

Strengthening the Nonprofit Sector

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Introduction

I want to congratulate the Idaho Nonprofit Development Center, its board and staff, for its outstanding efforts to build a strong nonprofit sector in Idaho. The Center's decision to become a state association should strengthen the work of nonprofit organizations throughout the state.

As you well know, this country has the richest, most vibrant and most highly respected nonprofit community in the world – over 2 million organizations. It is one of the major reasons why our democracy is so robust, dynamic and enduring. And yet you as leaders of local communities and nonprofits don't have the luxury of resting on your laurels, imposing as they may be. Outstanding accomplishments always bring new demands and additional responsibilities. So it will be with you.

Mohandas Ghandi, the great leader most responsible for ending British colonialism in India visited London shortly after Indian independence. On his arrival he was asked by a journalist how he like western civilization and democracy. He replied: “ it could be a good idea”. Were Ghandi resurrected to visit the U.S. today and asked the question, “how do you like American democracy?”, would he once again state “ it could be a good idea”?

I cite this because these are trying times both for American democracy and nonprofits, times that are testing our traditional democratic values, our sense of tolerance, decency and civility, our commitment to social and economic justice, our yearning for a political system based on fairness and integrity and our desire for public and nonprofit institutions that are transparent and accountable.

Our faith in government institutions at all levels – which are the key to our democratic system – is perhaps at an all-time low, driven by anti-government ideologues, opportunistic politicians and, not infrequently, poor performance. We have absolutely the best Congress money can buy – and often at bargain rates –one that has shamefully flaunted standards of ethics and honesty. We have raised gerrymandering to a high art form, entrenching incumbent elected officials and depriving many constituencies of political influence.

And as a society, we have refused to provide our government with the revenue necessary to strengthen our infrastructure, improve our educational and health systems and successfully tackle our extensive poverty and rural problems, preferring instead to lower taxes on the very wealthy and maintain gaping tax loopholes that costs us hundreds of billions of dollars a year.

Our nonprofit community faces no less of a crisis.

The sector is in flux, besieged by increasing responsibilities, limited resources and higher public expectations. With the reduction in federal funds for social and community programs, many of us seem to be looking to the private sector to fill this huge gap ... an impossible task. While the sector has grown exponentially over the past 30 years, one might argue that, despite its enormous expansion, it may have become weaker, not stronger, less influential in shaping the direction, priorities and policies of our country.

Why is that? Because nonprofits are more fragmented than ever before, finding it difficult to collaborate with each other to address the fundamental issues of our society. Recent nonprofit history is the story of policy battlefields littered with the dead bodies of nonprofit lone wolves.

Desperately in need of leadership, our nonprofit world requires a huge dollop of vision and courage. Its foundations, despite their recent, enormous increase in assets and improved performance, have not sufficiently changed to meet the times and needs of their grantees. And nonprofit organizations that, historically, have served as a check on and balance between government, corporate influence and civil society have not done an adequate job in fulfilling this critical mission. In many cases, the supposed watchdogs have become less than useful lapdogs.

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The Challenge

Because of the close connection between our democracy and nonprofit organizations, what nonprofits do here in Idaho and elsewhere will have a major impact on the country. The vibrancy of our democratic system will to a large extent depend on the strength of our nonprofit institutions. Should the latter not measure up, we will be in danger of losing much of what we cherish about this country... its values, its sense of community, its optimism and its democratic institutions.

Difficult times are also occasions for great opportunities as a result of which nonprofits like yours can help galvanize communities, assert their leadership and help bring about better services and necessary social and policy changes. That will not be an easy task, but from what I have read and heard, it is a challenge that you are fully capable of meeting.

What I would like to do this morning is discuss several of the major challenges nonprofits across the country face as they attempt to strengthen their organizations, alliances, public support and influence. I should note that, while I will be speaking from a national perspective, many, if not all, the challenges should apply to groups at the local and state levels.

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Public Accountability

No problem is more daunting for the nonprofit world than assuring the public that it is transparent and accountable. It has been the subject of ongoing Senate Finance Committee hearings for several years, the focus of continued media investigations, evolving scandals among both nonprofits and foundations and a growing debate about the proper role of federal and state regulations and enforcement.

Contrary to popular belief, it is not a new issue. It was a dimension of nonprofit life that was hidden from public view until the media began its exposes some six years ago. Nor is it a question of just a “few bad apples in the barrel”, as so many in denial claim. There have been and still are many bad apples; reporters are uncovering new abuses every day.

The stakes are much too high for all of us -- all of you -- to sit on the sidelines and ignore the problem. The scandals have hurt the reputation of nonprofits, and continue to do so. As the media increases its coverage of the sector -- after all, nonprofits are increasingly big business -- nonprofits cannot afford not to be transparent and clean. Integrity and public confidence are the keys to nonprofit fundraising. Without these qualities, nonprofits are certain to face additional financial troubles.

Because the problem is widespread, government and charities need to work together without delay to prevent any further erosion of the public trust. The Idaho nonprofit association will be in a good position to set accountability standards for its members, as well as non-members, and to make certain that organizations in the state retain the public trust.

Until the Senate investigations, nonprofits as a whole didn't seem to worry much about cleaning its dirty laundry. Now the sector is very worried, but it seems more disturbed about the possibility of additional government regulations than about eliminating the problems. Many nonprofits, pushed by groups like Independent Sector and the Council on Foundations, advocate self-reform rather than effective measures to prevent future abuses. I have worked in the nonprofit sector for about 40 years, and I have rarely, if ever, seen self-reform measures work well. Nothing less than tougher regulations and enforcement will work. Nonprofits should embrace these, as well as self-reform, if they really want to clean up the sector.

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Building Organizational Capacity

The vast majority of nonprofit organizations, especially in rural areas, are small, with few staff, inadequate budgets and, often, unconnected to any support systems. Even with outstanding staff, they are frequently in need of assistance in organizational development, staff training, fundraising, policy advocacy, administration and budgeting and skills

building. While many have good, dedicated boards, others could use some advice about developing stronger boards. They could have a larger impact on state policies and programs that might benefit their constituencies, if only they could link up with and become part of coalitions of like-minded groups. Few individual organizations can exert such pressure at the state level by themselves.

Such organizational needs, of course, are not limited to small nonprofits; larger groups can also benefit immensely from outside perspectives and assistance.

Helping build this organizational capacity of nonprofits is one of the major roles – if not the major role -- a state association can and must play. While the latter, usually with a relatively small staff, will not have the capacity to provide individual, on site assistance to many members, it can be a good referral agent for members seeking reliable consultants. Through conferences, workshops and meetings with policy makers, the association should be able to support many of the training needs of its members. Sponsoring peer to peer assistance and exchanges is another productive role for associations; as you well know, some organizations and their leaders can learn more from their counterparts than from consultants and other experts. And bringing important national news and developments to the membership can fill a critical information gap that exists in many parts of the country.

Promoting vigorous coalition efforts directed at policy changes is another task for a state coalition. Research and advocacy activities have been one of the hallmarks of our strongest state associations, such as the Minnesota Association of Nonprofits and the Maryland Association of Nonprofits.

While increasing the professionalism and skills of staff are a key to improving the performance of nonprofit organizations, it should not be carried out at the expense of maintaining the active involvement of the membership and its constituencies. In recent years many associations and other nonprofits have been transformed from grassroots-led groups to professionally run organizations, the participation of whose members is often limited to paying dues. That is not good enough for a vibrant democracy. Nonprofits have an obligation to involve their members in every facet of their operations. Professionals are important, but one of their major roles is to get their members and boards involved, thereby developing the skills of their lay leadership. Energizing the power and influence of citizens should be a top priority for all nonprofits.

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Nonprofit Advocacy

Nonprofit advocacy has been, historically, that dimension of our civil society that has distinguished it from all others. Some nonprofit sectors have had proportionately more organizations than ours and more service providers than ours, but none has enjoyed our strong tradition of activism. It is the latter, not our service delivery, which is the envy of the entire world.

It is that activism that has made our democracy vigorous and lasting. It is that activism that has been responsible for almost all the major social and institutional changes in our history, including rural reform, social security, civil rights, the women's and environmental movements and the GI Bill and many others. The irony, of course, is that our activism is often much more appreciated overseas than it is here at home.

Even more surprising --and disappointing -- is the fact that our philanthropic institutions, with the exception of a few conservative foundations, have for the most part, refused to support this American success story. Isn't it strange that foundations which demand success from their grantees can't seem to accept success as a goal for themselves?

During the past 25 years, advocacy-- including organizing, policy work and lobbying -- seems to have lost much of its cache and importance among nonprofit organizations. This is due to a number of factors: the failure of nonprofit leadership; short-sighted boards; the growing conservatism of the country, continual political attacks on nonprofit advocacy; the growing commercialism of the sector; and the reluctance of mainstream foundations to support activism.

But nonprofit leaders themselves must bear the major portion of the blame for this state of affairs. They have been reluctant to exercise the sector's enormous potential for legal legislative activity. Today, only a little more than 1% of the 501(c)(3) public charity organizations reporting to the IRS cite any legislative activity.

The nonprofit community and the country have paid a huge price for this inactivity. Nonprofits' deafening silence on such issues as federal and state cuts in social programs, the repeal of the estate tax, reductions in affordable housing and other anti-poverty programs, the undermining of environmental regulations, tax inequities, the corporate governance and corruption scandals, and the dysfunctional condition of our health system have left our country more scarred and divided than ever.

Most, if not all, nonprofits should have learned a hard lesson by now: it is that they must devote at least a portion of their agendas to public policy, organizing and advocacy. They can no longer protect or meet the needs of their constituencies by services alone. Only activism, not services important as they are, can win the big battles on issues crucial to nonprofits and their constituencies.

The nonprofit sector has enormous power to act in the public interest... a power which it has not yet exerted. This is especially true if it can overcome the "virus of separateness", dividing ostensibly related fields of activity from one another, narrowing the vision of both old and new organizations and paralyzing the potential for unified action.

The shift to advocacy will be a challenge to many nonprofit leaders and boards of directors, but unless this change occurs, both our civil society and democracy will be weakened.

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Foundation Reform

If the nonprofit sector is to become stronger and more effective, many foundations will have to change the way they do business.

While foundation assets have grown enormously – amounting to some \$600 billion today – foundation performance in general remains pedestrian, lackluster, safe and restrictive. Foundations' priorities, governance and procedures often seem to be geared more to their own perceived needs than to the interests and needs of their grantees. In some cases, one is even moved to recall Mrs. Cheverly's words about philanthropy in Oscar Wilde's play The Ideal Husband: "Philanthropy seems simply to have become the refuge of people who want to annoy their fellow citizens".

Despite their recent, massive growth, foundations are still required to pay-out only 5% of their net assets annually, a figure that can include all administrative costs. Many, if not most, foundations treat this minimal requirement as a ceiling, not a floor. As a result, most of the large foundations actually give out only 4-4.5% of their assets in grants.

The tax payers are not getting their money's worth. At a time when federal social program funds have been reduced and nonprofits are struggling to make their budgets, foundations should be paying out at least 6%, if not more, of their assets in grants. Foundations who are providing only the minimally required amount should rethink their policies in the light of critical nonprofit needs. After all, they are grantmakers, not bankers.

The life blood of nonprofit organizations, small or large, is general operating support, those flexible funds that enable them to build strong organizations over time, retain outstanding staff, conduct advocacy activities, participate in key coalitions and meet targets of opportunity. Yet foundations continue their reluctance to provide this type of funding. Not more than 20% of all the money distributed by foundations annually goes for this purpose. Aren't foundations listening to their grantees, or do they refuse to hear what their grantees are saying?

If you want to receive great applause from a nonprofit audience, just stand up and say "I believe that 50-75% of all foundation money should go to general support". In their stubborn adherence to special project funding, foundations are harming the very organizations they profess to encourage and support.

The same is true for the foundation's unwillingness to fund public policy, advocacy and organizing efforts that are so crucial to social and institutional change. Status quo boards, avoidance of risk taking, unenlightened staff and fear of government intervention are cited as reasons for their position. The latter, of course, is a sham argument, since conservative foundations have been funding activist activities for over 30 years with impunity.

We grantees and nonprofits are partly responsible for the behavior of foundations. We have acted as beggars on our knees, not equal partners in the philanthropic process. We have often allowed foundations to run roughshod over us, succumbing to what might be called the “mystique of philanthropy”. Awed by these institutions, we have sought to be loved instead of respected.

This approach, I submit, has to stop. Collectively, nonprofits, working with the foundation community, have to press for changes that can bring greater rationality and reasonableness to grantmaking and, at the same time, improve foundation and nonprofit performance.

Based on past experience, there won't be much philanthropic reform unless there is growing pressure for change from nonprofits ...from all of you.

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Developing Strong Leadership

Successfully addressing the challenges I have cited boils down to one crucial factor ... leadership. Do we currently have the visionary and courageous leadership that will be necessary to reform and strengthen our nonprofit and democratic institutions in the coming decade? I don't believe we do.

There is a growing consensus that many of our civil society's problems come from a failure of leadership, among both nonprofit organizations and foundations. We've lost many fine leaders in the past 20 years; unfortunately they for the most part have not been replaced by people of commensurate quality. There has been an enormous loss of passion, zeal, vision and courage. For too many people, nonprofit work has become just another job.

We need to build a new cadre of dynamic leadership for the sector ...and quickly. There are a number of strategies for doing so. Let me mention a few.

Maintaining, expanding and strengthening our federal funded volunteer programs like VISTA, Americorps, Peace Corps and Youthbuild is a solid, time-tested approach. But these young people must be permitted to be involved in advocacy as well as service-oriented tasks. The legislative prohibition against advocacy in these programs should be eliminated.

Nonprofits themselves must redouble their efforts to hire, train and retain young people on their staffs. Too many nonprofit directors are not building the future leadership their organizations will need. This means that many of them will have to forego their old top-down, autocratic leadership style to adjust to the demands of young people who want more collegial approaches to management.

Because opening level jobs in nonprofits paying decent salaries and benefits are at a premium, foundations and individual donors should underwrite thousands of full-time two-year internships at good mentoring nonprofit organizations at the local, regional and national levels. Such opportunities for both college graduates and out of school youngsters would enable new potential leaders to establish roots in the nonprofit world while providing nonprofit organizations with an extraordinary talent pool. It would be a fairly expensive investment but, compared with the billions that foundations and other donors fritter away annually on pedestrian projects, it would be a great bargain. The cost of not investing in new, young leadership is too immense to calculate.

There is no reason why every community foundation, local or state foundation and major individual donor could not sponsor at least one of these fellowships every year.

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The Task Ahead

The challenges I have outlined are demanding and will take a great deal of effort by you, by all of us. There is one obstacle that is particularly forbidding.

Sadly, if any quality defines the current leadership of the nonprofit sector, it is a lack of courage. The heads of nonprofits and their institutions, large or small, traditional or non-traditional, are afraid to speak out publicly on issues, go on the record, confront controversial problems or critique other actors or organizations in the field. Their timidity would be laughable were it not so damaging to a sector that begs for introspection, analysis, intellectual rigor and integrity.

We seem to have socialized a large group of nonprofit executives more interested in protecting their careers and turf, being collegial to a fault, being unwilling to challenge funding sources and avoiding all risks than in pursuing what is best for the field and the public. Because of their conspiracy of silence on important matters of ethics, accountability and performance, they are abdicating their responsibility to taxpayers and the public interest. We must demand more of our institutional leaders than we have in the past, and we must hold them accountable for their actions.

It is time for all of you in Idaho and elsewhere to join in a common effort to improve and strengthen our nonprofit organizations and sector, develop courageous and visionary leaders, maintain an ethical foundation for your work and fight for a nonprofit community that is publicly accountable.

After all, when Ghandi's ghost comes back to ask us what we think of American democracy and its civil society, we will want to say with conviction, not that it could be a good idea, but that it is a great idea that actually works.

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