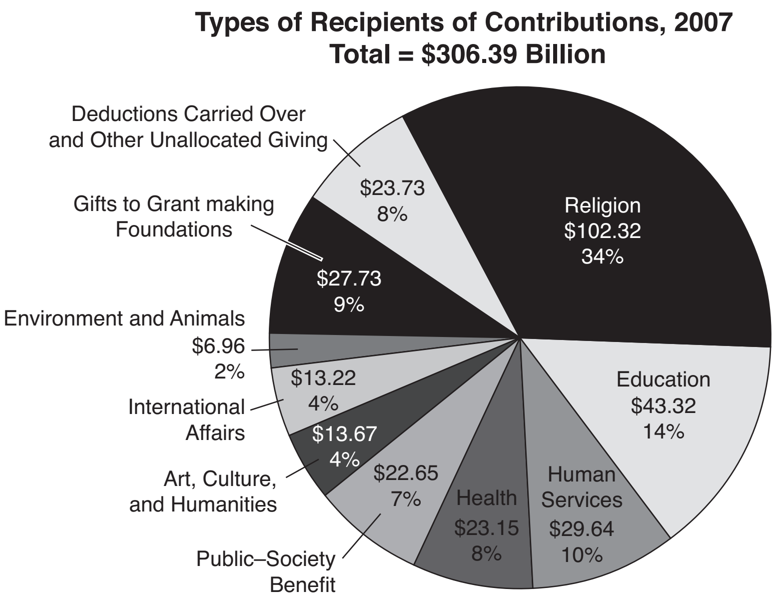

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Figure 1–1 2007 A) Charitable Giving; B) Types of Recipients of Contributions

You would not ignore the other 18% of potential customers, but you would certainly focus your time, energy, and strategy on where your bread was buttered. For both nonprofit organizations and entrepreneurs, it is key to remember that individuals do contribute when asked and are making a significant difference in the lives of many through their financial support of nonprofit organizations.

But what about the donations from corporations and foundations? Are they charitable? The answer is yes, they are charitable, but not to the degree or significance of individuals. Although there is an expectation in society that corporations will be good corporate citizens supporting the community through charitable contributions, on average they contribute 4% to 6% of the total amount donated annually in the United States. In 2007, corporations donated 5.1%, or $15.68 billion, of the total given to charitable entities. Foundations on average account for almost double that annually, with their donations totaling approximately 11% to 12%. In 2007, foundations donated 12.6% of the total dollars given, or $38.52 billion. Although corporate- and foundation-donated dollars are very important, it is imperative for all to remember that individuals provide the large majority of the charitable dollars contributed in this country. Individuals and their financial donations are needed to make the philanthropic sector work. It might even be said they are the drivers of the philanthropic world.

Another interesting fact is that whereas we often assume that those with inherited wealth are more likely to make large charitable donations, a study commissioned by Bank of America proved otherwise. According to the study, entrepreneurs are especially generous, giving on average $232,206 annually, while those with inherited wealth contribute $109,745 annually. Both are truly significant donation amounts, but it is important to note that people who start their own businesses give $120,000 more on average annually to charitable organizations. Although almost two-thirds of household giving in the United States comes from the wealthiest 3% of Americans, everyday Americans (those with household incomes of less than $100,000) donate a larger percentage of their income to charity than those with wealth.

LIFES Tip

Individuals who have household incomes ranging from $50,000 to $100,000 on average gave a larger percentage of their income to charity than those with incomes above $100,000, according to research done by the Center on Philanthropy at Indiana University in 2005.

Individuals can and do make a difference in the daily life of nonprofit organizations. They ensure that schools remain open, museums are accessible, society's poorest members are fed, the unemployed are trained, medical services are available, art is preserved, policy discussions are possible, legal aid services are available, diseases are researched, wishes are granted—the list goes on and on.

Although most of us will respond to the needy by providing charity to help ensure they survive, most of us want to practice philanthropy. Individuals, especially entrepreneurs, want to ensure that the problem or challenge is resolved and that the resolution is sustainable.

WHAT ABOUT WOMEN ENTREPRENEURS?

Any discussion of entrepreneurs and philanthropy must also include a discussion about women and their philanthropic activities. In 2006, according to the National Women's Business Council, women owned or had a majority interest in 10.4 million businesses. Between 1997 and 2002, the number of women-owned businesses grew at almost twice the rate of all U.S. privately held businesses. This means women entrepreneurs are creating their own wealth and have the means to be philanthropic if informed, approached, and engaged.

Overall, single women are significantly more generous, by a 13% margin, than single men, after allowing for income and education, according to a 2005 study by Dr. Patrick Rooney, director of research at the Center on Philanthropy at Indiana University. Tom Stanley's research, published in the book *Millionaire Women Next Door*, stated that women had helped raise funds for at least one charity during the preceding 12 months by a 10% margin over men and were more likely to have attended fundraising galas and balls by a 14% margin. These numbers hold true with the women entrepreneurs I have spoken with and interviewed. Women business owners want to make a difference and are more likely to be even greater risk takers in supporting nonprofit organizations that are taking on new initiatives and programs than their male counterparts.

DON'T FORGET THAT NEXT DOOR IS A POTENTIAL MILLIONAIRE

In any list of the largest gifts made in the United States by entrepreneurs, a few names will be recognizable, but most are not household names. Nonprofit organizations' executive directors, directors of development, and boards of directors should make note of this fact and realize there are people of great wealth living in their communities. As a resident of Chicago, I am often told by a nonprofit organization's leaders that if they could only get Oprah Winfrey as a donor, Michael Jordan, or even Bill Gates, then all their financial and fundraising worries would be over and everything would be great with their nonprofit organization. At this point in a discussion, I then ask, "Who here knows Oprah Winfrey, Michael Jordan, or Bill Gates?" The answer is usually that no one in the room knows any of the famous people mentioned, but they believe that if Oprah, Michael, or Bill just knew about the nonprofit organization's mission and the good work being done, they would be sure to get involved and make a donation. Again, I gently remind them that the best future donors for nonprofit organizations are past donors and those in their network or circle of influence. The likelihood of Oprah Winfrey, Michael Jordan, or even Bill Gates becoming your donor is slim, especially if you do not know them!

In order to survive the challenges that most nonprofit organizations will face in the 21st century, it is, however, imperative to engage entrepreneurs in the life of their organizations.

EDUCATING ENTREPRENEURS

Entrepreneurs know very little about philanthropy or charity and have little time to educate themselves. Leaders of a nonprofit organization must listen closely to the language of entrepreneurs. Often in conversations, entrepreneurs talk only about those things they know or understand, and although their knowledge is often vast, it very rarely includes an understanding of philanthropy or philanthropic endeavors. They have been too busy building their businesses to pay a lot of attention to this part of society. Now don't misunderstand me—entrepreneurs know the basics of charity, as do almost all of us, but because entrepreneurs have been so successful in their businesses and what they have done, leaders of nonprofit organizations often assume that the entrepreneurs will have the same expertise and knowledge when it comes to philanthropic work. Those who work in the philanthropic world often place these types of expectations on entrepreneurs, insinuating through our interactions and discussions that they should know what we are discussing.

It is important to recognize that philanthropy is not usually part of an entrepreneur's culture. It is not an issue entrepreneurs think about regularly or even, for that matter, talk about sporadically. Although contributing financially is something most would be willing to do at some point in their lifetime, entrepreneurs need to be educated about the various methods and instruments available for making a charitable donation. Currently, many entrepreneurs feel ill informed and thus unable, unwilling, or hesitant to participate. When entrepreneurs do choose to be involved, it is often once information and education have been provided and they have been asked through a personal solicitation.

LIFES Tip

The number one reason cited by individuals as to why they do not give is that they were not asked. It is imperative that those responsible for raising money for nonprofit organizations remember to ask individuals to help them achieve their mission and vision. The second part of this tip is that face-to-face solicitations for philanthropic support are the most effective and cost efficient to secure a donation.

To educate entrepreneurs, nonprofit organizations must first realize that most entrepreneurs are not very likely to attend a seminar or class to learn more about how to give away their money. They do not have the time. Entrepreneurs tend to rely heavily on their financial advisors, bankers, accountants, and others in their inner circle to provide advice and direction regarding their financial affairs, including their philanthropy. This is because they are working on their business. When entrepreneurs decide to become fully involved in philanthropic work, they suspect they should know how to do this, because after all, they are the experts in everything they do in their own businesses, so how could philanthropy be any different? Many entrepreneurs believe they should be able to figure it out.

Entrepreneurs usually do have good instincts when it comes to philanthropy, but they are not experts. To illustrate this point, one only has to look at the number of entrepreneurial entertainers and high-profile personalities who start private foundations without a clear understanding of the demands. The advice these individuals are receiving is short sighted and not in the best interest of an overall philanthropic strategy. This example can be found repeatedly throughout the entrepreneurial entertainment community. More on this can be found in Chapter 11.

Entrepreneurs want to make a difference. Entrepreneurs want to be charitable and give back to the organizations and communities near and dear to their heart, but often they have difficulty finding the right path to follow. They need help and advice, and this is where nonprofit leaders can play a pivotal role. Entrepreneurs need assistance, and nonprofit organizations and their leaders are some of the best teachers, having the ability to show them the difference between philanthropy and charity and how to achieve their goals.

During their successful business-building years, entrepreneurs have little time to become knowledgeable about issues they care about. They are aware that there are hungry people in the world, aware that students need scholarships or that the elderly have special needs, they know that the country's healthcare system needs help and that arts and culture are important to any community. What they do not necessarily know is where to begin. They do not know how to make a difference, and making a difference is a key motivator for entrepreneurs in becoming involved in a philanthropic effort.

Leaders of nonprofit organizations, both staff and volunteers, must find a way to engage entrepreneurs while realizing the type of individuals with whom they are working. The entrepreneur is an individual who is confident, very knowledgeable about his or her business and their world, but in need of education, information, and a process that makes the entrepreneur feel in charge of his or her philanthropy.

> An analogy I often use when working with nonprofit leaders and entrepreneurs is that philanthropic work is similar to a dance. There are many types of dances, including the waltz, foxtrot, tango, cha cha, ballroom dancing, line dancing, and even the hokey pokey. Each dance requires different steps, and each dance requires different skills and steps to lead. Think about it this way: each dancer—in this case, the entrepreneurial donor or the nonprofit leader—will have an opportunity to lead and times when each will have to be the follower. The key is to pay attention and know the dance that is being done in order to be successful.

ENTREPRENEURS DO NOT TALK ABOUT PHILANTHROPY (OR CHARITY FOR THAT MATTER)

When Ted Turner announced his $1 billion pledge to the United Nations, he hoped to encourage other billionaires, most of whom were entrepreneurs like Ted, to join him. When that did not happen, he attempted to shame other billionaires into giving more. Turner challenged *Forbes* magazine to not only list the richest 400 Americans, but also to create a list of the largest donors. Today, *Slate*, *BusinessWeek*, and *The Chronicle of Philanthropy* publish these lists. But still billionaire entrepreneurs were not moved to make what I call transformational gifts at the level Ted Turner envisioned (see Chapter 2 for more definitions and information about transformational gifts).

Part of the problem is that entrepreneurs do not talk about philanthropy. There are many reasons for this, but the three main reasons are as follows:

- Most entrepreneurs are first-generation entrepreneurs. They did not grow up in a privileged family with a legacy of philanthropy, so discussions and knowledge about philanthropy are limited.
- Most entrepreneurs are so busy building their businesses that they do not have time to become involved in their communities; hence, their civic involvement is limited because they are devoting all their time to their business and are not exposed to philanthropic endeavors.
- Entrepreneurs are focused on filling a niche in the marketplace that does not currently exist. They often work alone, being the only one to believe in their dream; hence, when it comes to learning new things, entrepreneurs usually do it by themselves rather than in group settings.

DEFINING A MAJOR GIFT

Before talking about the steps for becoming actively involved with a nonprofit organization, it is best to have a common definition of the term *major gift*. What is a major gift? This question, as well as its answer, often brings with it much confusion. The answer I share is that a major gift is defined by both the donor (in this case the entrepreneur) and receiver (the nonprofit organization). First, *major gift* is a term used when working with donors to secure a large financial donation. However, there is no standard answer as to what constitutes a major gift because every nonprofit organization has a different definition. Think about it. Someone who is giving $50 a year to a cause would think $250 or $500 is a major gift, but the nonprofit organization to which they are donating might view major gifts as starting at the $1,000 level. Most of the time, the numbers chosen are arbitrary and for the purposes of allowing the nonprofit organization to put some structure in its work—in other words, what level the nonprofit organization will consider to be a major gift and what level it will consider to be an annual gift.

This difference between a major gift and an annual gift can be seen most readily in the different levels of giving expectations between a grassroots organization and a well-established, traditional institution. In the case of the grassroots organization, an individual might be considered a major donor at the $1,000 or even $500 level, but at the well-established, traditional institution these might be considered the price for an admission ticket to its annual gala or an annual gift. The important thing to remember is that these are just numbers.

LIFES Tip

I am often asked at what level is a donation considered a major gift and how to determine it. My response almost always brings a quizzical look to the questioner's face. I tell him or her that a major gift varies from charity to charity as well as from individual to individual. It is defined differently depending on who you ask. Most nonprofit organizations define a major gift at the $1,000, $2,500, or $5,000 level. However, an entrepreneur shouldn't be surprised to be asked to make a much larger gift, perhaps at the $25,000 or even $100,000 level, by some of the long-established nonprofit organizations, especially universities, hospitals, and museums. However, a good starting point for nonprofit organizations and individuals for what to consider a major gift is the following formula:

$$5 \times (\text{Average of the last three years of donations from the individual}) = \text{Major gift}$$

LIFES Tip

An annual gift or annual fund gift is usually a donation that provides for the operational support of a nonprofit organization. These funds are raised in any number of ways including direct mail, special events, such as big dinners and golf outings, raffles and so on.

Dietlin's Discussion Directives

1. What is the difference between philanthropy and charity?
2. What are the most common factors among nonprofit organizations?
3. How many nonprofit organizations exist in the United States?
4. Name the types of positions and jobs available at nonprofit organizations.
5. In the United States, from what group do the most donations come?
6. How is a major gift defined? What dollar amount is a major gift to you?
7. How can entrepreneurs be educated about philanthropy?