The Nonprofit Quarterly Winter 2008 Building the Power Grid Volume 15, Issue 4

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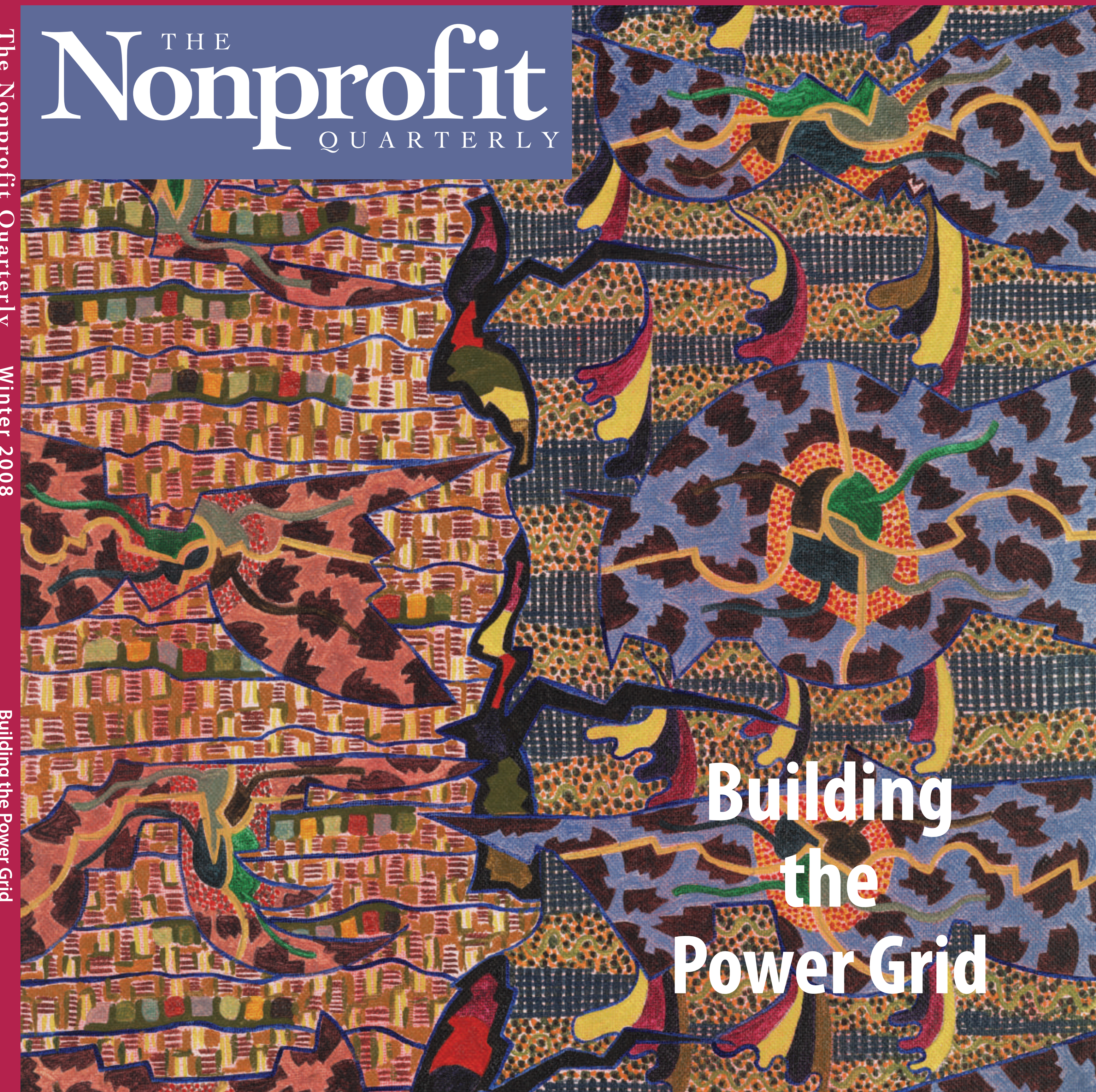
THE Nonprofit QUARTERLY



Smith, Taketa and Van Bergeijk: the shifting ground between philanthropy and nonprofits

Salamon: changes in the nonprofit economy

Wheatley: mistrust is a sectoral barrier that must be overcome

Light: four possible nonprofit futures

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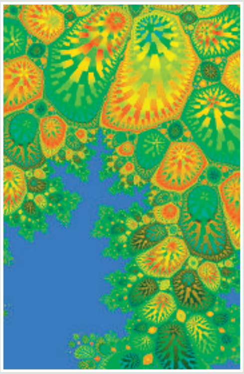
COVER DESIGN BY KATE CANFIELD. ILLUSTRATION "SPRINGTIME FOR NURONS" © BEN HOTCHKISS, WWW.BENVISIONS.COM.
Ben Hotchkiss is an abstract artist whose work has sold out at the Manhattan Outsiders Show, and has exhibited and sold in Chicago, New York, Pennsylvania, Massachusetts, and Connecticut.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Connecting with your supporters these days takes more than just ripples. Blackbaud social networking solutions let you use the Internet to build a strong online community and attract the supporters you need to fulfill your mission.
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The *Nonprofit Quarterly*'s overarching editorial goal is to strengthen the role of nonprofit organizations to activate democracy.

NPQ believes that open societies require venues for individuals to undertake public projects together that are larger than friends and family but smaller than the state and that range from community arts and group homes to environmental advocacy. Nonprofits naturally fill this role, particularly when their efforts engage the ideas, energy, and speech of members of their community. While generating resources encouraged by tax exemption is useful to support this work, ***NPQ*** believes that in a democratic society the essential role of nonprofit organizations is rooted in the First Amendment and the Universal Declaration of Human Rights, not the tax code or the market economy.

We live in a world that needs more of what nonprofits can achieve. We know that our communities hold untapped courage, compassion, and support and that nonprofits are uniquely positioned to build relationships and understanding. ***NPQ*** is committed to provide a forum for the critical thinking and exploration needed to help nonprofits stay true to this democratic calling—and to achieve their potential as effective, powerful, and influential organizations in concert with their constituencies.


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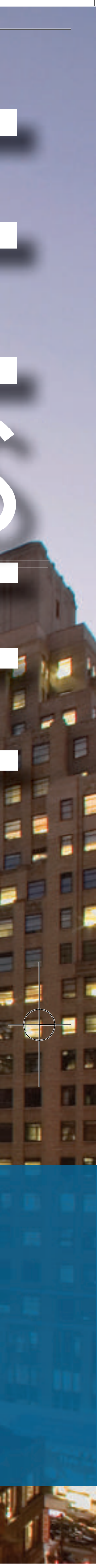

IS PURCHASING AN OFFICE CONDO THE RIGHT MOVE FOR YOUR NOT-FOR-PROFIT? INDUSTRY EXPERTS SAY YES.

Last summer, Time Equities, Inc. hosted a symposium in New York City to discuss the benefits of office ownership for not-for-profit organizations. Speakers from various facets of the not-for-profit and finance industries addressed questions and key concerns regarding the procurement of and transition into an office condominium.

Edward G. Lloyd, SVP of Operations and CFO of the U.S. Fund for UNICEF, described what prompted his organization to purchase 75,000 square feet of office space at 125 Maiden Lane. "Our lease was about to end. We had outgrown our space, and the space itself just wasn't attractive," said Lloyd. "We asked ourselves, 'What's our other alternative?'" After running analysis on a multitude of scenarios, the company concluded that over 30 years, it would save $25 million if it chose to buy. "It was a no-brainer," Lloyd said.

Lloyd went on to address the ease with which his company was able to transition from rental space to office condo. His most informative tip: "Put together a great team. You need a good legal team, a good finance guy, a good architect… We had a really great team." From demolition to move-in, the U.S. Fund's entire office condo took only 14 weeks to assemble.

As for expenses, Lloyd admitted that the initial cost of purchasing an office condo was more than if his organization had chosen to continue renting, but in the long term the not-for-profit will save money with the purchase. Over the last three years alone, the property value has increased at twice the annual rate the U.S. Fund anticipated.

According to David Lebenstein, Senior Managing Director of Colliers ABR's Not-For-Profit Division, the fact that 501(c)(3) not-for-profit groups are exempt from paying real estate taxes is a huge advantage. "That could be worth anywhere from $5 to $10 to $12 a square foot, which is a very significant benefit when you compare it to leasing," he said.

"For strong, stable not-for-profits that can predict their growth and future, owning is the way to go," said Lebenstein. As proof, he cited the case of 666 Broadway, which sold for $850,000 a floor in 1985. In 2007, one floor sold for $5.7 million. "We're seeing buildings trading at $600 to $800 a foot today that were trading for $300 as recently as 2005. There's no question that these spaces will be worth more in 2012 or 2020 than they are today."

Paul T. Lamas, SVP of the broker-dealer Roosevelt & Cross, elaborated on the initial costs of buying an office condo. When procuring a bond, the closing costs are actually higher than typical financing, explained Lamas. "There are fees for the New York City Industrial Development Agency (IDA), which issues the bond. There are fees for lawyers. Closing costs tends to range between 3 and 5% of the total bond amount." But when the IDA issues a bond, the organization waives the New York State and City mortgage recording tax, which is equal to 3.8% of the mortgage amount. "So that really brings it back in line with traditional financing," said Lamas.

"There are a wide range of opportunities for financing," said Lamas. "If you obtain a letter of credit from a commercial bank, you can get a low floating rate, and you have to add on to that the annual cost of the letter, which is usually around 1%." Additional options include variable rate financing – which Lamas admitted can be "challenging for not-for profits to consider," but he assured that it's a reliable method – and private placement-type financing.

According to Lamas, the economic downturn in the United States has created a high demand for tax-exempt bonds, due to their reputation as safe and secure investments. "If you're a not-for-profit that has been leasing office space and is looking to secure a tax-exempt bond to acquire a condo in Manhattan, it's really viewed as a straightforward transaction by the banks," Lamas said. "Through the employment of these bonds, we have been able to secure financing anywhere from 75 percent up to 100 percent of the project's cost."

He explained that when the U.S. Fund for UNICEF purchased its space, Roosevelt & Cross secured a bond worth more than $43 million, while the U.S. Fund spent only $500,000 in out-of-pocket expenses. Conversely, another client, the Guttmacher Institute, chose to put more equity into its purchase, covering $1 million of a $12-million-dollar project.

"Manhattan office rents have reached historic highs," concluded Michael Rudder, Director of Office Sales for Time Equities. "It has become nearly impossible for not-for-profits to survive in Manhattan, despite their vitality to the city's success." With the option of office condo ownership, Time Equities is giving these organizations the opportunity to own their future by taking advantage of a unique host of benefits that were never before available to them.

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TIME EQUITIES INC.

Welcome

THIS SPECIAL EDITION OF THE *Nonprofit Quarterly* goes to press at a historic turning point. The United States has just elected its first African-American president, and the nation's economy is in a tailspin that no one can yet see the bottom of. As Margaret Wheatley notes later in the issue, we are dancing with uncertainty, but at least the nonprofit sector is on its feet (see page 44). And in that dance, we look forward to the potential of profound changes to our social and economic compacts.

At such a moment of crisis and opportunity, our networks are most critical. Teaching the skills of advocacy and management, establishing a powerful collective voice, relaying timely and important information, tracking important trends in policy and funding—these are the tasks of an effective infrastructure for individual nonprofits—along with recruiting and deploying volunteers, developing and brokering loan funds for cash flow, and providing back-office services for organizations that want to focus more on program than on administration.

These functions, of course, must be dynamic and responsive to the real world that nonprofits inhabit every day, which at this moment is on the brink. For most nonprofits in the near future, there will certainly be less money and more need. Communities will need to remain active, and nonprofits will be the venue for much of that activity. How will we manage this? Can we find ways to amplify the values and voices of constituents so that the future we work toward is healthy and hopeful for our children and grandchildren, even seven generations out?

This is a time that calls for us to be open to new methods and forms of work that take us beyond the confines of our own institutional interests. We need to build new agreements between people and business and government, to explore the possibilities of this moment of radical change. To do so, we need to learn from and join with one another; this is what the U.S. nonprofit infrastructure exists to aid. Whether you are a philanthropist or a nonprofit, know where your infrastructure is and get involved with it, because that is the only way it can be as wise as it needs to be to face the future.

Four foundations supported this special edition and the study it was based on: the Charles Stewart Mott Foundation, the Kresge Foundation, the Bill & Melinda Gates Foundation, and the Annie E. Casey Foundation. We thank them for their support.

THE Nonprofit QUARTERLY

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NONPROFIT INFORMATION NETWORKING ASSOCIATION
Ruth McCambridge, Executive Director

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"*Uncharitable* is the most courageous and necessary of all of the recent books that have been written about philanthropy and the nonprofit sector."

Bill Shore, Founder and Executive Director, Share Our Strength

"Dan Pallotta has written the clearest and most articulate critique I have read of the system of values that our charities and other nonprofit organizations are supposed to follow. He explains in graphic detail how these values undercut what charities are trying to do and prevent them from accomplishing all that they might. Not everyone may agree with his position, but the nonprofit world will surely benefit from a vigorous discussion of his arguments."

Derek Bok, Former President of Harvard University

"*Uncharitable* should make us all take two steps back and imagine a new philosophy and theory of charity itself. This is nothing less than a revolutionary work."

Gary Hart, Former United States Senator and Scholar in Residence, University of Colorado

"Dan Pallotta has elevated the questions we need to be asking."

Dr. David Ho, *Time Magazine* Man of the Year, 1996 and Director, Aaron Diamond AIDS Research Center

"*Uncharitable* poses a bold challenge to the orthodoxy that drives American non-profit business practice....If this is heresy, we need more of it."

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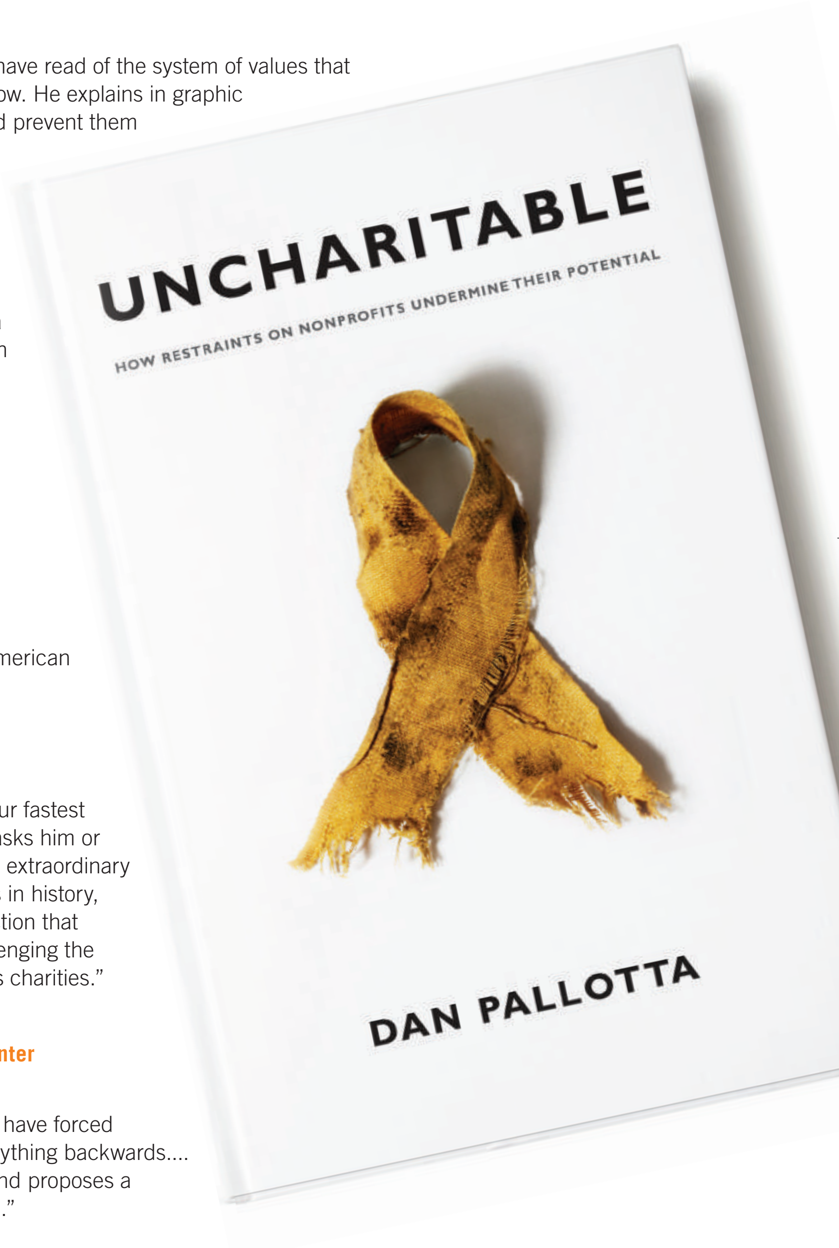
"... a brilliant take on the absurdities that constrain the potential of our fastest growing sector. Dan raises questions that every executive director asks him or herself every week, but finds no public discourse on. From his own extraordinary experience putting together the most successful fundraising events in history, Dan has put together a timely manifesto that outlines the only direction that makes sense — embracing true entrepreneurial initiative and challenging the paradoxical split in America that sets business free but straitjackets charities."

Torie Osborn, Former Executive Director, Liberty Hill Foundation, National Gay & Lesbian Task Force, Los Angeles Gay & Lesbian Center

"For the first time someone has codified all of the irrational ways we have forced charities to operate. The picture that emerges tells us we have everything backwards.... Dan has put the pieces together in a way no one has before him, and proposes a breathtaking path to change that has never before been articulated."

Peter Diamandis, M.D., Chairman and Founder, X PRIZE Foundation



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The Nonprofit Ethicist

by Woods Bowman

Dear Nonprofit Ethicist,
We are a 501(c)3 charity legally registered to conduct raffles in our state. We are planning a raffle with $100 tickets and a grand prize of a new Jaguar. One of our committee members would like to provide an incentive to those who sell raffle tickets by providing each one with a free raffle ticket. I reviewed the penal code regarding the conduct of raffles and can't find anything specifically prohibiting this, but I feel uncomfortable about potentially awarding the grand prize to someone who did not contribute money over someone who paid the $100. Am I being overly sensitive? Is this arrangement even legal?

Risk-Averse

Dear Risk-Averse,
You are not *being oversensitive. Let's explore related issues first. Employees should be barred from winning a prize, but volunteer sellers can buy tickets. It is unethical to pay fundraisers, but your volunteers are more like salespeople than fundraisers. So far, so good, but you are right that if the holder of a free ticket wins, the proposed incentive could cause a public relations disaster. There are safer incentives. Most state lotteries give a separate (and smaller but desirable) prize to the seller of the winning ticket. You should copy this model.*

Dear Nonprofit Ethicist,
At my organization, the third staff person in two months has been offered a job at a higher salary. All three love our organization, want to stay and have requested that we match the higher salary. In each case, the person is an excellent employee. The most recent hire has been here for only five months but is performing at a significantly higher standard than even some of our long-term folks. Will this attrition keep snowballing? Should we request verification of this supposed other job offer? Is it OK to give one of these rookies a higher pay than a good (in some cases, even a star) staff person doing the same work but who simply has no "other offer" threat to wield?

Ying-Yanged

Dear Ying-Yanged,
Wake up. There is no good reason to match a job offer for a new hire. A threat to jump ship after five months is just plain unethical post-employment bargaining. Verification letters are not the solution. A friend at another agency could fabricate one. Besides, the real issue is your organization's salary structure. Take a close look at the pay for each position relative to the market. If you are below market, you need to figure out a way to raise the entire scale. Once you have an appropriate and adequate salary scale, do not counteroffer unless it is necessary to hold onto a long-serving, star *employee.*

Dear Nonprofit Ethicist,
A board member's spouse has been accused of an awful crime against children. The organization in question serves youth. The inclination is to, perhaps regretfully, ask the board member to resign as soon as possible. Is there a special process for an unexpected resignation request? Who makes the decision? How is that meeting held? What questions of the board member, if any, should be asked, and how?

What advice do you have for saving the organization from being associated with the accused activity, without presuming actual guilt on the part of the accused? What would one say to reporters? Should one be proactive and put out a press release, and what would it say?

Worried

Dear Worried,
This is the kind of situation ethicists dread, because innocent people are caught in the middle. The problem is public relations. Every time the media covers the case, you can bet there will be a reference to the incongruous connection to your organization through the spouse. Perhaps reporters will question

whether the accused had access to children in your care.

For the good of the organization, the board member should take a leave of absence until the case is over. This is not as final as resignation, but the board member has not been accused of wrongdoing. It is less awkward to request a leave of absence than a resignation. Besides, the spouse of the accused is probably embarrassed to face fellow board members, and as the case drags on, it can only get worse. A leave of absence might be a good solution for both parties. You could be doing your board member a favor by suggesting it. Maybe a close friend on the board could test the waters. Check your bylaws for the correct procedure. Bylaws must be respected, but most of them make allowance for excused absences. If not, you can amend them accordingly.

The Ethicist generally favors proactive responses to crises, but in this case any remaining privacy this person has should be respected. When asked about the situation by reporters, state the facts without elaboration. And until the case is over, postpone responding to questions about the possibility of a resignation.

Dear Nonprofit Ethicist,
I've just started a consulting job to improve the effectiveness of a volunteer mentoring program within a K–12 school system. Once a month, we check every volunteer against our state's sexual-abuse registry. The process even checks board members and other volunteers who have no contact with students.

I don't believe that this is the best use of staff time because the program employs better tools to protect the students: initial screening, training, continuing supervision, and the like. Experts, including our state police, tell us that criminal background checks and offender registries lose validity at the moment they are checked because an offender may be sentenced the very next moment.

I don't think, however, that our executive director is willing to give up this practice. I suggested that perhaps an administrative volunteer could complete this task rather than our organization's program staff. The executive director immediately said, "No, because I'd be the one holding the microphone if the volunteer lets someone slip through the cracks."

My question is, do I push for this program change—by having volunteer staff complete the check, having the check done less frequently, or by abandoning repeated checks once initial screening is completed—or do I drop it altogether? I think the task is busywork, that it does not do much to protect students, and that staff time could be better spent in other activities. I also respect the executive director's caution.

Frugal

Dear Frugal,
You and the experts are probably right, but so is the executive director. Where vulnerable individuals are involved, it is wise to be cautious. If anything goes wrong—perish the thought—your director must to be able to reassure the public that the organization took every possible precaution to protect the children. Besides, this rigorous and continuous vetting puts everyone on notice that your organization has zero tolerance for inappropriate behavior. It tells potential sexual offenders seeking easy access to children to look for opportunities elsewhere.

Dear Nonprofit Ethicist,
I'm a board member of a small nonprofit. My executive director proposed sending a mail appeal announcing that the board would match contributions at a 1:1 ratio up to a certain limit. At a subsequent board meeting, I put the kibosh on this, but my concerns were not universally shared. The executive director had proposed including in the match limit funds already donated by the board, along with board member projections for the rest of the year. I believe that announcing a match based on already planned board contributions is itself a gray area, and using already donated amounts is even worse. This would turn the advertised notion of having your money matched into a fabrication. I believe that in our small organization all the money would already have been given by the board members anyway, and the response would likely have far overwhelmed the few thousand dollars our board gives annually.

Watchdog

Dear Watchdog,
This cynical game is probably played more often than we know. You are right, especially because of the upper limit on the total match. Board members should be willing to risk a big success. Maybe your board would be willing to give whatever it gave last year, plus match dollar for dollar every gift from those who have not given in the past five years up to $100 per gift. If you have 10 board members, each one is on the hook for no more than $10 for every new donor. They pay whatever they can now and pledge the balance. This should be painless, and it would be a good investment. We all know that donors tend to be repeaters. The problem is getting the first dollar. To find new donors, orchestrate a campaign that challenges every donor to find a new donor.

Woods Bowman is a professor of public service management at DePaul University.

To write to the Ethicist with your query, send an email to ethicist@npqmag.org.

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Dancing *with* Uncertainty:

Keeping the Heat and Lights on in the Nonprofit Sector

by the editors

During a time that impels us to act quickly and wisely on behalf of the diverse nonprofit sector, the idea of the nonprofit infrastructure as the electrical conductor of ideas, resources, knowledge, and collective power is appealing.

Every nonprofit will be affected, and there are no bystanders in this game.

We need that energy, as we face untold, unimagined challenges and opportunities. We are in the midst of turbulent economic, societal, and demographic changes. Every nonprofit will be affected, and there are no bystanders in this game. For the nonprofit sector, the challenge is whether we have invested sufficiently in the infrastructure that will interconnect, support, and sustain nonprofits during this period of change and uncertainty.

We've depicted the national levels of the nonprofit and philanthropic infrastructures (see pages 17–20). But these maps do not exhibit the rich connections between national, state, and local entities and those between national entities working in different concentrations.

Instead they focus primarily on the national infrastructure, similar to looking at the business sector through the lens of the U.S. Chamber of Commerce and the National Association of Manufacturers. In

There have been some major advances by infrastructure organizations, some of which aren't well known.

fact, the regional and local infrastructure players, state associations, and local management support organizations are for the most part more visible and connected to most nonprofits than national groups, but without these national groups, regional and local players would have less to draw from. And there are some functions—such as the creation of national databases on the nonprofit sector—that can be addressed only at the national level.

Advances

Major advances by infrastructure organizations may not be well known to most *Nonprofit Quarterly* readers who reap the benefits.

For instance, bright light, as we know, promotes accountability. The entire sector has much greater transparency because of the efforts of a few organizations that persistently pushed for the online posting of IRS-collected Form 990 reports. This data set has provided enormously valuable information to policy makers, donors, reporters, and a host of researchers who for the first time can illustrate the measurable parameters of the sector. In other words, the availability of this information is an enormous advance that has brought nonprofit accountability and self awareness to an entirely new level.

Thus, creating a map of nonprofit financial flows such as *NPQ*'s Illustrated Nonprofit Economy (which we present as special pullout between pages 36–37) would not have been possible until recently. And as most new products are, this map is the result of an informal—albeit serious collaboration—between infrastructure organizations, where staff members knew and trusted one another and saw the opportunity to advance a piece of work together.

Like the resource that GuideStar provides to the nonprofit sector and the graphic presentation of the nonprofit economy in this issue, it is at the intersection between and the interchanges among these infrastructure organizations where our sector's power is often created.

From the earliest days of the formation of the major nonprofit infrastructure organizations such as Independent Sector and the National Committee for Responsive Philanthropy, propelled by the Commission on Private Philanthropy and Public Needs (commonly known as the "Filer Commission" after its chair) of the mid-1970s, and earlier versions of the Council on Foundations, began to take on critical legislation. During the 1980s and 1990s, noteworthy achievements included the defeat of efforts to constrain the advocacy and lobbying voice of nonprofits, threatened by restrictions and promotion of initiatives to increase the incentives for charitable giving.

But more recently advances in knowledge-development have stood out. As mentioned above, searchable databases such as those hosted by GuideStar and the Foundation Center facilitate the ability of donors to learn about the financial track records of the nonprofits they fund. They also help nonprofits research where foundation grants flow and to whom. Reporters use the data to research important stories that reveal the sector to the public and researchers use the information to discern financial and governance patterns. At the most aggregated level, the Urban Institute's National Center for Charitable Statistics has worked with the IRS and other data sources to generate an impressive statistical portrait of the nonprofit sector, which is actively used by government decision makers and nonprofits to establish definitional parameters regarding the shape and content of the nonprofits operating with 501(c) federal tax designations. But nonprofits are also able to make use of more focused studies looking for instance at the financial dynamics of particular fields or of nonprofits in a particular geography.

Not to be omitted are the accomplishments of research entities generating reference points for all in the sector to use to promote their efficacy on behalf of society, such as the annual Giving USA reports, the various studies of grantmaking and assets flowing from the Foundation Center, seminal studies on the behaviors of nonprofits and donors by the Center on Philanthropy at Indiana University, and more.

The achievements of the nonprofit sector in public-policy advocacy—to defend nonprofit free speech, to generate databases and related research that defines the nonprofit sector, to provide capacity-building training and analysis throughout the sector, among others—merit support, continuation, refinement, and expansion.

Energy Grids

Conductive networks that flow from national to state and local and back again comprise the complete circuits that keep the entire infrastructure responsive. Two examples of distributed networks are the state association network that is convened by the National Council of Nonprofits and the Forum of Regional Associations of Grantmakers. It is not surprising, then, that these are the networks through which we distribute this issue of *NPQ* and in which we hope to promote dialogue. These networks can generate and test ideas broadly among the various groups that occupy the civic sector.

Such networks are important aggregators and disseminators of knowledge, power, and influence even in relatively stable times, but in moments of crisis they are absolutely critical for nonprofits and their constituents. In the Spring 2002 issue of *NPQ*, Rikki Abzug and Dennis Derryck wrote in “Lessons from Crisis: New York City Nonprofits Post–September 11” that nonprofits’ affiliations with networks substantially affected their ability to recover organizationally, to access resources needed for disaster-related demands, and to connect constituents with appropriate services:

> Contrary to popular press, some monies for recovery did become available relatively quickly. For nonprofits providing services, the September 11th Fund made both grants and loans available through three coordinating organizations with traditions of assessing organizational needs. The New York Community Trust, Seedco, and the Nonprofit Finance Fund were ready to cut checks for organizations with demonstrated need. But these resources were not highly publicized, so knowledge of such pools of funds became a critical factor in gaining access. One sure route to this knowledge was inter-organizational connections to those groups in the know—often umbrella groups.

Arguably we are in a comparable moment of societal disruption that envelops the entire nonprofit sector. In the aftermath of a historic meltdown of our financial sector, combined with the historic election of a new president, no one knows what the future will look like. Given the crucial role of the nonprofit sector in our society, the nonprofit infrastructure serves as a tempering and rationalizing mechanism for nearly 2 million nonprofit organizations as they face multiple challenges and uncertainties in their drive to deliver for communities.

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The Immediate Future

In this issue, we present a series of essays on the challenges we believe that U.S. nonprofits will face. The topics of these essays emerged from numerous interviews with infrastructure leaders.

Margaret Wheatley urges nonprofits to dance with this era’s profound uncertainties, to use this time as a moment when we can develop and bring new social agendas forward (see page 44). Lester Salamon discusses the shifts that might be anticipated in the funding of nonprofits and the opportunities and threats they pose (see page 34). Geoff Mulgan reminds us that the United States is a part of the world and that U.S. nonprofits are a part of a global civic sector that offers lessons to be learned and collaborations to be made (see page 24). Tim Delaney suggests that we take this moment to ramp up advocacy capacity at the state and federal levels so we have a voice in what social policy and spending looks like in future (see page 50). Cynthia Gibson emphasizes nonprofits’ democratic responsibilities and why claiming them will augment nonprofit and philanthropic effectiveness (see page 27). Each of these essays lays out a challenge to which no single organization can adequately respond. Nonprofits need infrastructure to help them understand and live up to their potential and to better set common agendas and to pursue them powerfully.

But the essays address another theme with profound implications. Paul Light expresses this trend as a struggle for the soul of the sector (see page 64). Who owns it? Does it belong broadly to the people as a place where they can freely organize to take up the issues and work they believe will serve the common good? Or is it owned by institutional funders, including government and

As painful as it is to untangle the roots of why some nonprofits have lapsed into ineffectiveness, we need to.

foundations, which make up a healthy part of its funding base and which may trend toward funding the larger and more "professional" organizations over more community-based ones? Are we headed toward an oligarchy, or are we committed to saving this sometimes-messy venue for democratic voice and self-organization? Interviews with Ralph Smith (see page 38), and Kelvin Taketa and Chris Van Bergeijk (see page 31) address these questions and provide alternative directions for the relationship between nonprofits and philanthropy. For the infrastructure organizations profiled in this issue, the question is, who owns them? Are they purchased by their funders, or can they take a more independent course and articulate an independent voice distinct from—sometimes even in contrast to—their sources of revenue?

Many Elements of Infrastructure

This issue also highlights the technology, research, accountability, and advocacy swaths of the nonprofit infrastructure. We could also have reviewed the players in volunteerism, financial management, research, and capacity building, but it would fill a book. We would, however, like to comment on a few trends in specific areas:

- **Capacity building.** This field is one of the oldest networks in the infrastructure. Made up of hundreds of independent management support organizations, these critical anchors provide a host of services to local nonprofits, from board development to merger assistance to staff training. Some provide back-office services like financial management or fiscal sponsorship, and some provide loans. These groups are among the most critical conduits for information from and to nonprofits.
- **Volunteerism.** Given the attention this field will receive from the incoming Obama administration—which has outlined an expansion of the programs of the Corporation for National and Community Service—this field is likely to change. The challenge may be how to distribute these new community-service resources, with large national entities typically capturing the lion's share of AmeriCorps and other slots, will smaller community-based organizations be able to share in this movement, or will they be left on the sidelines?
- **Financial management.** This is a field in which useful knowledge is being built more quickly than ever before. It is a loosely networked field that involves a few national organizations (the Nonprofit Finance Fund and the National Center for Nonprofit Enterprise, for example) and several academic and nonprofit-based researchers. Every type of organization requires an understanding of its financial patterns and dynamics, and the nonprofit sector is now finally on its way to building this knowledge.
- **Social enterprise.** We don't know how to categorize social-enterprise advocates in the nonprofit infrastructure, but this field has definitely done the nonprofit sector the favor of by focusing on impact. As painful as it is to untangle the roots of why some nonprofits have lapsed into ineffectiveness, we need to. We don't know what the role of social enterprise will be in the development of the nonprofit sector. But in any case, we need to, as Paul Light says, address the concern.

We could go on. There have been phenomenal advances in research and professional development and accountability. All these fields are meant to inform, improve, and amplify good nonprofit work.

As several contributors in this issue have noted, to be useful, the infrastructure must respond quickly and accurately to nonprofits and the challenges of the times. This requires nonprofits to be active in their national, state, and local networks, and national infrastructure networks must pay close attention to keeping energy flowing through and back to these roots. Now more than ever, this is the time for fuller networking and engagement in the nonprofit sector.

So the hip bone is connected to the thigh bone—and lots of other body parts within the nonprofit and philanthropic sectors. If we forget that, we will probably all fall down.

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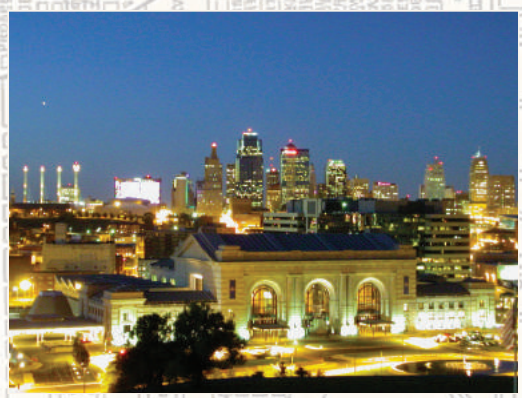

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Accelerants: The Nonprofit Infrastructure on Fire

by Elizabeth Boris

At their best, support organizations are propellants that drive organizations to excel.

If I were to describe the network of organizations that supports the nonprofit sector, I would not use the word *infrastructure*, which connotes a fixed and unchanging support system.

These organizations are hardly the static bones of the sector; rather, they are the interactive forces that transmit information and propel change. This network connects civil-society organizations through its hubs, which create opportunities for peer-to-peer learning and shared experiences as well as for improving practices, conducting and using research, and developing ethical standards. At their best, support organizations are propellants that drive organizations to excel. They promote an overarching view of the nonprofit sector's role in society by articulating the collective challenges of organizations and their constituents and by developing alternatives to address these challenges.

What are the implications of this dynamic perspective? It puts the focus on how the support network connects a diversity of organizations and facilitates their interaction with the wider environment. The recent presidential campaign, whose Web revolution so engaged the young, illustrates these dynamics. Networks embody speed, flexibility, interactivity, and a high tolerance for volatility, negative feedback, and redundancy. Successful network hubs provide quality content and a variety of communication and engagement options.

Now, with the reality of the current financial crisis, the support network of associations, publications, research entities, and others has a key role to play. If these organizations did not exist, there would be a movement to create them. The support network helps to identify and communicate organizational survival strategies. But more important, it documents and projects the impact of the financial crisis on individuals and communities all over the country. It also generates, communicates, and facilitates discussion of public-policy solutions.

Since the economic downturn may be more extensive than any we've experienced in our lifetimes, the network needs to be more interactive and more open to respond and function at a high level. Such demands call on support organizations to engage in collaborative problem solving and better coordination. The ultimate goal is to strengthen civil-society organizations to fulfill their missions during hard times. With a societal commitment to fund the network and a commitment by the network's hubs to collectively foster innovative capacity building for all civil society, progress toward this goal can be achieved.

Elizabeth Boris is the director of the Urban Institute Center on Nonprofits & Philanthropy.

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One Step Removed:

The U.S. Nonprofit Sector and the World

by Geoff Mulgan

LIKE MANY OUTSIDE THE UNITED STATES, I often look on America with a mix of admiration and frustration. During much of the past century, the United States has led the world in social improvement and innovation, and it has been extraordinarily generous with its financial and intellectual resources. It remains in a league of its own as a giver.

But over the past few years, the country's insularity and parochialism, which have sometimes infiltrated the higher reaches of government, have also sometimes extended into civil society and philanthropy.

At a time when the rest of the world wants the United States to rejoin it as an active partner and collaborator on issues as varied as climate change and global inequality, this article suggests some attitude shifts that may help.

The perspective I bring comes from several years of experience in the British government, often collaborating closely with senior politicians and officials in the United States and elsewhere.

GEOFF MULGAN is the director of the Young Foundation and the author of *Good and Bad Power* published by Penguin books. Previously he ran the U.K. government strategy unit and was the head of policy for Tony Blair, the former British prime minister.

In these roles, I became an ardent multilateralist. Cooperating with others can be difficult and frustrating. But it's the only way to manage a complex world full of divergent perspectives.

More recently I moved into a leadership role at the Young Foundation in the United Kingdom, an organization with a long history of social entrepreneurship that dates back to the 1960s and 1970s. Long before social entrepreneurship became fashionable, the organization's founder, Michael Young, was often described as the world's most successful social entrepreneur and a pioneer in involving users in services design (ideas that have steadily become mainstream). But the Young Foundation's central activity was social innovation: designing and launching novel solutions to pressing social needs, from open universities to language translation services and extended schools to patient-led health care.

During the mid-2000s, when we relaunched the Young Foundation, our first priority was to identify the global institutions and leaders that do the best work in the field. In the past, many of Young's ideas were adapted from those of the United States, and many of Young's projects had been supported by U.S. foundations, such as the Ford Foundation, so the United States was a first port of call. We found no shortage of innovative proj-

ects and no lack of dynamic energy in social movements and community organizing of all kinds.

But to our surprise, in the area of bringing ideas from conception to action, we found little serious analysis of what works and what doesn't. There was plenty of innovation in technology but little attention to how profound social change happens. There were many supports for social entrepreneurship; but with honorable exceptions, most of them involved celebratory public relations efforts rather than hard-nosed lesson learning, and most of the leading institutions seemed stuck in a model that was all about individual heroes and anecdotes rather than systemic change.

We also asked what serious programs of innovation in areas such as childhood development, aging, and ecological behavior change would look like—and particularly if these programs had resources equivalent to those invested in IT or pharmaceuticals. Again, however, the answers were disappointingly thin: civil society seemed to have lost the ambition even to think in such terms. Foundations were primarily engaged in lots of small-scale projects, and government simply had no interest.

The United States remains a world leader in thinking about social change, even if its performance on many social indicators is poor by comparison with other developed countries. But our research on social innovation showed that its predominance is far less marked than it was a generation ago. In many fields, countries such as Brazil, Bangladesh, China, Korea, Portugal, and Finland are now at the leading edge. Over the past decade, in terms of policies to support social enterprise and innovation, several countries have overtaken the United States and have introduced new funding tools, legal forms, commissioning models, and models of incubation. Other countries now lead the way in thinking about systematic innovation to tackle entrenched social problems, from school dropouts to youth crime, and how to mobilize the resources not just of nongovernmental organizations (NGOs) but also of governments and business.

In our own work, we were determined to think globally. And so, with a group of partners, we created a global network of organizations—known as the Social Innovation Exchange—that has hosted events all over the world and shared emerging ideas and practices in social innovation (www.socialinnovationexchange.org).

We also began an ongoing survey of the field, interrogating the knowledge and methods of diverse sectors—from public policy to social entrepreneurship, from design to technology, and from business to NGOs—and we've just published a collection of some 300 methods from around the world that will become an online collaborative toolkit.

More than a few of these methods originated in the United States, particularly in fields such as open-source technology and venture philanthropy. But today, all sectors in all parts of the world can offer important lessons to those concerned with social impact and social change.

Our experience suggests three larger lessons that may be relevant to the future vitality of U.S. NGOs and to the future impact of U.S. foundations.

The first is that the United States risks increasing insularity when it most needs to look outward. Once upon a time, Britain believed that if fog appeared over the English Channel, the world was cut off. But slowly, in the wake of empire, we've had to learn to become less arrogant, and we've learned to learn. Over the past decade, we've imported participatory budgeting models from Brazil, microcredit models from Bangladesh, schooling ideas from Denmark, public-health methods from Finland, and banking ideas from Africa. It's not yet fully part of our DNA, but this global outlook has increasingly become the standard.

The same is true elsewhere. These days, I spend a lot of time in China. I've observed that when China faces a new challenge, its first response now is to scour the world for good ideas from

PHOTOGRAPH © KELLY REDINGER/DESIGN PICS/CORBIS which to borrow. In the United States, by contrast, this sort of mindset has become rare. Europe sits somewhere in between. But over the decades ahead, I have no doubt which mentality will ultimately prove most useful.

The second big message is that the rest of the world views the United States as weak in the area of working across sector boundaries—and again, this perception comes at a time when it may matter more than ever. Our research on innovation shows that the most important ideas move across and between the informal world of the household, grants, public agencies, and markets and that much of the most dynamic innovation happens on the borders of sectors. Grasping these interconnections is key to serious social change. We've tried to reflect that in our own work, and the Young Foundation has a history of creating not only NGOs but also public organizations (such as the Open University and Studio Schools) and for-profits (such as Language Line and the School of Everything). Working across these boundaries is rarely easy. But the United States is one of the countries that finds the task more difficult than it should be. As a result, for example, much of the discussion about social entrepreneurship happens as if the public sector didn't exist, and much of the discussion of business, and of public policy, happens with no reference to social movements.

The third message is that while the United States has done more than any other nation to create networks, it isn't as good as it could be at networking. Social innovators have to be canny at linking disparate networks not only to gain knowledge but also to mobilize resources and power. This is true at a micro level, where many of our projects now involve building up formal and informal networks of support for individuals in need. And it's also true at a macro level. Some U.S.-based initiatives—such as Wikipedia and Mozilla—are among the world's best exemplars of collaborative networking. But I've been struck by the observation that some of the more official networks in civil society ignore the lessons by being too tightly controlled, too obsessively branded, too concerned with intellectual property, too siloed, and too insular—and unable to handle any language other than English. When less expensive and more collaborative networks could have achieved so much more, millions of dollars were wasted. Indeed, an old hand at one of the major U.S. foundations told me that U.S. initiatives today are more inward-looking than a generation ago and less comfortable collaborating with foreigners (even though spending overseas has risen) and that the newer West Coast–based foundations are, if anything, even more parochial and ill at ease outside their own culture.

The United States has extraordinary strengths. It has many of the world's leading universities, by far the richest foundations, and some of the world's few truly global NGOs. Some of these organizations act with huge sophistication and a genuine spirit of partnership. But as Shakespeare wrote, it's marvelous to have a giant's strength, but it's not marvelous to use that strength like a giant. In the current era, all institutions with power have had to learn that lesson—and what power looks like to those who have none.

We desperately want the United States to rejoin the world—not just in its politics but in its civil society. We want the United States to lead rather than lag on issues such as climate change. And we want to see the United States become as effective at social innovation on issues like childhood development and public health as it has been at innovation in computing and biotechnology. But for the United States to retrieve its former preeminence in these areas, civil society—like government—may need to learn new habits and adopt a mindset that at its heart values engagement with the world.

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NONPROFITS:

The DNA of Democracy

by Cynthia M. Gibson

RECENTLY, A PROMINENT CONSULTING FIRM asked several nonprofit leaders for feedback on the advocacy strategy that the company had developed for a large foundation. The meeting opened with one consultant asking, "Is it really necessary to involve the public in advocacy, and if so when? Wouldn't it just be easier to get the one guy working for the legislator to move the bill in the way we want?"

The assumptions behind these questions are mind-boggling, among them the notion that public participation in community problem solving is optional rather than necessary; that "one guy" is enough to move policies into law; and that lobbying is the only form of advocacy. Compounding the surreal nature of the meeting was a set of decision-making trees the firm had designed to help foundations assess when in the process public participation would be most productive.

Funders, however, are not the only ones who believe that public participation in problem solving is optional. At a gathering of nonprofit leaders from some of the country's major nonprofits, an executive director declared that while the organization's affiliates would be willing to host public forums on community issues, ultimately they would be "pro forma" because "our experts know best what to do and how to do it."

Public Weigh-in and Buy-in Are the Keys to Success

All this might be humorous if it didn't involve the allocation of millions of dollars to initiatives that, without public participation and buy-in, will most likely fail. History has demonstrated the danger of decoupling nonprofits in their role as democratic actors from the process of getting the results that investors and the public demand. During the past decade, several well-intentioned efforts to tackle difficult issues—from school reform to international development—imploded despite jaw-dropping investments because constituents weren't involved in planning and executing those efforts. Research indicates that had such participation been encouraged, it might have helped to

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achieve longer-term results and could have saved millions of dollars.

Civic engagement also tends to be seen as tangential to larger (and seemingly unending) discussions about nonprofit effectiveness, capacity, and impact. And amid growing calls for more collaboration among the three sectors—public, private, and nonprofit—to solve complex problems, there's little awareness of the value added by the nonprofit sector: its ability to encourage and enhance democracy and civic participation.

Nonprofits have long understood that without political will, policies, *and* public weigh-in and buy-in, the most well-intentioned initiatives open themselves up to criticism and disregard the political support needed to ensure that what's proposed is feasible and successful beyond the pilot phase.

Perhaps the most difficult hurdle for many investors is that the outcomes associated with civic engagement are amorphous.

So why don't investors bite? Some see civic engagement as too nuanced and prefer to focus on specific issues and problems. Others are uncomfortable with institutions working with "real people" as partners rather than as beneficiaries of services. Still others view community-based problem solving as a thinly veiled political agenda they're uneasy about supporting.

Social Efficacy As an Outcome

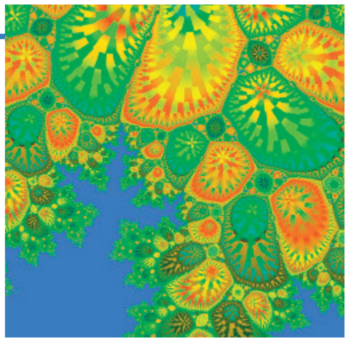
Perhaps the most difficult hurdle for many investors is that the outcomes associated with civic engagement are amorphous and process oriented, making them difficult to measure. Their skepticism is understandable. What's the incentive to invest in these kinds of things, especially in a sector that has been somewhat laissez-faire in assessing even its most basic activities?

Nonprofits, therefore, need to move beyond the argument that civic engagement is part of their mission, which may sway some but not many, especially in the age of benchmarks and outcomes. Instead, they need to show how an expanded definition of outcomes—including communities' ability to address issues beyond predetermined time frames and program foci—leads to longer-term results. In addition to using as a measure the number of homes that have been built for homeless families, for example, nonprofits could also assess whether and to what extent the larger community has the capacity to prevent homelessness and whether that fuels collective problem solving on other issues.

In short, social efficacy becomes an important outcome—one that has the potential to leverage funders' investments (and perhaps codify the ever-elusive notion of impact) but is admittedly more difficult to evaluate. That shouldn't preclude nonprofits from trying—and, most important, funders from providing—the resources to do so more rigorously.

Given the growing number of nonprofit-led efforts to embed a sense of social efficacy into communities nationwide, this task may become easier. Today, these groups convene people with wildly divergent views on everything from politics to religion and who are tired of the culture wars and political polarization. During these gatherings, people consider a range of views and policy options (rather than promoting a single cause) to find common ground on the issues that concern them most. They then take action on those issues at a range of levels: policy changes, organizational changes, small-group efforts, individual volunteerism, or all of the above. These actions, in turn, build local civic cultures that can lay the groundwork for a deeper ethic of civic engagement. Civic participation becomes part of everyday life rather than an episodic activity such as volunteering that is squeezed between the "higher priorities" of work, school, and family.

Groups like the National League of Cities, the National School Boards Association, the National Civic League, the Environmental Protection



Agency, and others are exploring and advocating these kinds of approaches to public problems. At the local level, this form of democratic governance and public problem solving has taken hold in numerous cities such as Decatur, Georgia; Portsmouth, New Hampshire; Kansas City, Kansas; Palo Alto, California; and Hampton, Virginia. These kinds of initiatives have involved hundreds or thousands of people who are addressing issues such as education, land-use planning, crime prevention, human relations, environmental protection, housing, economic development, public finance, and public health.

The organizations that lead these efforts aren't doing so because it's a nice thing to do; they're doing it because powerful institutions—including schools, businesses, and legislatures—have asked them to. Increasingly, leaders of these institutions recognize that they won't be successful if they continue to ignore citizens' desire to help solve problems that need fresh ideas. And who better to provide these ideas than the real people who face these issues every day? In short, those who've traditionally controlled decision-making processes now recognize that to have real impact, they need not only public buy-in but also public weigh-in. And nonprofits now serve as the go-to players in helping to make that happen.

Auspiciously, a small group of philanthropic institutions has also dipped its toes into these waters by soliciting public involvement in priority setting and information gathering about issues that communities—not just experts—have defined as most important. An even smaller group has gone so far as to ask "real people" to be involved in *every* step of the grantmaking process, from developing guidelines to selecting grantees.

While the jury is still out on whether these efforts lead to better investments, they merit our attention. By bringing experts and the public to the same table to see whether new ideas emerge, philanthropists have opened the black box of philanthropy, which traditionally has preferred to operate behind closed doors. Moreover, they have experimented with a process that may ultimately prove more effective in achieving the longer-term results so many say they want. At the same time, they have honored the civic mission on which philanthropic institutions were established and have responded more profoundly to a public from which they derive significant tax benefits.

The Guardians of Democracy

Nonprofits' role in promoting democracy, however, goes beyond individual communities. As it has been for the past century, the nonprofit sector is the doorway through which millions of Americans pursue a diverse array of cultural, social, political, and religious beliefs through civic opportunities that are the hallmark of a healthy democracy.

That's a mouthful, but nonprofits are well positioned to show through their work how democracy is more than a lofty construct; it's the stream from which every attempt to solve public problems and make the world a better place flows. It's nonprofits, after all, that spurred some of the most significant and sweeping changes in modern history, from the Voting Rights Act to welfare to campaign finance reform. Those changes were the direct result of nonprofits' exercise of the fundamental freedoms in a democracy, such as the rights of assembly, free speech and expression, and equal protection before the law. And these rights have often benefited the most disadvantaged and underrepresented groups whose participation has historically been thwarted or uninvited.

Nonprofits are also frequently the sole voices in contesting governments and other institutions when they threaten to overtake public will. For evidence of why this nonprofit role is important, one has only to look at several other countries in which nongovernmental organizations have led the way in successfully challenging totalitarian regimes.

By using new technologies that help people to self-organize and advocate for causes they care

PHOTOGRAPH © MIKE ZENS/CORBIS

about, nonprofits have also led the way in breaking down the walls of institutions that haven't always welcomed citizen participation. Ultimately, these nonprofits have shown how technology can turn the entire power structure on its head, empowering grassroots citizens who previously felt voiceless.

But let's not fool ourselves into thinking that all nonprofits care about serving as guardians of democracy. Studies continue to show that an abysmally small number of nonprofits engage in advocacy. If nonprofits want more investment in their efforts to promote civic engagement, they're going to have to embrace, rather than shy away from, their right to advocate. They need to be more willing to open their own doors to the public and invite it to participate in organizations' activities and agenda setting. And they need to be wary of how nonprofits' increasing professionalization creates an insular, expert-focused culture that discourages democratic participation.

Most of all, nonprofits need to make civic engagement a top priority in discussions about impact and effectiveness. And given the recent presidential election—which demonstrated that, when engaged, ordinary citizens can bring about precedent-setting change—what better time is there to do so? Both presidential candidates noted the importance of public service and that the world's problems won't be solved unless there's more, not less, civic participation.

Clearly, these politicians get it. Let's hope that consulting firms, investors, and, yes, even nonprofits that assume that civic engagement is secondary rather than integral to the ability to achieve results will eventually get it too.

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Nonprofits and Philanthropy: Scenario I

An Interview with Kelvin Taketa and Chris Van Bergeijk

by the editors

Nonprofit Quarterly: *What is the future of the relationship between nonprofits and philanthropy?*

Kelvin Taketa: Our ability to effect change in the community in Hawaii is entirely dependent on the skills, the dedication, the competencies of the organizations we fund and even of the organizations we don't fund. We are not the change makers; they are. So in our work, we have always tried through external feedback mechanisms and evaluation, along with our own networks, to really listen to our grantees in order to understand whether we are doing a good job of achieving what we set out to do. But I think the big shift for us has been a much deeper engagement with potential grantees in a given field at an earlier stage even before creating the details of a program; it feels more like a partnership than the typical power dynamic between a funder and a grantee.

Chris Van Bergeijk: We are becoming more and more convinced of the value of network approaches. And we have learned that a little bit by accident through our leadership development program, PONO, a program we started seven years ago with David LaPiana.

We bring together 12 to 15 executive directors for 11 months, and what we learned was the value of relationships they built with one another and the candor that grew over time between individuals in the group as well as with foundation staff. In the beginning, we had a big debate with David LaPiana about whether we should sit in the room as grantmakers and whether just our presence in the room was going to change the dynamic. He became convinced that people don't pull their punches when you are sitting in the room with the right attitude about why you are there.

NPQ: *What is the right attitude?*

CVB: I think the attitude has to be one of sincerely wanting to learn. As Kelvin said, we don't do this

KELVIN TAKETA is the president and CEO of the Hawai'i Community Foundation (HCF), and **CHRIS VAN BERGEIJK** is HCF's vice president of programs.

work; we are not the experts. We could hire the most skilled, respected individual out of any sector in the community to become a program officer at the foundation, and within in a year that knowledge starts to become dated.

So when we sit in the room, if we are really clear with people that we really want to understand the challenges they face and their strategies, they pretty quickly drop their guard. We are really trying to understand the synergy that occurs between organizations and between people who wouldn't necessarily meet if we didn't bring them together. We are using a network approach more and more; it requires us to involve people. And that's where our program strategies have really improved as a result of a much broader discussion.

The cumulative impact of our investments is a better community, and it's not always about the highest and best investments.

KT: I have a friend who always asks whether you are in the "send" or the "receive" mode. I recall many times when we would develop our theory of change, draft our request for proposal [RFP], and make grants. Then we would bring all the grantees together and talk about what we were trying to do, and we would explain our theory of change. But it was all in the send mode. They received their checks and took a picture, and off they went.

Where Chris and our program staff have really shifted the thinking is that the actions are more about receiving than about sending. A good example is our Schools of the Future initiative, where getting educators involved even before we shaped the program completely changed what we ended up doing.

CVB: This is a new program that we started nearly a year ago. We were responding to more and more requests from schools regarding their technology needs. We originally thought we should do a subset of grants that focused on technology, and we asked a local intermediary to help us understand the issue.

The intermediary suggested we invite about 15 people from schools across the state and just talk "story" with us. We did that, and I walked out of that room just completely blown away. They were talking about a whole movement of transforming schools as we know them to meet the twenty-first century needs for kids. It started out as this simple, plain-vanilla technology idea and evolved.

After that meeting, we held several others. And we took a whole year to actually develop an RFP that is really all about education transformation now, and technology is really just a subset of that. We would never have gotten there had we had just done it by ourselves. We would have ended up with an RFP that would have been helpful but would have never taken aim at substantial reform.

KT: An article I read this morning talked about a new service for measuring nonprofit performance. As with publicly traded companies, it is trying to provide donors, as investors, with a sort of new investor screen. But I would say that approach doesn't acknowledge *mutual* accountability.

It's different when you're talking about investing where you're trying to create social change. I don't think you can look at the dynamic [through the investor model]. We need our grantees and the larger nonprofit community to help us be as good as we can be and that we need to help them be as good as they can be. It's not like we're an investor who looks impartially at a set of metrics and invests only in organizations that would potentially generate the highest return. Because that's not our job.

The cumulative impact of our investments is a better community, and it's not always about the highest and best investments. We need to keep in mind the big picture of what is needed in the community. An investor approach ignores the interconnectedness of so much of the community-change work and changes the dynamic of the level

of mutual accountability and, to some degree, an intimacy that I think is important to the work. That said, this kind of grantmaking is hard work.

When I talk about these kinds of things to a broader audience, it scares people. There are a lot of skeptical people who have a hard time swallowing whether we can sit at the table without a huge tilt. I think they think we might be a little naive about it.

NPQ: *Also, they might believe that Hawaii is culturally odd.*

KT: Yeah, I think we are. But if the 44th president can bring island ways—the big tent—from Hawaii, maybe it's our time to do the same. I know the fashion is to talk about strategic grantmaking as if it can all be done from our end. But for us, paying attention to the process, roles, and relationships has become more important than the intellectual precision of the outcomes.

NPQ: *Meg Wheatley [the president emerita of the Berkana Institute] has discussed how difficult it is when you have a vastly changed environment to go in with clear outcomes. You really don't know what you're looking at anymore. All you can do is try to engage people and to encourage links between people—which sounds almost exactly like what you're trying to do.*

CVB: That's exactly it.

KT: Probably the apocryphal tale for us was after September 11, when the planes quit flying to Hawaii. Tourism is, of course, a big part of Hawaii's economy. Basically, at the urging of our board, we launched an outreach effort—it was like 40 meetings in 30 days. We went in with ideas about what we could do, so it had a similar feeling to what's going on now. I remember we went in thinking we were going to do one thing, and as a consequence of all those conversations our staff had all through the state, we completely changed what we ended up doing. That was the start of realizing the power of this kind of work.

NPQ: *What's your greatest hope for this new approach?*

CVB: That we can categorize and harness the power of the connections that occur between groups. There's a real price that comes from the isolation between organizations. There's no chance to share practices or that audacious idea that you have but keep on the back burner because you know you could never do it by yourself. By working together with people on a regular basis, bringing them together, we find the grout that glues the tiles together is where the power is. It allows us to come up with bigger approaches and bigger solutions to social issues.

By working together with people on a regular basis, bringing them together, we find the grout that glues the tiles together is where the power is.

KT: Two words that people often use to identify what hinders nonprofit organizations from delivering the goods are *isolation* and *fragmentation*. The hope for us is that out of this approach comes collective action that's bigger than the sum of the parts—all those things we feel have the potential to be created or resolved if you deal with the fragmentation and isolation.

You can't do it any other way. We have a wonderful opportunity to really understand and learn from the people who are on the ground. And in order to do that, we have to give up control, which is a really scary thing. But it's been a phenomenal learning experience. We've become a much better community investor as a consequence.

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Seizing the Day: Opportunity in the Wake of Crisis— An Interview with Lester Salamon

by the editors

Nonprofit Quarterly: *Over the past 10 years, what economic changes have taken place in the sector, and how important have they been?*

Lester Salamon: Over the past 15 or 20 years, there have been massive changes in the economics of the nonprofit sector and in the economic approach of the sector. First, there has been enormous growth in nonprofit employment and expenditures at a rate that has exceeded the growth rate of the GDP [gross domestic product] of the country by a substantial margin. Fueling this growth have been social and demographic shifts that have increased the market for nonprofit services and expanded government entitlement spending in fields where nonprofits operate.

To cite just two of these entitlement programs, Medicaid and Medicare pump more money into the nation's nonprofit organizations than most of the major foundations combined. Their reimbursement policies have profound implications for what significant portions of the nation's nonprofits can do, yet nonprofits are not effectively represented in the arenas that shape these policies.

Finally, I would emphasize the greatly expanded need for investment capital as opposed to operating income for the sector. This has been another sleeper issue in the sector.

NPQ: *Why investment capital?*

LS: Like other organizations, nonprofits increasingly need capital for new technology, for strategic planning, and for new facilities to respond to increases in demand for their services, including increases that result from changes in public policy. Where there are areas of growth in the needs that nonprofits serve—particularly where those needs either can be financed privately or financed through various government programs—nonprofits are at a disadvantage unless they can find access to investment capital. Historically, the playing field has been uneven. It's uneven because nonprofits don't have access to the equity markets, they can't

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issue stock, which essentially is free capital. They can't do so because they can't offer dividends to their investors. So nonprofits have no access to an important source of investment capital, and this makes it hard for them to respond to surges in demand.

NPQ: *What's going on with revenue from fee-for-service activities?*

LS: It continues to grow. It is the single largest source of revenue growth in the sector overall and spreading into ever-wider portions of the sector. I think that will continue. It is important to realize, however, that fee income from core nonprofit services is not the same as income from unrelated businesses or closely related ones (e.g., entrance fees at museums versus sales of replicas of museum works).

Many people see business income as an important future growth area. I'm much more dubious about that. It's just very hard to start and operate a separate business as opposed to coming up with a fee structure for an existing core service. How the current economic crisis will affect nonprofit fee income is anyone's guess, of course. But in this economic climate, it will likely be harder for nonprofits to operate outside businesses than to stick to their knitting and market their core services to paying customers.

NPQ: *Is there a relationship between the need for investment capital and fee-for-service endeavors?*

LS: Sure. You can't bring in fee-paying customers unless you have the facilities to reach and serve them, which requires capital. Similarly, it's hard to attract investment capital without a sustainable source of income. There has been considerable growth of nonprofits in the suburbs that seems related to serving fee-paying customers. But generally speaking, for-profits are able to do that faster and more extensively. This economic crisis could lead to the withdrawal of for-profits from a lot of these markets, and that could create interesting opportunities for nonprofits.

A lot of for-profits have been able to generate capital for expansion by developing financial models that show continuing, escalating returns. It's now harder to convince investors of those returns. A reduction in social spending may thus trigger a contraction of the for-profit presence in many human-service fields. This could shift the balance back in favor of nonprofits, which do have access to some forms of capital that for-profits don't.

NPQ: *Such as?*

LS: Such as tax-exempt bonds or wealthy individuals who want to build a facility and name it after themselves. The whole structure of the return models that for-profits use can come crashing down on them when reimbursement rates change, causing stock valuations to plummet and private investors to bail out. We've seen this happen in a lot of fields. And in some, for-profits have turned to shady dealings to survive. More commonly, they just pull out of the field. Nonprofits tend not to do that; they stay the course. This has been an argument for why we should be concerned about growing for-profit competition in certain fields because nonprofits are more reliable providers. If the populations being served are vulnerable and can't easily adapt to having a new provider come along, in these markets it's not good public policy to encourage for-profit involvement.

NPQ: *What about changes in philanthropy?*

LS: Our infrastructure has been too fixated on the philanthropy side of things. That's a comfortable ideological place to be, to be bringing philanthropy in, to be assertive on philanthropy, and certainly some see the sector almost exclusively in these lights. That's been a blind spot. The center

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of organizations has become a bit more concerned about government as a funding source, but there was a period when every budget would be analyzed from the point of view of its impact on nonprofits, and that has not been a popular thing to do politically. So some of the key sector organizations have shied away from it.

NPQ: *Why?*

LS: I suspect that there are people on boards of nonprofits and on boards of the infrastructure organizations who don't want to be in the posture of supporting tax increases or growth of government, which has not been a popular political position.

NPQ: *Who advocates for government budgets?*

LS: To the extent that it's done, it's by the sector-specific fields, but even there I don't see it as terribly proactive. Often where it occurs is when the sector plays defense and when there are threats of massive cuts. One of the points that I've made over and over is that there should be an active nonprofit presence in the decision making surrounding Medicare and Medicaid reimbursements.

This goes back to my previous point. It's such an enormous driver of everything in the sector. As Medicare and Medicaid move to a lowest-unit-cost-of-services reimbursement system, it becomes hard for nonprofits to do community organizing, to do advocacy, to have medical schools that do training and not simply delivery of medical care at the lowest-unit cost. So it potentially drives out of the sector all the things that make the sector unique and distinctive. If I were the nonprofit czar, I would have our major infrastructure organizations regularly monitoring everything that is done in Medicare and Medicaid and calling attention to the implications that changes have for nonprofit providers. This is just so critical.

But philanthropy has been stalled at the individual level for 15 years. It has certainly grown, but its growth has lagged behind the growth of personal income, and it has lagged behind the growth of the sector, so that it has actually shrunk as a share of the sector's revenues. So the question is how to kick it further ahead. Fortunately, there have been interesting developments here. One that I have focused on is the new investment emphasis of some funders—both individual funders and foundations—and the efforts to use philanthropic dollars to leverage private-investment dollars.

NPQ: *So you're talking about program-related investments, mission-related investments, and the like?*

LS: I think that is a hopeful development—or at least it has been. It's not clear what the meltdown in the private capital market will do to it. There's a whole set of promising vehicles at risk right now: the whole array of financial institutions and requirements associated with community reinvestment. So I think we're going inevitably to anticipate a reduction in the flow of those dollars.

All this puts pressure on state and local governments. State and local governments are the partners of the feds and the entitlement programs and have significant say over Medicaid—at least reimbursements—that has powerful impact on mountains of nonprofits, not just health; it's well into the social-service field (e.g., addiction management, mental-health counseling, and developmental disability). Over the past eight years, states have added lots of people to these programs, and many states have it in their power to reverse those decisions. So we may begin to see reductions in reimbursement rates, shaving off of certain groups of people that have gotten access. I think that people have to be super-vigilant to ensure that this doesn't happen. Because if it does, a crucial source of revenue will disappear.

NPQ: *That is, that advocacy would need to happen at the state level?*

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LS: Yes, a lot of the decisions are at the state level. but I think it needs to be done federally, too.

NPQ: *Are other things at risk?*

LS: Some tax-advantaged giving could be at risk. The low-income bonds that states are allowed to issue that have a federal tax advantage to them could be shaved back.

NPQ: *If you could make three recommendations, what would they be?*

LS: I imagine a defense strategy and an offense strategy for nonprofits in the present economic environment. On the defense side, there are a number of policies at risk now that need to be defended, and defended aggressively, some of which I've mentioned already—like the Community Reinvestment Act, the special tax incentives for community development finance institutions, and tax provisions encouraging charitable giving out of individual retirement accounts.

But I also think that there are interesting opportunities in this environment for a strategy of offense for the sector if it can be entrepreneurial enough to grab them, which I think it can be. One of these is the housing crisis. If we come around to a sensible approach on the mortgage meltdown—which would be that the government somehow acquires mortgages and establishes an entity that will work out the bad mortgages—this could open an enormous opportunity for nonprofits to be the agents that work with people on the ground in communities to come up with decent workouts for their mortgages.

NPQ: *And in fact, the CDC [community development corporation] infrastructure is largely already there to do so.*

LS: It's exactly its presence on the ground that recommends it, because if this stays in Treasury and proceeds along its current course, Treasury will hire a bunch of collections agents who will buy the loans at a low price and try to squeeze out a nickel from each dollar of loan value by foreclosing. They're not going to have the same incentive to keep people in housing as the nonprofit network would have. So that's a terrific opportunity. If $500 million of the $700 billion bailout fund (i.e., one fourteen-hundredth) were made available to networks of local nonprofits to work with families to rearrange their loan terms to more affordable rates, we could strengthen an important network of nonprofit organizations and move the country some distance out of our housing and financial mess. We're workout specialists; we know how to deal with communities and how to get a decent deal for them and for the government.

Then there will be fields in which for-profits will begin to disappear, to pull back—nursing home care, home-health care, things of this sort—where they're heavily leveraged and can't support operations. This will create opportunities for nonprofits to acquire facilities on the cheap if they can generate the capital.

And I have no doubt that there are entrepreneurial nonprofits out there that will figure out a way to do precisely this. We have some amazing institutions and amazing entrepreneurs in the nonprofit sector. I'm talking here about service and advocacy organizations. Many of them have become enormously effective and sophisticated enterprises—with far more complexity than our simplistic charity imagery would suggest. That message somehow hasn't penetrated the public consciousness. And it is not clear to me that the infrastructure organizations have done enough to get this message across. Perhaps this economic crisis, painful though it is, will provide an opportunity to do just this. It is an opportunity that the sector should seize.

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Nonprofits and Philanthropy: Scenario II

An Interview with Ralph Smith

by the editors

Nonprofit Quarterly: *Over the past 10 years, what has changed in the relationship between foundation philanthropy and nonprofits?*

Ralph Smith: Foundation philanthropy is increasingly sector agnostic. Many of us believe that foundation philanthropy is at its best when its resources are directed toward pursuing, finding, testing, demonstrating, and promoting solutions for the most pervasive and urgent social problems. In other words, foundation philanthropy is in the solutions business and can succeed only if and to the extent it is willing to pursue solutions wherever it finds them, regardless of whether they are in the public, private, or social sector. As a consequence, the assumed exclusive relationship between foundations and nonprofits has become much less so. Foundations are going to support and invest with a much wider range of partners than in the past.

At the same time, it is important to acknowledge that foundation philanthropy has yet to take up its special responsibility to create a capital market for the people and organizations doing the important work in the social sector. As things stand now, organizations that are effective and have a real track record are often as financially frail and vulnerable as organizations that are doing far less and far less effectively. The absence of a capital market makes it difficult to reward good performance. And this continuing failure to reward performance undergirds a compact of mutually low expectations. Organizations should know that performance matters and that superior performance matters in terms of the ability to raise capital. At present, the social-capital market is at best chaotic and, in certain respects, nonexistent.

NPQ: *Under the new framework that you have described, what would happen to the run-of-the mill but nonetheless challenging tasks in which so many nonprofits are involved: that is, the tasks of maintaining and reweaving the social fabric?*

RS: Nonprofits have an important, though not exclusive, role to play in maintaining the social fabric. But underperformance is consequential regardless of role or aspiration. Whether defined as maintaining the social fabric, protecting the safety net, nurturing the democratic impulse or just, on a very mundane level, providing services and support, underperformance matters, and it matters a lot.

Ralph Smith is the executive vice president of the Annie E. Casey Foundation and the chairman of the board of the Council on Foundations.

NPQ: *Is this trend size neutral, or does it have a natural inclination toward a larger scale and greater maturity?*

RS: Size, maturity, and track record can matter. Permit a somewhat circular response to the question: In the private sector, you know something works if people buy it. If people don't buy it, the market research was just plain wrong. Without the discipline of the marketplace, foundations are trying to find all sorts of ways to answer the question "Did it work?" On the one hand, there are the multiple attempts to measure return on investment by developing a calculus to count and track social returns. Quite frankly, I find these efforts a far more attractive proposition than investing in more expensive evaluations, most of which conclude that it is too difficult to say anything conclusive. One of my colleagues from Mississippi says that sometimes "the juice isn't worth the squeeze." And I must admit, that's the way I feel about those evaluations that are not explicitly about learning and improving practice. To the extent that foundations insist on evaluation as meaningful and that dollars follow the evaluation, we do run the risk of privileging the larger, more established organizations and programs over smaller, less-established, and, in some cases, more innovative people and programs.

NPQ: *So, over the next 10 to 20 years, does philanthropy have a particular responsibility to nonprofits?*

RS: Yes. Three areas sit at the top of my list. The number-one long-term responsibility would be to develop a disciplined social-capital market. That probably will require the emergence of funds: some would specialize in providing the risk capital for innovations; others would provide the growth capital needed for scale; still others would provide resources in the form of money and talent to build organizational capacity.

A second responsibility is to deal with the compensation challenge, especially as it relates to the retirement insecurity facing so many nonprofit leaders. It is totally unsurprising that this retirement insecurity impinges on developing a rational approach to succession and transition. As important, the prospect of retirement insecurity and the compensation issues that lead up to it stand as major obstacles to creating a real pipeline for future leaders.

The third responsibility is to strengthen the infrastructure of the nonprofit sector by supporting the development of strong local, state, and national organizations. These organizations and networks should have the capacity, durability, credibility, and legitimacy to represent nonprofits in the public square and to level the playing field with foundation philanthropy.

NPQ: *Some organizations worry that foundations see themselves as self-appointed intelligentsia, far more capable of directing nonprofit work than those on the ground. How would you respond to that?*

RS: The worry is justified. Foundations that practice strategic philanthropy do play a different role. Their challenge is to find ways to listen carefully, learn constantly and make a place in their processes for diverse and even divergent perspectives, especially from those on the ground.

On the other hand, some of the worry is less about the work than it is about the attitude. Humility does not come easily to foundation staff with decisions to make and dollars to disperse. So it is easy to see how, unless a foundation has built-in checks and balances, foundation staff can get to this point where the criticism is deserved.

NPQ: *OK, so in that context, where's the corrective mechanism for foundations if they have much less of an accountability market than do nonprofits?*

RS: Because foundations are in the solutions business, they increasingly will find themselves having to negotiate, collaborate, and coordinate with private- and public-sector folks. Now, people in the public sector are really all too willing to let foundation staff know that they manage annual budgets that are larger than most endowments. They are not overwhelmed by charm and are pretty underwhelmed by the size of grants or budgets. So the good news is that as foundation philanthropy becomes more sector agnostic, there will be more reality checks and humility-inducing moments along the way. That is a quite healthy by-product of the solutions business.

NPQ: *Would these reality checks substitute for an accountability market?*

RS: Not really. These reality checks are an improvement on the bilateral exchange within the social sector. A robust accountability system would ensure that the folks who are most clearly affected have a voice. And because it is unlikely that a single grantee of a foundation will have a sufficiently strong voice, we need those state and national associations to which I referred earlier. Strong, independent organizations would speak truth to power and could speak to philanthropy on behalf of both grantee and nongrantee organizations.

NPQ: *Has the robustness of the philanthropic infrastructure—which encourages more constant dialogue among philanthropists and separate from grantees—driven an intellectual wedge between foundations and nonprofits?*

RS: I really think the issues there are more fundamental. We have neither fully articulated nor achieved consensus on the role of philanthropy—particularly foundation philanthropy—vis-à-vis the rest of the sector. The notion of a capital market for the social sector is not broadly understood and widely embraced. In fact, it is barely even discussed. The result of that silence is a grantor-grantee relationship rather than an *intrasector* partnership in which all participants bring their resources, some financial some not, to bear on the problem to be solved. Defining the issue that narrowly allows the idea that, with a little more money spent on core support or multiyear funding and a little less arrogance, all could be well. But that is simply not true.

Foundation philanthropy will become more sector agnostic. Being sector agnostic, however, should not provide an excuse to abdicate the responsibility to invest or provide the capital market for the social sector. As foundations move, migrate, and are pushed and pulled toward using their endowment for mission-related purposes, they will invest in for-profit as well as nonprofit enterprises. That's one of the changes I see happening in philanthropy, and too many nonprofits seem unaware of the implications. If the choice has to be made between the for-profit organization that brings a set of skills and one that does not, the choice increasingly is going to be made in favor of the higher skill set. And that means that the compact of low expectations—inadequate compensation, inadequate capitalization, and subpar performance—will become even more of a drag on nonprofits as they compete for the resources they need.

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An Era of Powerful Possibility

by Margaret Wheatley

NONPROFITS WHOSE WORK FOCUSES ON communities need to recognize that they are the keepers of knowledge and wisdom about community engagement and community development, the very skills most needed today. And community is the crucible of our major challenges—job loss, failing schools, home foreclosures, violence, fear—as well as where the answers for the future will be found.

This is a time charged with the energy of possibility and uncertainty; today, most of us walk that edge between hope and despair, trying not to look down for fear of losing our footing. And today, community-based nonprofits work overtime to meet the needs of residents. But the times have changed radically, and that means that our practices must also change radically. By going it alone, individual communities and nonprofits cannot create the change we need. The system is too big and complex, so we need to get serious about doing this work together through true collaboration that explores the complexity of core issues. But many of us don't yet know enough about how to create the knowledge-based yet diversified group work that will take nonprofit power and influence to the next level.

Most nonprofits survive by focusing on turf, status, and institutional ego. In many cases, their pride is justified; they are dedicated to their constituents. But this organizational self-centeredness limits nonprofits, whose role is the common good. This perspective has been only encouraged by funders, which promote nonprofit competition and an increasingly narrow focus, leaving nonprofits little latitude. We must get over ourselves, move away from our petty fiefdoms and step into the space of true collaboration. If we don't make collaboration a priority—by learning new behavior and galvanizing the resources to work together—we risk losing our last chance to positively affect the future of this country. For nonprofits the question is not "How do I position our work to be heard over all others?" but "During this time of uncertainty and dire needs, how can we freely bring our experience, knowledge, and expertise to bear?"

Philanthropy and government will make the way more difficult if they continue to demand immediate results and compliance, policies that are based on a distrust of nonprofits and that destroy nonprofits' ability to mobilize their communities.

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We need to tackle the distrust that exists between foundations, government, and nonprofits, because we cannot do the work that needs to be done if we continue to fear one another.

I believe this distrust has arisen because of the failure we've experienced in solving complex problems. We've identified the cause of this failure as individual leaders and agencies that lack the will or intelligence to solve the issues for which they received funding. But in fact, our mental models have failed. We have not approached complex problems in ways that account for their dense, interconnected nature. Nor have we advocated for the processes required of a complex system. So, of course, we've failed by applying rigid, reductionist, and mechanical models of problem solving to a dynamic, complex, and interconnected system.

But too many funders have misidentified the failure as flawed leadership rather than flawed thinking. They grow more fearful and distrustful of those they entrust with their money. And then they add new reporting requirements, insist on more evaluation, and demand greater "accountability." I've observed that nonprofit staff in the field spends increasingly more time on measurement and report writing. If your nonprofit has received money from multiple funders, most of your effort goes toward satisfying these multiple requirements. This doesn't increase accountability; it merely holds talented people who are capable of doing good work hostage to filling out forms that demand nonsensical measurements that aren't particularly useful.

We have to break the cycle of distrust between those who have the money and those who need the money to do the work. If funders continue to insist on more elaborate reporting of inconsequential work and measurements that mean little, we won't get anywhere. We need to recognize that the only way to learn about complex systems is to begin to work *within* the system—together as community residents, nonprofits, and funders—and to learn as we go. And to build trusting relationships, we have to become consummate learners who can encourage one another to take risks, learn from our experiences, and immediately apply that learning to our next task.

We don't know how to do the kind of continuous learning that complexity calls for. In today's world, when we confront a massive failure (think the current economic meltdown), we try to stop the chaos by imposing simplistic regulations. But every time we attempt to control chaos with controls and oversight, we create only more chaos.

When we dance with uncertainty, we have to notice what's around us in the moment and what we can learn. Too often, instead of staying open to the unpredictable and being avid learners as they go, nonprofits have tracked and measured and, thus, focused on the past. This kind of myopic and backward-looking focus is disastrous in the kinds of never-before-encountered situations we face today.

Too many funders have misidentified the failure as flawed leadership rather than flawed thinking.

The questions for philanthropy and nonprofits are these: How can we break the cycle of distrust and fear? How can we best work with our partners and those doing the work without constraining them with dog collars that zap them when they move out of bounds? We all have to move out of bounds, far beyond the boxes of our present approaches. Unknown situations require people to access their maximum intelligence, to be able to think well in the moment and alongside their colleagues. And that intelligence needs to be widely distributed throughout the community.

Years ago, I worked with the U.S. Special Forces, and it was a wake-up call about how to mobilize intelligence to deal with the unknown. As is true in other countries, our Special Forces

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unit trains these elite soldiers to function well in the highest-risk situations. The organization trains its soldiers in weapons and tactics of war, but it also teaches its soldiers how to think. As a result, trainees spend as much time learning about culture, history, and legal issues as they do learning warfare. And they learn how to think *as a team*, spurring one another to ever-more-precise critical thinking. They do so because they will confront high-risk situations without a commander present; so they have to be able to make decisions on their own, even when these decisions have great consequence for others.

Foundation and nonprofit leaders need to take a lesson from the Special Forces model: develop those in the field doing the work to be skilled decision makers; emphasize and assign resources to develop critical-thinking skills in collaborative teams; and then step back and trust those doing the work to make good decisions. To do this well requires specific action: Agencies need support and resources to learn how to learn. And foundations and funders need to hold those they support accountable for learning.

In this brave new world, we're making it up as we go along. If we knew how to solve our problems, we would have done so by now. That's why learning how to learn and being held accountable for learning are so essential. I want to see philanthropy get fully engaged in providing the resources for people to learn as they go and as they do the work. Instead of insisting on specific, preordained measures, funders should support feedback loops that tell the system what's happening and what needs to be adjusted in real time. Let's have funders support—with money and time and patience—multiple means for people to come together across the boundaries of their individual nonprofits to truly collaborate. Let's take community as the common focus and develop the skills of thinking well together, pushing one another to new levels of insight and practices that work. In other words, philanthropy should support communities of practice that are constantly developing and sharing wisdom about how to develop a nation of healthy communities.

I know this sounds scary for philanthropy. But it appears scary only because our perceptions of those we support are clouded by fear and distrust. At this moment in America, we have to choose to trust people. Distrust has to stop dictating the work of all of us: funders and nonprofits. Because, as Harry Belafonte said after the government's failure with Hurricane Katrina, the last source of faith and hope is in the people themselves. I've been working in communities since 1966, and people have seldom disappointed me. I've learned that people can be trusted to devise good solutions to their own problems, and to do so with the creativity and generosity that have been concealed by distrust and command and control. I've also learned that people are extraordinarily responsible and work hard for issues they care about.

We've truly lost sight of one another and the great potential that lives within just about everyone. For many years, I've defined a leader as anyone willing to help, anyone willing to step forward to change things. Communities everywhere are filled with these leaders; they reveal themselves when the issues appear. To change our communities for the good, we have to change our perception of who's in these communities. And we need to support leadership as it emerges.

I believe we've been given one last chance to rediscover the power of community to solve its own problems. If we can come together as never before and work together to understand the complexity of current systems, if we can develop trust and respect for one another, then we have a chance of discovering solutions that truly work. But we must abandon our practices of distrust, fragmentation, and control. It's now or never.

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Obama Campaign Provides Lessons *for* Nonprofits

by Paul Schmitz

NOW MORE THAN EVER, NONPROFIT organizations need to get ahead of the curve. We have entered a difficult period, when the need for nonprofit services will increase, and resources to pay for these services—public and private—will be constrained. The severity of the current financial crisis—compounded by two wars, a crumbling infrastructure, escalating health-care costs, an emerging entitlement wave, and massive government debt—make most forecasts range from merely pessimistic to gut-wrenching. Our special role in bringing citizens together to serve, deliberate, advocate, and promote public goods will be more important than ever, but at the same time our capacity to fulfill our missions will be greatly challenged.

In such challenging times, nonprofits need to identify the most cutting-edge organizational tools, technologies, and behaviors that engage constituents and achieve results. To that end, I would draw our attention to the campaign organization built by president-elect Barack Obama. Over the past 21 months, this once-improbable campaign generated a potent combination of branding, strategy, management, online and community organizing, and youth leadership that produced unprecedented citizen participation and impressive victories. In many ways, the campaign has exemplified the qualities promoted in recent years by management articles and books and symbolized the kind of organization whose culture of innovation, inclusion, and performance inspires and attracts workers, volunteers, donors, and champions.

The following are five of the best practices embodied by the Obama campaign that may be useful for nonprofit organizations in the current environment.

1. A powerful brand. The Obama campaign's brand of hope and change resonated with the American people's aspirations and, as good brands do, created a platform for related policies and messages. Central to success was that the brand was authentic and reflected not only in speeches and policies but also in the actions of the campaign on the ground. Senator Obama defined change as

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coming from the bottom up, and his campaign staff delivered by putting into motion its core values of respect, empowerment, and inclusion. As never before, citizens were invited to propose policy ideas, host house parties, organize their communities, and much more. The distinct O logo and sunrise motif illustrated the brand clearly and was emblazoned on shirts, hats, yard signs, and even boutique clothing that became the biggest fashion fad of 2008.

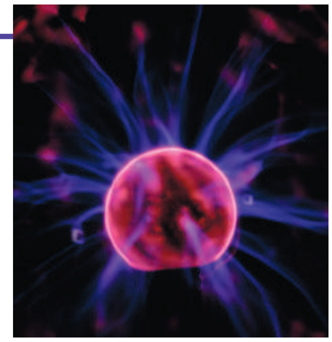
2. A clear, measurable strategy. The campaign's chief architects, David Plouffe and David Axelrod, focused relentlessly on the numbers 2,025 and 270: the number of delegates needed to win the Democratic nomination and the number of electoral votes needed to become president, respectively. On January 29, 2008, Plouffe wrote a memo that outlined the roadmap for Obama to win 2,025 delegates and predicted the results in 46 states—he was correct in 45 of those states. In June, Plouffe presented a plan to compete in 18 swing states rather than the traditional four or five, creating multiple paths for 270 electoral votes. He was proved right again. When Obama was 20 points behind in the polls in October 2007, losing ground in March 2008, and failing to break through with undecided voters in September 2008, the campaign never wavered in its core strategy, despite criticism from pundits and major donors. The contrast between the campaign's focused strategy and the shifting strategies, tactics, and messages of its opponents has been striking.

Senator Obama defined change as coming from the bottom up, and his campaign staff delivered by putting into motion its core values of respect, empowerment, and inclusion.

3. Disciplined management. The campaign reminded us that in challenging times, the fundamentals are still the fundamentals. Senator Obama built a campaign right from the pages of such private-sector classics as *Built to Last* and *Good to Great*. The campaign set out with a big, hairy, audacious goal; got the right people on the bus (leaders who were personally humble yet professionally willful); set a clear, measurable direction (based on what it was best at, most passionate about, and how it could achieve either 2,025 or 270); confronted brutal facts while keeping faith in its ultimate strategy; maintained a culture of discipline; and used technology to accelerate results. The campaign's flywheels started slowly, kept pushing in the same direction, and eventually gained enough momentum and flew to victory.

Senator Obama built a top-notch, diverse leadership team, instructing it to run like a business with "no drama." In contrast with other campaigns, one never read press accounts of infighting, leaks, or high-level defections. Presidential campaigns are chaotic organizations, scaling rapidly to hundreds of offices and thousands of employees managing tens of thousands of volunteers across the country. Throughout its growth, the campaign continued to manage clear goals and expectations for its people: voters registered, leaders identified, volunteers engaged, and dollars raised. With one week left, Plouffe sent an email to all supporters that there were still 845,252 volunteer shifts to fill in swing states, and the campaign filled them. Goals were measured and managed.

4. Face-to-face and online organizing. The campaign rejected the false choice between virtual and interpersonal contact and excelled at both. The campaign built an attractive, intuitive, easy-to-navigate Web site that enabled users to create their own profiles; connect with one another; and share ideas, inspirations, and events. The campaign's Web presence was consistent throughout networking outlets such as YouTube, Facebook, MySpace, BlackPlanet.com, AsianAve.com, Flickr, and LinkedIn. This distributed approach allowed the Obama campaign to connect with supporters where they were and use multiple tools of engage-



ment. Constant communication arrived from the campaign via e-mail messages, video messages, webcasts, text messages, and phone calls. As the campaign progressed, additional tools engaged prospective voters on their most important tasks, allowing supporters, for example, to enter a database of undecided voters and call them from home.

But this was a twin-engine approach, and the campaign was as sophisticated on the ground as it was online. Community organizers were asked not only to mobilize people but also to build relationships and to build and empower leaders, thereby multiplying the staff's impact as volunteer leaders recruited and managed volunteers. These community-organizing techniques were as viral as the campaign's online organizing techniques and, again, met people where they were. In various communities, multiple offices were set up to function like intergenerational community centers, where people worked together and became friends. Community and online organizing were woven together seamlessly to engage citizens of all ages and backgrounds to contribute in diverse ways.

5. Youth leadership. By virtue of their low pay, long hours, and high-intensity nature, campaigns are always filled with young people. But the Obama campaign recognized and empowered young leadership. Some of the campaign's greatest innovators are quite young: the field operation was led by 32-year-old Jon Carson, its online strategy crafted by the 24-year-old Chris Hughes, and most of Obama's speeches were written by the 26-year-old Jon Favreau. The campaign's all-hands-on-deck approach meant that top fundraisers and policy advisers—whether they were Goldman Sachs partners, Hollywood stars, or law professors—were expected to canvass door to door and be managed by 22-year-olds. They did so, reporting for duty enthusiastically and building respectful and supportive relationships with these young field organizers rather than questioning them or taking over.

Because the campaign spoke directly to young people's aspirations more than their self-interest, the message resonated with this young demographic. Young people seek leaders and organizations with authentic and inspiring brands, clear goals and expectations, opportunities to make a tangible difference, and inclusive, innovative cultures. They want to be challenged, to work in diverse teams, and to make online and interpersonal connections. By inspiring and empowering young leaders, the campaign inspired older leaders as well. Caroline Kennedy and Senator Claire McCaskill of Missouri, for example, endorsed Senator Obama as a result of their children's involvement.

This inspiring, strategic, well-managed, inclusive, and engaging campaign produced unprecedented citizen participation: record fundraising totals, record numbers of volunteers, and record turnout numbers. By studying and applying these best practices (and more will come as the media dissects the campaign), we can better inspire and engage constituents, execute our strategies, and increase our financial support. As Abraham Lincoln, the 16th president of the United States, once said, "The dogmas of the quiet past are inadequate to the stormy present. . . . As our case is new, we must think anew and act anew." These challenging times call for new ideas and action. I believe that nonprofits should be audacious and hopeful in working with citizens and government to solve our biggest problems. But the Obama campaign has also demonstrated that if we are to succeed, the audacity of hope must be grounded in innovative and effective practice.

By studying and applying these best practices, we can better inspire and engage constituents, execute our strategies, and increase our financial support.

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Substantial Activity: Building Nonprofit Political Heft

by Tim Delaney

"WE THE PEOPLE." THESE THREE SIMPLE words encapsulate the very essence of being an American. They proudly proclaim the source of power in our social contract: the U.S. Constitution. They also symbolize something deeply rooted in the American spirit. When our nation has faced grim challenges, we the people have gathered through countless nonprofits—abolitionist societies, women's suffrage groups, churches and synagogues, civil-rights groups, health-care organizations, environmental groups, and more—to amplify our voices to influence public policy for the common good.

Today our nation suffers from years of abuse marked by excessive greed (e.g., Enron, WorldCom, and now Wall Street) and shattered public trust (e.g., public officials convicted of corruption, shockingly disproportionate pay for executives, multibillion-dollar government contracts given away on a no-bid basis, and rigid partisanship). Those abuses flowed from broken systems that helped create the current economic collapse.

It's time for us—we the people, gathering as individual citizens through nonprofits—to roll up our sleeves and take unified action to change unfair systems that have enabled these abuses. We've overcome injustices before; advocacy is a core strand in nonprofits' DNA. We can do it again by taking action at the national, state, and local levels.

TIM DELANEY is an attorney and the president and CEO of the National Council of Nonprofits.

At the National Level: Claim Our Constitutional Rights

The freedom of association and the right to petition our government are firmly embedded in the First Amendment, thus securing our rights as citizens to assemble through nonprofits to lobby. Despite these constitutional protections, between 1919 and 1990, federal policy makers helped fuel a misguided myth about nonprofit lobbying.

In 1919, during the Red Scare, the Treasury Department ruled that any nonprofit engaging in propaganda or otherwise attempting to influence legislation would lose its tax-exempt status. In 1934, Congress declared that a charitable nonprofit could spend "no substantial part of [its] activities . . . attempting to influence legislation." Yet Congress failed to draw a clear line between impermissible "substantial activity" and permissible "insubstantial activity," thus seemingly putting all advocacy activities at risk. In 1976, Congress clarified beyond doubt that nonprofits may legally lobby, but it took the IRS until 1990 to issue the simple form that allows nonprofits to opt out of the vague "no substantial part" test and instead use a

PHOTOGRAPH © FRANS LANTING/CORBIS

clear, bright-line test based on a nonprofit's expenditures, thus keeping nonprofit lobbying laws murky for another 14 years.

By chipping away at the ability of individual citizens to amplify their voices through nonprofits, these government actions marginalized citizen participation. With the system of checks and balances thrown off by muting nonprofits—and thus citizens—at all levels of government, various forces were free to manipulate the process and twist public policies to their private advantage. This situation must end. To assert the proper role of nonprofits in democracy, Americans must take the following steps.

Allow foundations to support legislative lobbying. Until 40 years ago, citizens regularly organized through nonprofits to influence public policy for the common good. Through the National American Woman Suffrage Association, we gathered to secure women's right to vote in 1920. In the 1930s, we gathered through Townsend Clubs to get Congress to pass the Social Security Act. And in the 1960s, we gathered through numerous nonprofits to secure passage of the Civil Rights Act of 1964 and the Voting Rights Act of 1965.

So what happened four decades ago? In 1969, Congress scared foundation managers by forbidding private foundations from issuing grants specifically earmarked for legislative lobbying. To avoid risk, too many foundations actively shun all advocacy-related activities, not just legislative lobbying. As recent research shows, "Many foundations take at best a 'hands-off' posture, and at times an actively negative one, toward policy involvement and civic engagement."[1] Consequently, "the resources organizations have available to devote to this increasingly important function remain highly limited. . . . Nonprofit organizations are entering the policy realm with one hand tied behind their backs."

The recommendation. In addition to working with foundations to help them understand their current abilities to fund a wide variety of public-policy work, we should lobby Congress for full restoration of foundations' ability to promote democracy by making grants that promote civic engagement and help citizens come together through nonprofits for legislative lobbying.

Increase the dollar limits and automatic opt-into-expenditures test. In 1976, Congress finally provided some relief from the ambiguous "no substantial part of activities" standard in Section 501(c)(3) that scared many from legislative lobbying because of its vagueness (What is substantial? Two-thirds, one-half, or one-third? And what is counted? Dollars spent, time spent?) by offering nonprofits the option to use a clearer standard, one that is easily calculated based on a percentage of a nonprofit's expenditures. Congress, however, placed an additional burden on nonprofits: to opt out of the vague no-substantial-part test in favor of the clearer expenditures test for which nonprofits must file a separate document. Moreover, Congress failed to index the expenditure test's fixed dollar amounts, which now—more than 30 years later—are unreasonably low.

The recommendation. Citizens should lobby Congress to eliminate these infringements on our First Amendment rights to petition our government through nonprofit associations. At a minimum, Congress should increase and index for automatic adjustment the long-outdated dollar limitations and flip the option so nonprofits automatically opt into the expenditures test.

Lift the discriminatory burden. In 1976, Congress imposed another unfair burden on citizens by limiting their ability to communicate through nonprofits to the public about legislation. Nonprofits using the optional expenditures test may spend only 25 percent of their allowable lobbying expenditures to communicate with the general public, while corporate titans like Boeing and Exxon-Mobil face no similar limitations. This restriction on nonprofits is fundamentally unfair. What is so threatening to democracy that a local food bank, homeless shelter, or hospice must be limited when sharing its views with fellow citizens, while powerful defense contractors and big oil companies enjoy an unlimited ability to espouse their views to the public?

The recommendation. Nonprofits should lobby Congress to eliminate this unfair burden that limits the public's right to receive information about legislative lobbying matters from other citizens who gather through nonprofits.

The infringements described above occurred before 85 percent of today's nonprofits were even created, so most nonprofit leaders grew up in a world where these unfair limitations were simply accepted as a given. But they can and should be rolled back.

At the State Level: Unite Our Voices

Next, we need to remember basic lessons from the playground. When playing tug-of-war, we learned that having more teammates on one side created an advantage in strength. When on the seesaw, having more bodies on one side created more heft for grounding. And when the bully threatened, having friends closeby provided safety in numbers.

Nonprofit leaders must apply these same basic lessons now. Unprecedented government budget deficits have led a growing number of state and local jurisdictions to seek new revenue streams, including by stripping nonprofits of property and sales tax exemptions. The threats are real and immediate.

Sense the urgency. We cannot wait until adverse legislation gets introduced. Knowing that state and local governments will strain to find ways to balance their budgets and that other forces will try to gain an advantage at our expense, we must galvanize now. When we unite and show strength in numbers, we can protect those we serve.

The recommendation. Nonprofits of every kind—especially those that own property, such as churches and synagogues, colleges and universities, and cultural and health-care facilities—should join their state association of nonprofits to form a united and strong force to fight off attempts to shift new tax burdens onto the backs of nonprofits.

Learn from others. The business and government sectors are subdivided into multiple silos, but they know that to effectively influence public policy, they must unify at the state level. So large utilities, manufacturers, mining companies, and other major industries created state chambers of commerce; previously fragmented small businesses created chapters of the National Federation of Independent Business; and multitudes of counties, municipalities, and school boards created separate state associations. Most of these entities still have their own lobbyists, but they recognize that their separate agendas must be set aside for unity on the truly crucial issues.

The recommendation. To be effective policy advocates, nonprofits must apply the insight gained by other sectors. An electricity company may fight a gas company over which one gets a bigger tax credit advantage, but they join forces to cut overall business taxes. City X may compete with town Y over the formula for distributing highway dollars, but they rally together to protect state-shared revenues. Similarly, instead of ignoring one another (or fighting one another for the scraps of legislative budgets), nonprofits should unite to expand the resources for the communities we all serve. Indeed, nonprofits need to join forces, creating broad coalitions so the collective voice of the people gets heard. We have the mightiest resource of all at our disposal—the power of the people—so we need to marshal grassroots efforts for the greater good.

Educate ourselves. A harmful myth has spread like a virus: that nonprofits cannot lobby. Major mental barriers still exist regarding the legality of nonprofit advocacy in general and lobbying in particular.

The recommendation. Just as in the past when Americans launched massive efforts to eradicate diseases, nonprofit leaders must engage in a similar campaign to educate not only existing nonprofit board and staff members but also academics, accountants, and attorneys who feed the false myth; we must rid our nation of this falsehood that silences the voice of the people and thereby harms the communities we serve.

At the Local Level: Champion Democracy

Finally, nonprofit board and staff members need to review their mission statements. Invariably, nonprofit missions express versions of the ancient Athenian oath through which citizens in another democracy 2,500 years ago pledged to "transmit this [community to future generations] far greater and more beautiful than it was transmitted to us."

With this in mind, consider how your nonprofit can advance its mission by organizing its own constituents to influence public policy and join coalitions to pursue ambitious social agendas to advance the common good. Some of our country's most transformational advancements occurred only because of the organizing and advocacy by nonprofit organizations. Our political heft comes from our ability to channel citizens' collective voices in ways that champion their desire to change public policy. The people have a constitutional right to come together to influence public policy, and the nonprofit sector has a moral duty to support their quest to advance the common good. Our sector should never allow itself to be turned away from this sacred role; if we do, then we will undermine Americans' most powerful tool to come together—as "We the people"—to influence democracy.

Endnotes

1. Lester Salamon, "Nonprofit America: A Force for Democracy?" Communiqué no. 9, the Listening Post Project, 2008.

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The Dialogue Challenge: Nonprofits' Central Role in the Conversation

by James Jennings

In the United States and across the world, many people celebrated the election of Barack Obama as president-elect. In his first speech as the soon-to-be first African-American president of the United States, Obama was somber. Though there was much to celebrate, he indicated that the nation faces serious social and economic challenges that touch every aspect of life here and abroad. Collectively, these challenges will change the economic face of America and highlight new problems, demands, and uncertainty about the available resources to answer these challenges. For nonprofit organizations on the front lines of providing safety-net services, there is nothing surprising about the need to carry out missions within a context of fiscal cutbacks, widening income gaps, and increasing needs for services, all while government scales back.

Today, however, based on vast global economic transformation, a new set of relationships between government and civil society has emerged. As the director of the Metropolitan Policy Program at the Washington, D.C.–based Brookings Institution, Bruce Katz, opined, "Dynamic forces are transforming the world. Increasing global competition, economic crises, and environmental and resources pressures are rewriting the rules for how America produces jobs, builds wealth, and conserves our natural heritage."[1] But as this global economic transformation unfolds, it isn't fully understood in terms of its future impact on local life in the United States.

Nonprofits must be prepared to respond to the pressures, scenarios, and heightened expectations wrought by these challenges. The following describes four of the central challenges that have economic implications for nonprofits' work and role. Each challenge is followed by a few questions posed to the leadership of the nonprofit sector.

The first challenge involves a fundamental issue in U.S. society: race. It cannot be denied that the United States is in the midst of qualitatively changing race relations. Despite recent developments, however—including the election of the first U.S. African-American president—there is question

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about whether the nation has overcome its racial divisions and associated problems. Skeptics will note the persistent, and perhaps intensifying, social and economic inequality that often manifests in racial terms in the areas of housing, health, education, and the criminal-justice system.

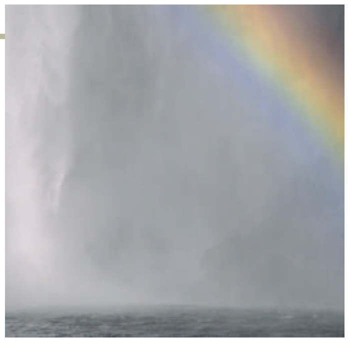
On the other hand, Obama's victory encourages others to reflect that the nation has resolved racial problems and divisions. They may proclaim that racial prejudice is now a problem of the past. And this view may influence nonprofits' work in urban areas. It has implications for resources that might be available to—or withdrawn from—nonprofits. Of course, the election could portend a future, different conversation about race than we have had previously. (One could argue that conversations about race and inequality have largely been avoided and sometimes even shunned.) Perhaps Americans are ready for greater honesty and self-reflection to understand the country's history of race and the economic role of racial inequality in our daily lives. The particular understanding of our progress and failings on racial relations will shape the public agenda and determine the level of resources that might be directed to address racial inequality. What kind of influence will the nonprofit sector have on this issue, and how will it participate in the public debate?

Within the context of changing race relations, a second new challenge concerns the potential conflicts between interest groups—such as between African Americans and Latino populations and those between a community's longstanding residents and its more recent ones—where increasing needs across the board mean fewer resources for everyone. The recent presidential election confirmed that different groups *can* work with one another in empowering ways. Interestingly, if one subtracts the relatively strong support Obama received from Latino voters (a national rate of 66 percent) and from Asian-American voters (64 percent), he might have lost the election.

But this election's progress in creating interethnic alliances is not enough unless it is sustained. As immigration to the United States from Latin America, Asia, and Africa continues to increase, concerns about how to build and sustain interethnic alliances will be with us for a while. And unfortunately, nonprofits sometimes react to, rather than are prepared for, changing relationships between two communities of color where both are characterized by significant levels of poverty and economic distress and where both have experienced discrimination.

Nonprofits with community-serving missions now find that urban demographics are not as clear-cut. Clearly racial and ethnic boundaries have changed. But let us not forget that it was a multiracial and multiethnic coalition that bolstered the Obama campaign, which provides an opportunity to build bridges across groups that might otherwise be at one another's political throats. Where can nonprofits go for guidance on managing conflict and building coalitions between communities of color? Where can they learn how to incorporate new people without making long-term residents feel forgotten?

A third challenge is the country's increasing economic disparities and the changing face of these disparities. Obama's somber tone in his first speech as president-elect reflected the rapid unraveling of economic crisis in this country, with low-income and working-class families losing their homes. And reports from the U.S. Census Bureau indicate that in some locations the number and proportion of impoverished families have increased. Equally important, the extent and foundation of poverty has changed. Previously, while working-class families struggled financially, they at least had homes. Now the pervasiveness of deep economic distress has changed the face of poverty. Again, how will nonprofits respond, where poverty is no longer the sole domain of the "poor"? Will nonprofits turn their backs on this problem, as some have suggested has already taken place?



Will they respond through piecemeal or Band-Aid approaches where more comprehensive strategies are too costly? Or will nonprofits exhibit leadership and aggressively challenge foundations, government, and the private sector to help provide economic security across the board?

Lawrence Mishel, the president of the Economic Policy Institute, argued recently that the 2008 presidential election portends the death of supply-side economics, a market philosophy that since Ronald Reagan has been espoused by Republicans and Democrats alike. Supply-side economics embraces the notion that cutting taxes for the rich and deregulating corporations enable trickle-down benefits for the middle and working class. Today, perhaps more people have come to recognize that this approach has not only failed but that it is a major culprit in the current financial crisis. Unfortunately, the immediate response by national leaders, including Barack Obama, has been to create the $700 billion–plus "bailout" for Wall Street. Nevertheless, some may be hopeful that the crisis will ultimately lead to better stewardship of the national economy, reprioritization of national goals, and the pursuit of policies that benefit everyone, not just powerful corporations.

It will be most unfortunate, however, if nonprofits (as economic entities and helping organizations) are absent from the public discussion to find new economic thinking and models. Will nonprofits be part of this discourse? As we consider new economic strategies, can the current infrastructure subsector help nonprofits become more articulate in defending the interests of those without wealth and power?

A last challenge involves changes in the demography of the nation and how nonprofits and the infrastructure subsector can incorporate new groups into the process of local economic revitalization. The enthusiasm of young people and of communities of color was a major force in Obama's victory. During this past presidential primary season, approximately 6.5 million new people—all less than 30 years old—registered to vote. Substantial numbers from this group turned out on Election Day to express their desire for economic policies that are not divisive and that respond to those on the bottom of our socioeconomic ladder.

It is fair to say that many of these individuals seek significant change in how government and the private sector operate. But by implication, this is also a call for change in how nonprofits meet their missions. Young people from all racial and ethnic backgrounds joined hands with communities of color across the nation and demanded inclusion in how policy makers think about our economic future. How will nonprofits incorporate these voices into their governance and decision making, and will this inclusion be substantial or only on a token basis? As they move forward, will established nonprofits seriously consider the ideas and concerns emerging from these new faces?

In his classic work *Political Parties: A Study of the Oligarchical Tendencies of Modern Democracy*, sociologist Robert Michels theorized that an "iron law of oligarchy" dictates that in spite of lofty missions, organizations eventually become so routine in their operations that they lose the capacity to change in pursuit of their own missions and values. Can the recent presidential election help nonprofits *not* fall prey to this iron law of organizational behavior? How nonprofits respond to these four pressing challenges—and whether they have the organizational capacity and access to technical assistance to be heard more effectively—will determine the meaning of November 4, 2008, for civic society.

Endnotes

1. Bruce Katz, "Memo to the President: Invest in Long-Term Prosperity," the Brookings Institution, November 24, 2008.

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Weasels on the March: The Struggle for Charitable Accountability in an Indifferent Sector

by Dean Zerbe

OVER THE PAST SEVERAL YEARS, THE charitable sector's credibility has eroded under the weight of scandal and a corresponding failure to fully acknowledge and address its problems. With massive theft exposed and organizations' leaders ousted on a regular basis, charities have yet to own this systemic dysfunction and define methods of self-regulation. This article argues that charities' credibility problem is unsustainable, and the time is now for charities to stop relying on external entities to take action.

Studies from the Association of Certified Fraud Examiners report consistent and costly fraud in the nonprofit sector. Such claims should shake the nonprofit sector and cause outrage: torches lit, pitchforks grabbed. But unfortunately, the lifecycle of scandal in charities is all too familiar: the media (or Senator Chuck Grassley) discovers scandal; the public is shocked; sheepish charity sector "leaders" are unavailable for comment; Congress demands that the IRS or a state charity organization "does something" to address the scandal; charities say dealing with scandal is an enforcement issue; Congress learns that the scandal is legal under current law; Congress proposes changes to the law; charities counter that "scandal" shouldn't be justification for legislation, parroting the three phrases they know: (1) the scandal reflects only a few bad apples, (2) we shouldn't throw out the baby with bathwater; and (3) the sector isn't suited to one-size-fits-all legislation; Congress decides to (1) study, (2) shelve, or (3) water down the proposed reforms and only partially addresses the problem; charities decry the watered-down legislation as burdensome, especially for small charities; the media (or Senator Grassley) discovers yet another scandal. . . .

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Let me make clear that "scandal" here extends beyond the unfortunate but typical fare of embezzlement and fraud highlighted by the Association of Certified Fraud Examiners' report. I also haven't focused on the champagne lifestyles of charity executives. So many of our nation's largest charitable institutions are built like Muhammad Ali but punch like Pee Wee Herman: that is, the vast resources of these charities aren't commensurate with the level of support they provide to those in need. I believe that Senator Grassley will rightly focus his energies on this area: major charities that

PHOTOGRAPH © GENE BLEVINS/LOS ANGELES DAILY NEWS/CORBIS

punch like Pee Wee (while receiving tens of billions of dollars in taxpayer-subsidized support).

Because charities accomplish great things for those in need and our communities, and could accomplish so much more, we must take off the rose-colored glasses and get clear-eyed about the problems in the sector. Strengthening the integrity and vitality of charities and ensuring that charitable dollars are used effectively and responsibly has never been more important now that our economy is in bad shape and those in need are most desperate.

Let's revisit the lifecycle of the weasel above and see where we can prevent these abuses and fulfill the desires and hopes of the public—a public that supports charities with its donations but even more so with massive tax subsidies at the federal, state, and local level.

The Board

The charitable sector's trouble begins with the board. Too often charity boards don't show up (or never meet), are from the CEO's inner circle, never ask for—much less read—the audit letter, and the list goes on and on. A board that is independent, engaged, informed, and knowledgeable can detect and prevent scandal and be the cornerstone for a successful charity. It would be especially nice if boards engaged in their central function: reviewing and evaluating the work of the CEO and, when necessary, removing the CEO. How fresh the air would be if a board publicly announced its goals for its president and publicly stated at year's end whether those goals had been met.

Lawyers

The road to hell must be paved with bricks that say "It's legal." Some lawyers for charities have abdicated their responsibility to counsel their clients on best practices and instead act as enablers, informing a charity that whatever flim-flam action it wants to take is legal.

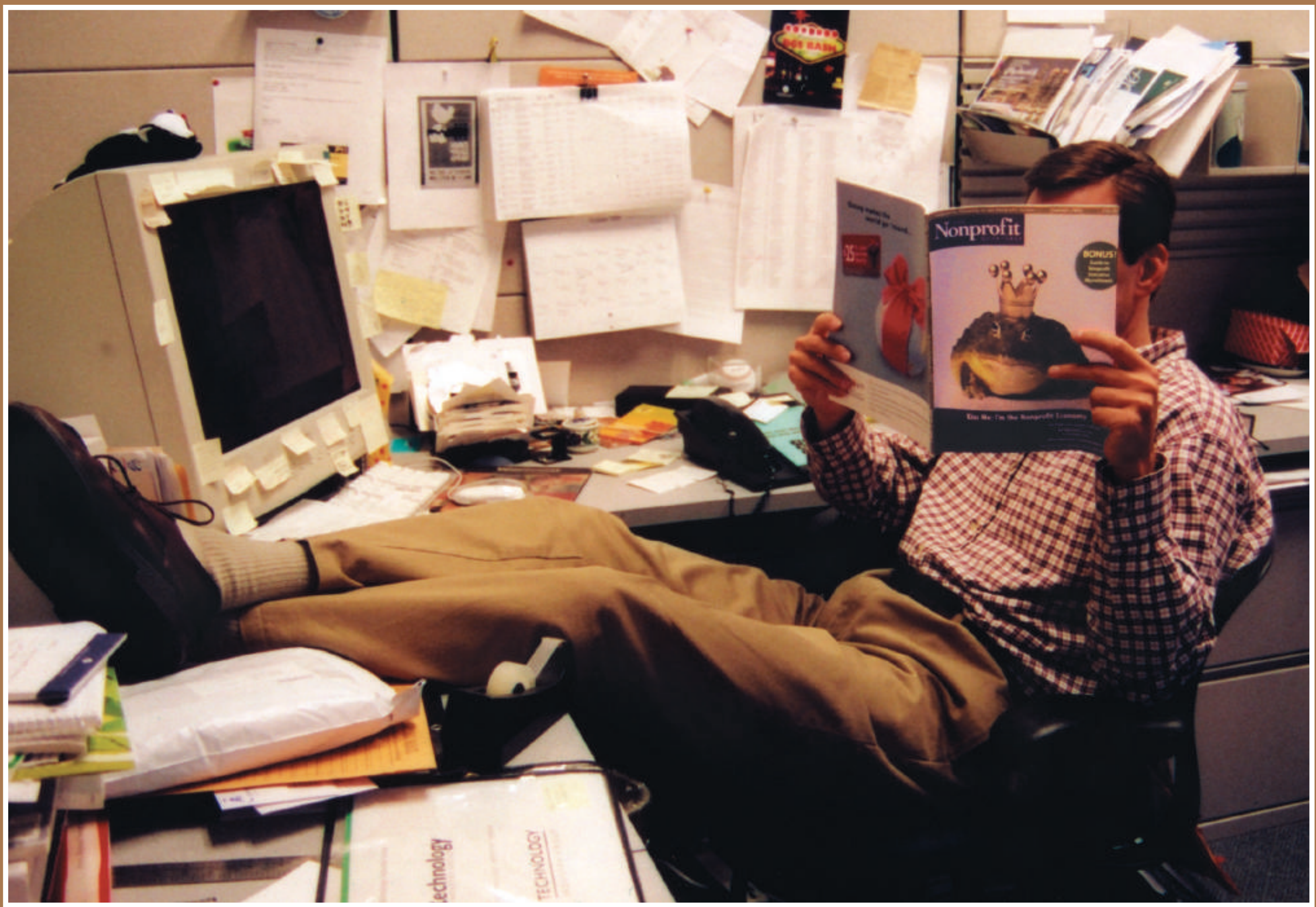
Imagine instead a world where lawyers truly advise these organizations and tell charity boards and executives something like this: "You cannot let the fact that something is legal be your guide. While it is legal, it is inappropriate and at odds with your public trust and the intent of your donors. It will cause harm to the charitable goals of this institution."

The Charitable Sector: The Good, the Bad, and the Ugly

The good. The work of Independent Sector's nonprofit panel and the diligent efforts of the organization's leadership, Diana Aviv and Pat Read, has been the rare shining light. While the nonprofit panel's recommendations are fair guidance, it is frustrating that policies have been watered down by exceptions and caveats. The real question is whether Independent Sector will press on, educate, and encourage charities to adopt its principles. I should also note the work of the number of grading or ranking agencies. I would encourage the establishment of common measurements in the field.

The bad. Too often when it comes to influencing charities' behavior, the purse is left at home. But what if private and community foundations that pour money into nonprofit hospitals that overcharge the poor and engage in grinding collection efforts against the most vulnerable were instead to say "No more"? If institutional donors focused more on the power of the purse to do good, those in need would benefit.

The ugly. The charitable sector is wholly incapable of calling out the weasels in its own community. Time and again, the response to the latest scandal is to fight ostriches for holes. The rare counterexample is the leadership of the Make-a-Wish Foundation, which loudly decried the sound-alike charity that bilked donors and did nothing for children. Make-a-Wish's public comments made a difference and bolstered the oversight of Senator Grassley and the first-rate enforcement efforts by the Pennsylvania Department of State's Bureau of Charitable Organizations.


Nonprofit
BONUS!

For those in need, what a better day it would be if there were a scandal and the leaders in charity joined in outcry, denounced the actions, marched for reform by the board and leadership, pulled funding, and, where appropriate, demanded enforcement.

The University Philanthropy Department

It's all too common for philanthropy departments to confuse their work with the cheerleading program that is housed next door on campus.

Imagine a different world. A seminar that is open to the public and inviting fresh thinkers, for example, sets a goal to provide 12 practical proposals: targeting enforcement, legislative, regulatory, and self-reform measures to address the problem of scandalous veterans' charities, which is something that the public actually cares about.

Federal and State Enforcement

We need to have more substance in the law for the IRS to enforce; otherwise it's a labor-intensive effort with few results. There is a yawning gap between what the public thinks is wrong in the charity sector and what is actually illegal. The failure to bring to book those who gained notoriety through the *Boston Globe* spotlight team investigations, for example, indicates that this isn't an issue of failure to enforce: federal and state laws and regulations are inadequate and need to be strengthened.

An additional problem is that too often the IRS's central penalty—revoking tax-exempt status—is meaningless. Those involved will just go set up another charity tomorrow. We need to expand efforts that bring meaningful penalties to bear. We also have to bring in other federal enforcement arms; the Federal Trade Commission, for example, should be front and center in dealing with fraudulent solicitation.

The IRS's Exempt Organizations division has taken steps to modify Form 990 and the attached schedules. But the next question is whether the IRS and Treasury will finally stop showing leg on the issue of the commensurate test—which measures whether a charity's activities are commensurate with its financial benefits—and actually put it into practice. And while the Exempt Organizations division has done good work, the Department of Treasury and IRS counsel's office haven't done enough to address abuses in charitable activity.

My recent meeting with the National Association of State Charitable Officials gives me some confidence that at the state level, things have improved (although some states, such as Florida, are exceptions). Particularly during these hard economic times, state charity officers need to protect the public fisc, or treasury (given that charities are recipients of massive subsidies provided by taxpayers), and ensure that those in need get the benefits that donors intend.

Congress and State Legislatures

Congress will continue its oversight. Senator Grassley is never one to rest on his laurels. I expect Chairman Henry Waxman to continue his oversight as well (although if he becomes chairman of Energy and Commerce, it's more unclear), particularly in the area of veterans' charities. Congressman Peter Welch has been a leader on the college endowment issue, and Congressman Xavier Becerra and Congressman Robin Hayes have been thoughtful about the charitable sector (with Hayes's defeat in November 2008, however, Congress has lost a member with significant firsthand knowledge of charities). In addition, Congressman John Lewis has held hearings on certain aspects of charities and Chairman Max Baucus has presided over the bully pulpit of rural philanthropy. The question is how these efforts will translate into change, whether within charities or in the law.

When it comes to the charitable sector, my confidence in self-reform and self-regulation is limited. Universities' response to the endowment issue, for example, constituted fig-leaf reform. Senator Grassley is always optimistic and can certainly point to success in his work with Sister Carol

Keehan at Catholic Health Association to bring real change at nonprofit hospitals.

At the state level, state legislatures must stop relying on the feds to fix the problems in charities. State and local officials can show leadership that will have an impact across the country, including among the feds.

The Media

The media has only a handful of reporters that have a charity beat, with Stephanie Strom of the *New York Times* nonpareil. But while the press does a great job of exposing scandal, it does only a fair job of following up and holding other players—such as enforcement agencies, legislatures, and charity leaders—accountable. I should also note that *NPQ*'s own Rick Cohen does a tremendous job in his reporting, and of course life wouldn't be complete without Pablo Eisenberg's wonderful commentary.

Imagine how we could bolster press oversight of charities if private foundations supported investigative journalism positions through awards and grants. I would particularly encourage funding for the creation of an entity to be a resource center for investigative journalists to assist them in navigating the minefields.

The current infrastructure for ensuring charitable sector accountability can't support a sand castle. A better world is possible, but it will take leadership from charities themselves to make it happen. If the payoff is a more vibrant and successful charitable sector—with the weasels kept in their holes—it's certainly worth the effort.

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Four Futures

by Paul Light

Will we fight the prevailing downturn on behalf of our individual institutions and leave others to defend themselves, or instead will we join forces to shore up the sector as a whole?

DURING THESE TROUBLED TIMES, WHAT LIES in store for the nonprofit sector, and what do we need to do about it? Along with every family in America, the nonprofit sector is wondering about its future. Will we miraculously survive as we largely do today? Will we starve our organizations to the core or emerge from the current economic calamity mostly intact? Will we fight the prevailing downturn on behalf of our individual institutions and leave others to defend themselves, or instead will we join forces to shore up the sector as a whole? In the aftermath of this financial crisis, will we have real options and choices?

The answers are not yet clear, but it appears that an intensifying struggle for ownership of the sector and how it is structured, governed, and deployed is under way. When boiled down to its fundamentals, the question is whether nonprofits are "owned" by their institutional funders (governmental and philanthropic) or whether a broader community of stakeholders should make the choice about the future nonprofits pursue. The search for

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Words like *scale*, *efficiency,* and *metrics* may come to dominate conversation in the sector, overshadowing concepts like *civic engagement* and *democracy*—ideas renowned for their messiness in practice.

an answer may yet produce a struggle for the identity and soul of the sector. Traditionally the sector belongs to this country's citizens who have exercised their right to associate through civil society, but there is, of course, pressure from those who have the resources on which the sector depends.

In the midst of this struggle, larger "brand name" nonprofits may seek greater market share through muscular fundraising machinery and carve up territory that will in some cases undermine the self-direction and survival of smaller, community-based entities. Words like *scale*, *efficiency*, and *metrics* may come to dominate conversation in the sector, overshadowing concepts like *civic engagement* and *democracy*—ideas renowned for their messiness in practice. And indeed, the recession may convert an implicit agenda into a much more explicit goal: to reduce the number of nonprofits—or more precisely, the amount of philanthropic demand—where such winnowing perhaps works to the advantage of brand-name nonprofits. In this institutional melée, citizens may be left out of the equation, even though they have a legitimate claim to involvement because they subsidize the sector's tax status.

Let's now consider four different futures that will shape this debate.

The rescue fantasy. The first future scenario is based on the "kindness of strangers" and is likely to leave the nonprofit sector in the same position as poor, homeless Blanche DuBois. The idea is that Americans are a generous people and will continue giving, perhaps rising to the challenge and giving more from their strained budgets. In some ways, the American psyche expects an increase in generosity, but the sector is no longer dependent on just individual contributions. It has grown accustomed to a huge share of revenue from government and marginal dollars from philanthropy. But when you consider the amount of dollars from government and philanthropy that might have to be replaced, it is reasonable to assume that individual givers cannot fill the gaps, however much we hope they will.

And even if it did occur, this rescue would likely help some nonprofits, but not others. The public is used to supporting certain kinds of groups but not others. There are whole fields of work that receive little in public donations because they have traditionally been subsidized so heavily by government. They are often virtually unseen by the public and many also work with the most vulnerable, and sometimes marginalized, populations: the chronically mentally ill, the developmentally disabled, and substance abusers, for example. Some of these programs are quite intensive and, in some cases, residential and therefore quite expensive. Many such programs are funded by the state and will be subject to the trickle-down effect of reduced federal budgets, combined with reduced tax income at the state level. The public is unlikely to pick up the tab in small private donations.

So what about a nonprofit bailout? Some well-connected and well-known nonprofits will no doubt be congressionally pardoned even if already economically stressed individuals do not give at higher levels. Last October, in the first of what could signal several visible bailouts, the Red Cross received a $100 million no-strings-attached grant from Congress to cover a shortfall in fundraising following hurricanes Gustav and Ivan. Other large national nonprofits could line up for funding as well, but many smaller nonprofits would be left behind. Rescues tend to favor single organizations or relatively small slices of an industry.

And as for community service as the answer to our current situation, it is not clear that a service nation could do enough to produce a rescue. A community service–oriented solution may well be this administration's version of the Bush faith-based proposal: a good but inadequate response. Although an expansion of AmeriCorps and the creation of a new Serve America fellowship may draw as many as 300,000 to 500,000 new recruits to the sector, the numbers of such "voluntary stipended" recruits are just too small to fix a frayed social safety net.

A withering winterland. This second future is more probable. This scenario has every nonprofit in the sector suffering. Most nonprofits, even the nationally known brand names, now feel the pinch of the downturn. Fall galas have fallen well short of past highs, even as once-steady gifts shrink. Several major corporate foundations have stopped giving entirely, particularly in the beleaguered financial sector, and many have trimmed back to near zero. Government also expects deep deficits and will adjust nonprofit contracts accordingly.

Depending on the length of the economic downturn, many nonprofits will starve themselves into a weakened organizational state through hiring freezes, pay freezes, layoffs, and deferred organizational maintenance. Although they may not be immune to these cuts, large nonprofits have more fat to trim, but trim they will, perhaps to the point of becoming predatory on their weaker brethren. How ironic that organizations created in part to help the needy may well contribute hundreds of thousands to the ranks of the nation's unemployed. With roughly 20 million Americans now looking for work, federal job centers are already overwhelmed by demand. How many of those cast aide will be from the ranks of the nonprofit sector?

An arbitrary winnowing. This is the most likely scenario and would result in rebalancing the sector toward larger, richer, and fewer organizations. In this scenario, some nonprofits will fold, while others will prosper as contributions flow to the most visible and largest organizations as well as to those most connected to and influential with their donors. Marketing budgets and levels of community engagement may be the best predictors of survival. Well-known organizations will survive through more aggressive fundraising appeals, while some small nonprofits will survive through sheer will or because their communities are used to supporting them. Others will merge, be acquired, or simply melt away.

Midsize organizations with little immediate capacity to replace lost funds will falter and cut to the bone. This winnowing would effectively eliminate the middle class, leaving the sector with fewer but bigger nonprofits and a lot of smaller nonprofits that already live hand to mouth. Overall employment will decline somewhat, though not in most universities and hospitals, but the total number of nonprofits could drop by 10 percent. As with the withering scenario, a winnowing scenario would seriously undermine the sector's ability to meet increasing demand.

Transformation. This fourth scenario is hopeful but different, and it is likely only if nonprofits make

Midsize organizations with little immediate capacity to replace lost funds will falter and cut to the bone.

Philanthropy should not predetermine what is needed by restricting funding too tightly.

it so. As has been noted in several of this issue's articles, nonprofits could use the faltering economy and its impact on the sector as an opportunity to reinvent themselves. But this approach requires examining all possible options quickly and creatively. In state budgets, should certain services be saved over others? Are there ways to redesign organizations to achieve greater synergy between community players? Are there ways to involve communities in rethinking and reenergizing our work? A transformation-oriented approach requires deliberate and collective action by the sector's stakeholders: communities, philanthropists, governments, intermediaries, constituents, nonprofit associations, and boards.

Whether small or large, every organization will make its own decisions, and the sector's infrastructure is left with several tasks to help aggregate these decisions into a best possible future. What should these tasks be?

- **Ensuring a voice for the less powerful**. It's imperative to ensure that the less connected and powerful have a say in the future of this sector, which is, after all, meant to facilitate our ability to self-organize. In states with well-organized state associations, these venues can act as a convening point to consider priorities and collaborative strategy and as a conduit for advocacy, public education, and, yes, even lobbying. State associations of nonprofits could lead this effort by providing training, aggregating concerns, and expressing a clear call to action. Associations such as the Minnesota Council of Nonprofits have already proven that advocacy works, if not to prevent cuts entirely, then at least to reduce them.
- **Advocacy**. Generally, advocacy must be seen as a necessary capacity for nonprofits—and one that should be funded well during times of political upheaval. There is no way to recover quickly from a government retrenchment that has already happened. The sector needs to weigh in loudly on where the trenches have been dug.
- **Dialogue on philanthropy**. Since philanthropy is a private allocation of funds to be held in public trust, in times of such serious upheaval there should be a more public conversation about philanthropy. This doesn't mean that philanthropy needs to coordinate better among itself but that it should be more responsive and responsible to its community partners.
- **Flexibility**. Whatever happens, the sector needs to innovate and mobilize more flexibly to keep pace with a new era.

Moving Ahead

Bringing flexibility, innovation, and responsiveness to the sector, however, requires several changes within it.

- **Resisting funding restrictions**. Philanthropy should not predetermine what is needed by restricting funding too tightly. Providing more core support allows nonprofits to seek out new ways of making things happen at an administrative and a programmatic level. Instead of exerting too much control, philanthropists may want—as has been suggested by Margaret Wheatley—to ensure that each organization has an active learning process in place and that there are methods for sharing learning among organizations.
- **Collaboration**. Nonprofits must seek new ways to collaborate with other organizations and with the people in their communities. It is in the friction between unlike bodies that brilliant breakthroughs are made. Philanthropy should support but not direct these efforts.
- **Effective research**. Researchers should more closely coordinate their work to help the sector learn more quickly about what works well and under what conditions. This learning should be broadly, rapidly, and effectively shared.
- **Rejecting the hype**. Philanthropy should avoid overdependence on predetermined metrics as a method for encouraging effectiveness. Such dependence slows innovation in all but the best-funded organizations. Of course, measurement is not a negative—nonprofits should be rigorous in determining what constitutes success. But fixed measures of efficiency and fundraising effectiveness are not a substitute for a deeper understanding of the social return on investment, which may involve both quantitative and qualitative assessment.
- **Enlisting the young**. Nonprofits must focus

more on integrating young people into leadership. The nonprofit sector tends to operate in the present tense and on immediate need. As a result, it often misses key trends that alter futures. The alternative gives young people a voice in determining the future of the nonprofit sector.

- **Broad based use of technology**. The sector needs to ensure that management and technological aids for nonprofit work are spread evenly across the country and particularly to rural and marginalized populations. The Obama administration has promised to help do so but needs to support the have-nots in the effort. The nonprofit sector belongs to society as a whole, not just the brand-name nonprofits and philanthropists that receive the greatest media coverage.
- **Social entrepreneurship**. Nonprofits must also embrace the spirit of social entrepreneurship and claim it. The Obama administration has included social entrepreneurship as part of its language. But do not believe that this is a new phenomenon whose spirit and processes are owned by a talented and well-educated few. This sector has always focused on social entrepreneurism. Social entrepreneurism is what many nonprofits already do and what more should do. Although there are talented social entrepreneurs within the sector, organizations' social entrepreneurship often goes unrecognized for its focus, creativity, energy, skill, and instinct that easily rivals that in the business sector.

The nonprofit sector can always let the future take its course by failing to choose among these competing scenarios. But in doing so, it would almost surely experience either the withering of organizations that comes from inaction or a random winnowing based on influence and ready cash, not performance. It can reap the benefits of transformation only by deliberate choice.

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Social entrepreneurism is what many nonprofits already do and what more should do.

CASE STUDY

Infrastructure in Action: Bolstering Nonprofit Community Developers

By Rick Cohen

Few inside the community development sector would suggest that the infrastructure that supports CDCs is across-the-board healthy.

How does the nonprofit infrastructure work in practice? At the national level, it's difficult to see, but a slice of the nonprofit sector—the more than 4,000 urban and rural community development corporations (CDCs) that develop housing and economic development strategies—demonstrates some infrastructural components in operation.

Few inside the community development sector would suggest that the infrastructure that supports CDCs is across-the-board healthy. There are tensions, fissures, and gaps in the fabric of supports, and CDCs and funders alike suggest the need to repair them. But to some extent, community development provides persuasive evidence of what infrastructure organizations can accomplish in terms of supporting nonprofit rural and urban community developers and in their recent efforts to aggressively combat the problem of subprime mortgage foreclosures.

Based on some two dozen interviews with leaders in the sector, this article explores the function and development of the community development infrastructure.

The Community Development Infrastructure and What It Does

While some components of the community development infrastructure have obvious counterparts in serving the nonprofit sector overall, some are either specific to community development or more developed. We describe them below.

Community development financial intermediaries. The dominant infrastructure element of nonprofit community development is the array of national community development intermediary organizations that combine training and technical assistance with regranting and project financing functions. Those in the sector can quickly

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Rick Cohen is the *Nonprofit Quarterly*'s national correspondent.

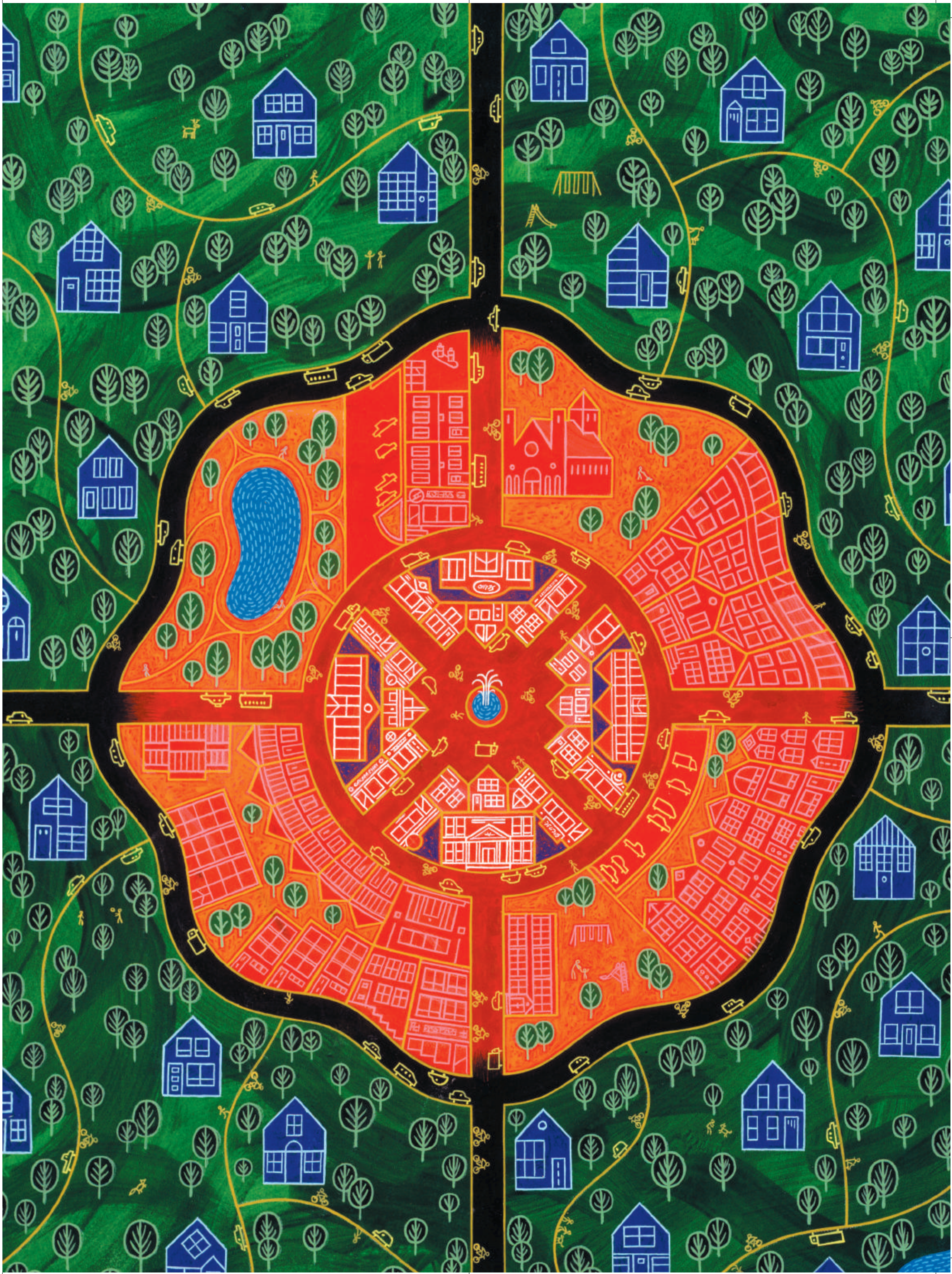

Table 1: **Comparing the Nonprofit Sector and Community Development Infrastructure**

Infrastructure Category	Nonprofit Infrastructure Component	Comparable Community Development Infrastructure Component
National trade associations	Independent Sector, Council on Foundations, Association of Small Foundations	National Congress for Community Economic Development (defunct), Development Leadership Network (defunct), National Community Building Network (defunct)*
State trade associations	State associations, including the Maryland Association of Nonprofit Organizations (MANO) and the Minnesota Council of Nonprofits (MCN), and the Forum of Regional Associations of Grantmakers (RAG)	State and local community development corporations (CDC) associations, such as the Community Economic Development Association of Michigan, the Affordable Housing Network of New Jersey
National conveners of state and local associations	National Council of Nonprofit Associations, Forum of Regional Associations of Grantmakers	National Alliance of Community Economic Development Associations
National financial intermediaries	Fidelity Investments, Vanguard, other gift funds	Local Initiatives Support Corporation, Enterprise Community Partners, NeighborWorks, Housing Assistance Council, Corporation for Supportive Housing
Regional and local financial intermediaries	The 1,300 United Way organizations, several hundred community foundations, numerous community-based public foundations	Local housing partnerships, funding collaboratives, community loan funds, community development financial institutions (e.g., Neighborhood Progress Inc. in Cleveland, the Community Development Support Collaborative in Washington D.C., etc.)
National conveners of state and local intermediaries	United Way of America, the Funding Exchange	National Community Capital Association, National Alliance of Housing Partnerships, the CDFI Network
National training/technical assistance providers	BoardSource, Grassroots Institute for Fundraising Training, National Center for Family Philanthropy, Nonprofit Finance Fund	Development Training Institute, the Neighborhood Reinvestment Training Institute, McAuley Institute (defunct)
Significant regional and local training, technical assistance, capacity builders (management support organizations)	CompassPoint, Community Resource Exchange, Management Assistance Group, Mosaica: The Center for Nonprofit Development and Pluralism	Rural Community Assistance Corporation, Community Economic Development Assistance Corporation, Chicago Rehab Network, Wisconsin Partnership for Housing Development
Education and certification (university based)	University members of the Nonprofit Academic Centers Council, such as the Center for Philanthropy at Indiana University, the Center for Public & Nonprofit Leadership at Georgetown, and the Hauser Center for Nonprofit Organizations at Harvard University	The School of Community Economic Development at Southern New Hampshire University, the Management and Community Development Institute at Tufts, the Pratt Center for Community and Environmental Development, the Center for Community Development at the University of Delaware
National conveners of training and technical assistance providers	Alliance for Nonprofit Management, Grantmakers for Effective Organizations	None
National infrastructure serving nonprofits devoted to specific populations	**Racial/ethnic:** National Council of La Raza, National Urban Coalition **Rural:** National Rural Development Funders Collaborative	**Racial/ethnic:** National Association for Latino Community Asset Builders (Latino), National Coalition for Asian Pacific American Community Development (Asian American, Pacific Islander) **Geographic:** Housing Assistance Council (rural)
Organizing and advocacy skill building	Center for Lobbying in the Public Interest; Alliance for Justice; OMB Watch	Center for Community Change
Accountability/oversight organizations	BBB Wise Giving Alliance; Charity Navigator; American Institute of Philanthropy; National Committee for Responsive Philanthropy	None
Aggregation and dissemination of data/statistics	GuideStar; Foundation Center; the National Center for Charitable Statistics at the Urban Institute	National Congress for Community Economic Development's community development census (defunct), research reports from the Urban Institute, the Metropolitan Policy Program at the Brookings Institution, and the Joint Center for Housing Studies
Publications	The *Chronicle of Philanthropy*; the *NonProfit Times*; the *Nonprofit Quarterly*; *Foundation News & Commentary* (defunct)	Shelterforce (National Housing Institute)
National infrastructure funders	Foundations that have participated in the Nonprofit Infrastructure Funding Group	Members of Living Cities (National Community Development Initiative)
Government support for infrastructure and capacity building		Section 4 funding from the Department of Housing and Urban Development (HUD); HOME/CHDO technical assistance and training funds through HUD

*A network of comprehensive community initiatives (CCIs). NCBN's Web site (www.ncbn.org) has long been down, and respondents suggested that at this point NCBN might be all but out of operation despite occasional efforts to revive it.

name the Local Initiatives Support Corporation (LISC), Enterprise Community Partners, and NeighborWorks America.

These institutions are large and well capitalized.[1] LISC and Enterprise bundle multiple program activities to assist thousands of nonprofit community developers between them: predevelopment lending, bridge lending, project and operating support grantmaking, housing tax-credit syndication, the New Markets Tax Credit program, public-policy advocacy, and more. With a longtime focus on homeownership, NeighborWorks includes a secondary market, various financing programs, and a respected training program that provides nonprofits with training and capacity building on core nonprofit functions in addition to CDCs' housing development roles.

According to one observer, the intermediaries' prime contribution to the sector has been technical assistance, enabling nonprofit community developers to access the national capital markets and deploy a mix of concessionary and market financing in some of the nation's most intractable inner-city and rural markets. They help CDCs access market resources that these organizations could not access on their own.

The large nationals are hardly the only intermediaries active in the field. There are smaller intermediaries, such as the Low Income Investment Fund,[2] various regional and local community development financial institutions, assorted local and regional community loan funds, and housing partnerships. In addition, other intermediaries serving defined community development populations have developed financing and technical assistance functions, notably the National Council of La Raza,[3] which offers Latino development organizations networking, financing, and policy advocacy, and the Housing Assistance Council,[4] which provides crucial development financing, technical assistance, and networking activities for CDCs that serve rural America.

National CDC networks. In the summer of 2006, the community development sector lost its longtime national trade association. After 35 years in existence, the National Congress for Community Economic Development (NCCED) thanked its supporters for their loyalty and ceased "official operations."[5] Within community development, NCCED's demise was greeted with near silence. Many were aware that their trade association had been weakened by political infighting and racial and ethnic divisions.

Even before NCCED's collapse, networks of CDCs functioning as trade associations had begun to spin off. Two spinoffs reflect the belief that NCCED had failed to meet constituents' needs: the National Coalition for Asian Pacific American Community Development (National CAPACD) and the National Association of Latino Community Asset Builders (NALCAB).

With the absence of NCCED, no organization provides definition and vision for the sector as a whole.

Both National CAPACD and NALCAB focus on racial and ethnic subsets of the community development world; but with the absence of NCCED, no organization provides definition and vision for the sector as a whole. In response, several of the state CDC association members of NCCED launched the National Alliance of Community Economic Development Associations (NACEDA).[6] With 24 state and metropolitan CDC associations as its current membership, NACEDA has absorbed some of NCCED's policy advocacy and information management functions. As a coalition of largely state CDC associations, NACEDA's function for community developers is similar to that of the National Council of Nonprofit Associations vis-à-vis state nonprofit associations: it undergirds the national structure by drawing on the grassroots strength of state associations.

Technical assistance and training providers. If there is consensus among observers, it is that the training programs of the Neighborhood Reinvestment Corporation's Training Institute constitute a high-quality asset for the development of the field (national intermediaries and the various state CDC associations provide additional training). National intermediaries' aggregation and delivery of technical assistance and training is also distinctive. Though less true recently, at one time the programs of the Baltimore-based Development Training Institute (DTI),[7] constituted a Good Housekeeping–like Seal of Approval, convincing reluctant investors and government agencies that program graduates had the technical financial and management skills to warrant investment in the DTI alumni-run CDCs.

Community development funders. For some

Without government funding, community development would effectively be crippled.

years, the Council for Community-Based Development (CCBD) aimed to promote foundation grantmaking for community development. A 1989 CCBD report counted 196 foundations making grants specifically for community development that totaled $68 million.[8]

The Foundation Center counts grantmaking for "community improvement and development," generating a much larger dollar amount for this sector's foundation grantmaking, though it's hardly focused on nonprofit community-based developers (including community development grants to non-U.S. organizations and to community improvement organizations that are not CDCs).

As the Foundation Center numbers indicate, grantmaking by the dominant foundations for community improvement and development has decreased not only as a proportion of total grantmaking but also in absolute numbers. In 2004 the top foundations devoted 4.4 percent of their grant dollars, or $684 million, to community improvement and development. In 2005 that number fell to 3.5 percent, or $567 million. And by 2006, reflecting the foundation sector's huge growth in grantmaking, the grants of top foundations for community improvement and development rose to $700 million, but that still represents only 3.7 percent of total grant dollars (a decline since 1999, when it was 5.1 percent). With the recent financial meltdown and the elimination of grantmaking from Fannie Mae and several banks, post-2006 grant totals will likely plummet.

While interviewees noted the importance of philanthropic funders as a component of the infrastructure, they didn't view funders as an *organized* component. Foundation and nonfoundation respondents alike did not typically define the Neighborhood Funders Group, one of the nation's preeminent foundation affinity groups, as a community development–oriented entity. Now known as Living Cities, the National Community Development Initiative is viewed as funders' avatar in the community development infrastructure.

In terms of total dollars, using foundation dollars to leverage private and government capital, Living Cities has by its own counting generated more than $540 million.[9] Living Cities excludes CDCs outside its locations of operation: 23 cities and metropolitan areas served by LISC or Enterprise. Nonetheless the monies funneled through Living Cities constitute an unprecedented philanthropic commitment,[10] leveraging private and government capital to the tune of 29 to 1.

Government. Most "maps" of the nonprofit infrastructure omit the Internal Revenue Service's Tax Exempt & Governmental Entities, state attorneys general, and the multiple sources of government grantmaking to nonprofits. But without government funding, community development would effectively be crippled. As one interviewee puts it, "So much of the community development infrastructure depends on support from a federal government grant flow."

Living Cities serves as an example of the significant role of government in the community development infrastructure. A significant piece of its funding has been through Department of Housing and Urban Development (HUD) appropriations, including $56 million prior to FY2004 and infusions in subsequent years.[11]

Despite successful lobbying for capacity-building appropriations, HUD discretionary funding for community development has hardly been on the upswing. Community development is a sector that depends heavily on government subsidy. CDCs view (1) the Community Housing Development Organization portion of the HOME program, (2) their ability to connect with local governments to access CDBG funds, and (3) the direct funding application ability they have with the Office of Community Services program at the Department of Health and Human Services as crucial components of the community development infrastructure. At the state government level, state nonprofit associations have won impressive victories to maintain and increase state funding for community development activities, including bond appropriations, housing trust funds, and other state programs.[12]

Research and publications. Based at the National Housing Institute in New Jersey, the monthly *Shelterforce* magazine functions as the journal of record for community development.[13] Interviewees also noted the research of the Urban Institute, the Joint Center for Housing Studies, and the work of the Metropolitan Policy Program at the Brookings Institution. Overall, however, respondents most frequently mentioned NCCED's regular "census" of nonprofit community developers.[14] With the help of LISC, NACEDA is attempting to conduct an updated, and perhaps more rigorous, CDC census.

Assessing the Community Development Infrastructure

In the wake of NCCED's collapse, how important is the community development infrastructure? On one hand, "it takes time to feel the loss," says on interviewee. On the other, however, NCCED's downward spiral was a long time coming.

Most observers suggest that several functioning infrastructure organizations have contributed to what one described as a "solidified" community development sector—but at the same time that gaps in the community development infrastructure have led to the collapse of several CDCs.[15] According to one interviewee, without the infrastructure organizations' functions, "community development could be worse." With varying degrees of emphasis, all interviewees conveyed the importance of a functional community development infrastructure.

Several elements of the distinction of the community development infrastructure stand out, none more markedly than the ability of national intermediaries to perform multiple roles.[16] By contributing to the development and retention of programs such as the New Markets Tax Credit and the Low Income Housing Tax Credit, Enterprise and LISC have taken on NCCED's role of national community development lobbying, which has made the erosion of NCCED less acutely felt. LISC and Enterprise have also generated a structure of field offices governed more or less by local philanthropic, government, and community leaders, serving as mechanisms to match intermediaries' resources with the distinctive conditions of local settings. Nonetheless, in communities and regions outside national intermediaries' geographic "footprints," support for community development suffers.

Observers suggest that intermediaries tend to work best with and advocate for mature community developers that can place and use intermediaries' financing and investment; working with startup organizations is labor-intensive and costly, not an attractive prospect for intermediaries that carry significant foundation program-related investments (PRIs) that they have to deploy or lose. Some observers see intermediaries' assiduous lobbying for the housing tax credit and for the New Markets Tax Credit as self-interested. These organizations own and operate major tax-credit investment funds, and their networks of mature community developers are likely users of both tax-credit programs.

Gaps in the community development infrastructure have led to the collapse of several CDCs.

Foundations' Role in the Community Development Infrastructure

Various prominent foundations have played a major role in supporting the community development infrastructure. According to the Foundation Center, LISC and Enterprise have been major recipients of foundation support. In 2004, LISC (its national regional offices) received more than $28 million through 178 foundation grants (including from corporate foundations) and, in 2005, nearly $35 million through 237 grants. These numbers don't include the Walton Family Foundation PRI of $10 million and the Prudential loan of $20 million to LISC for charter school financing. For its part, in 2005, Enterprise garnered more than $25 million, which doesn't include prodigious funding received directly from corporations or the funds regranted to intermediaries through Living Cities.

Over the years, foundations have been significant funders of community development organizations, but a significant portion of CDCs' unrestricted funding came from developers fees generated by housing and economic development projects.[17] With philanthropy reluctant to invest in CDCs with general-support grants, CDCs are driven to do more brick-and-mortar development and diminish the activities that aren't supported or can't generate unrestricted money.

Because core support is the lifeblood of the sector, the importance of developer fees compels the infrastructure to focus on the activities and related capacity building that yields this important resource. According to one CDC interviewee, "For most of the CDCs, their bread and butter is

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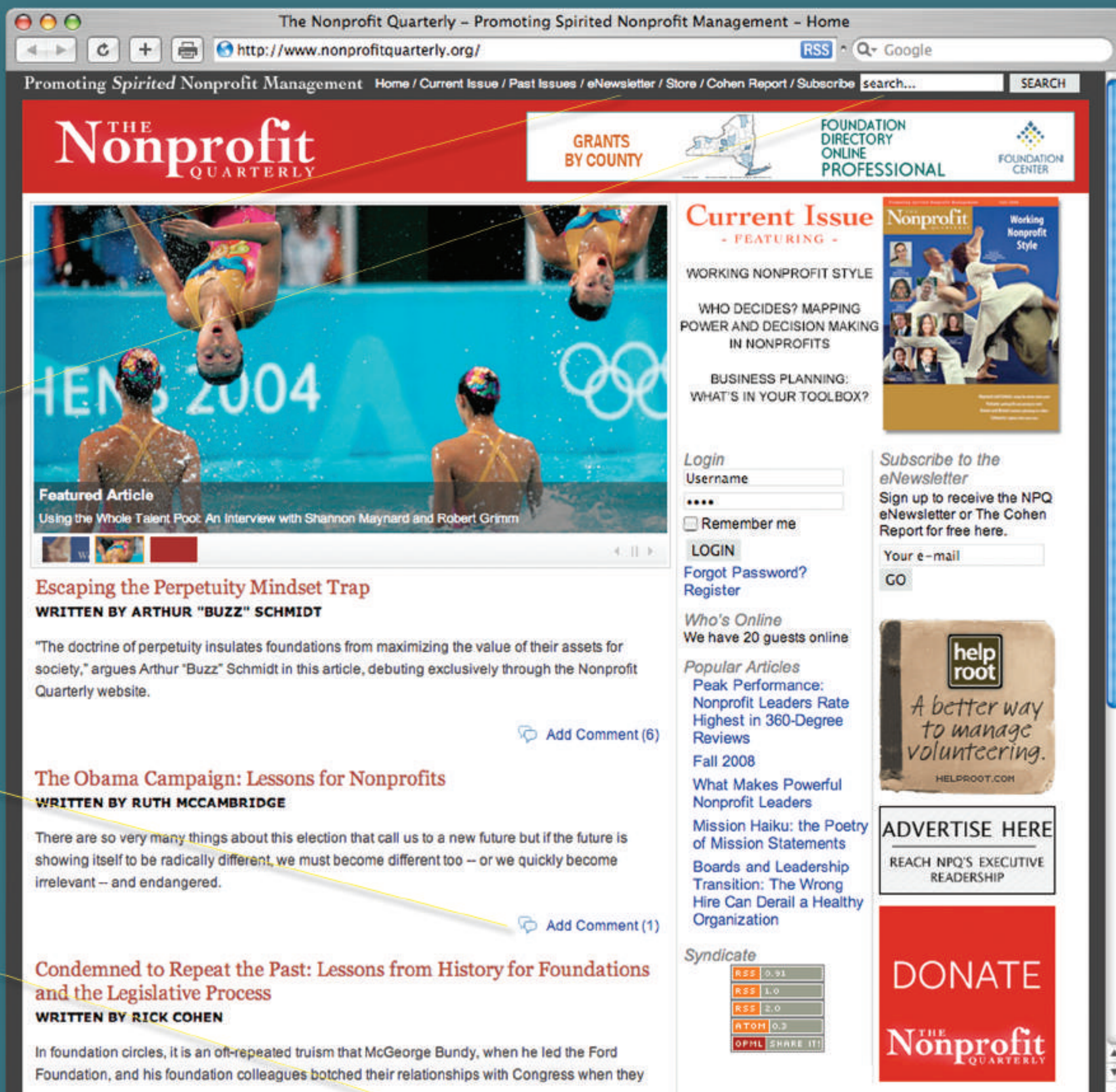
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"The community development infrastructure is not morphing as fast as changes in community economic development, such as regionalization, demand."

development fees from deals, but it's a hard balancing act to do that and make sure we're doing a project that is really needed as well." For many CDCs, developer fees keep the groups alive and pay for core functions, but not necessarily for additional program services, such as community organizing and civic engagement.

Interviewees indicate a feeling of funder discontent with community development, belying the substantial foundation commitments to both the intermediaries and the Living Cities consortium. Addressing the field as well as its infrastructure organizations, some interviewees view community development as somehow stuck and "mired in older debates, such as looking for new ways of financing affordable housing or new incentives for economic development" but not addressing emerging needs such as demographic change, gentrification, workforce issues, and K–12 education. According to one funder with a long history of commitment to community development, "There's a general unhappiness. Part of the disappointment is that the . . . model hasn't changed. People experience the system as it was 20 years ago."

In their view, the model is limited because community development organizations have had to fixate on small neighborhood geographies, which frustrated new immigrant populations and funders, with the latter feeling "politically bounded by these [community development] groups and their [geographic/neighborhood boundary] origins of 30 to 40 years ago." Expressing a perspective shared by many, one funder observed, "The community development infrastructure is not morphing as fast as changes in community economic development, such as regionalization, demand."

Some interviewees suggested that successful CDCs had become arms of local government, relied on to deliver in lower-income neighborhoods. Community development's function was less as civic mobilizer and more as government and private-capital outpost and stand-in. Without prompting, several funder interviewees articulated the notion that "CDCs have become agents of government and lost their social-change agenda," while community-based organizers "see themselves as the voice of neighborhood residents."

On the other hand, nonprofit interviewees are not enamored with the foundation sector's approach to community development. Several say that the philanthropic sector's focus on metrics has undermined CDCs' credibility in asking for broader civic engagement approaches. Community developers and their infrastructure partners report that it's easier to get support for projects that can be listed, measured, and photographed, as opposed to projects that reflect the amorphous concept of stimulating an engaged, mobilized community on issues that affect neighborhoods. According to one respondent, "If you can touch it or tour it, it's fundable; if you have to sit still a little more to observe it, it's hard to fund."

Infrastructure Operating in Community Development

In their study of nonprofit responses to the September 11 terrorist attack, Rikki Abzug and Dennis Derryck noted the nonprofit infrastructure's importance. Organizations that were "networked" through "umbrella and intermediary organizations" received help and support for dealing with the extraordinary short-term financial and service challenges that ensued, while "unaffiliated small and medium-sized organizations" found themselves "reeling" from immediate service demands, staffing needs, and financial reimbursement challenges.[18] A similar dynamic is visible within the community development infrastructure, providing an example of how nonprofit infrastructure undergirds the ability of groups of nonprofits to respond to issues and challenges that would overwhelm organizations lacking networks and interrelationships.

During the past two years, the subprime mortgage crisis has swamped the nation's economy. With millions of homeowners likely to face foreclosure because of adjustable-rate mortgages and other kinds of home financing, several decades of CDC achievements were suddenly at risk. Communities such as St. Paul and Indianapolis confronted vacancy rates that had not been seen in 20 years. Other markets such as Boston and San Diego confronted destabilizing foreclosure rates, and longtime troubled markets such as Cleveland, Detroit, and Buffalo spiraled further downward.

The magnitude of the subprime crisis, taking down banks such as Wachovia and investors such as Lehman Brothers necessitated a federal response, but the design of the response led to important functions for the community development infrastructure. The fact that the infrastructure existed and, despite gaps, was healthy enough to respond, positioned community development groups to play important roles in mitigating the impact of the foreclosure crisis and shaping longer-term solutions, including the following:

Foreclosure counseling. In the fall of 2007, when the subprime crisis emerged, Congress quickly called for emergency increases in the availability of foreclosure counseling. Although HUD was directed to distribute funding for expanded counseling, there was little capacity within the agency to quickly mount a program. In December 2007, Congress instead turned to NeighborWorks, which was given $130 million in the FY2008 Consolidated Appropriations Act to disburse in 60 days for foreclosure counseling nationwide. By the end of February 2008, Neighborhood Reinvestment announced grants to 130 organizations inside and outside the NeighborWorks network.[19]

Capitol Hill advocacy. At the same time, the community development infrastructure organizations began meeting to coordinate their proposals for legislative initiatives to deal with the deeper causes of the subprime crisis—inappropriate bank lending, acquisition and redevelopment of foreclosed properties, purchasing and refinancing through the Federal Housing Administration subprime loans, and so forth. Under the banner of the National Foreclosure Prevention and Neighborhood Stabilization Task Force, intermediaries began cooperatively fashioning legislative proposals that by the summer of 2008 emerged as legislation. Task force leaders include LISC, Enterprise, the National Council of La Raza, NACEDA, the Housing Partnership Network, and many others.

Capital infusions. Through their national infrastructure partners, community development advocates successfully convinced Congress to pass and the president to sign the Housing and Economic Recovery Act of 2008, allocating approximately $4 billion that CDCs and others can tap to address foreclosures and vacant properties. To deal with CDC capacity issues, foundation supporters working through intermediaries quickly made available $10 million in grants and loans to fund "promising approaches" that might be replicated and expanded in subsequent federal legislation.[20] In June 2008, by taking advantage of the networking within the community development infrastructure, Living Cities funders (including Ford, MacArthur, and others) made grants to agencies in the Midwest, Northeast, Washington, D.C., and other areas with the promise of more later.

Such networking has helped to fashion responses suited to the emerging dimensions of the subprime crisis. Among the items in progress is a proposal designed by LISC, Enterprise, the Housing Partnership Network, and NeighborWorks for a National Community Stabilization Trust to coordinate the disposition and purchase of properties foreclosed and controlled by lenders, servicers, and others and to get them into the hands of local CDCs for redevelopment and reuse. The scale of the subprime mortgage disaster is beyond the capacity of individual community-based organizations to navigate. But through interrelationships with national and regional infrastructure organizations, CDCs have acquired properties and financing to stabilize neighborhoods and help displaced homeowners.

Like any nonprofit subsector, the community development subsector contains components that are perhaps highly advanced and others that are less optimal.

A Living Infrastructure for Community Development

Observers inside and outside community development are hardly sanguine about the community development infrastructure. Many CDCs harbor deep suspicion about financial intermediaries while acknowledging the extent to which LISC and Enterprise jump-started the nation's growth in CDCs. Others might suggest that the infrastructure has not kept up with changing community development dynamics and demographic conditions. Witness the collapse of NCCED and its replacement by more specialized groups that believed they had been poorly represented by national infrastructure entities.

But the overall story of the community development infrastructure is one of dynamic operations with lessons for the nonprofit sector infrastructure concerning national and local market conditions, changing stakeholder demographics, the

CDCs have come to recognize that their success is inextricably linked to the vitality of the nonprofit infrastructure that supports them.

requirements of CDCs to change, and more. Like any nonprofit subsector, the community development subsector contains components that are perhaps highly advanced and others that are less optimal. Sometimes the problems among community development organizations, particularly issues of racial and ethnic equity, are mirrored within infrastructure organizations themselves.

The history of the community development infrastructure underscores a crucial point about the nonprofit sector: organizations that are "networked" into mutually supportive infrastructure partners can potentially withstand and overcome sectoral "shocks, such as hurricanes and international financial crisis, better than groups that lack access to capacity-building and capital networks. It should come as no surprise, therefore, that CDCs have come to recognize that their success is inextricably linked to the vitality of the nonprofit infrastructure that supports them.

Endnotes

1. In the *Forbes* list of the 200 largest nonprofits, for example, LISC was the 102nd largest nonprofit in terms of total net assets (www.forbes.com/lists/2007/14/pf_07charities_The-200–Largest-U.S.-Charities_Assets_5.html) and 229th in the *Chronicle of Philanthropy*'s "Philanthropy 400" list of charities raising the most money from private sources such foundations, corporations, and individuals (http://philanthropy.com/premium/stats/philanthropy400/2008/results.php).
2. The Low Income Investment Fund (www.liifund.org).
3. The Raza Development Fund (www.nclr.org/content/programs/detail/895).
4. Building Rural Communities (www.ruralhome.org).
5. National Congress for Economic Community Development (www.ncced.org).
6. The National Association of Economic Development Associations (www.naceda.org).
7. Development Training Institute (www.dtinational.org).
8. *Expanding Horizons: Foundation Grant Support of Community-Based Development*, 1989.
9. For research, see the Living Cities Web site (www.livingcities.org/2006%20Files/2006_about _us.htm).
10. Metis Associates, *The Cities Program Follow-the-Money Report: Living Cities: The National Community Development Initiative: Analyzing How Funds Are Used for Real Estate Investment and Production*, Sept. 22, 2006, p. 2 (www.livingcities.org/pdf/2006_09_22_Metis_screen_Follow_The_Money_Executive_Summary.pdf).
11. HUD funds through Section 4 of the HUD Demonstration Act of 1993, initially limited to the NCDI cities served by LISC and Enterprise, were later expanded to include funding for Habitat for Humanity and YouthBuild.
12. Housing trust funds are operational in 38 states plus the District of Columbia, cf. (www.communitychange.org/issues/housing/trustfundproject/whatarehousingtf/#history).
13. www.shelterforce.org/
14. NCCED released reports in 1988, 1991, 1994, 1998, and 2005, the last of which is titled *Reaching New Heights* (www.ncced.org/documents/NCCED Census2005FINALReport.pdf).
15. Cf. William M. Rohe, Rachel G. Bratt, and Protip Biswas, "Learning from Adversity: The CDC School of Hard Knocks," Shelterforce Online, May/June 2003.
16. Y. Thomas Liou and Robert C. Stroh, "Community Development Intermediary Systems in the United States: Origins, Evolution, and Functions," *Housing Policy Debate*, vol. 9, no. 3, 1998.
17. Alexander Von Hoffman, *Fuel Lines for the Urban Revival Engine: Neighborhoods*, *Community Development Corporations*, *Financial Intermediaries*, Fannie Mae Foundation, 2001.
18. Dennis Derryck and Rikki Abzug, "Lessons from Crisis: New York City Nonprofits Post–September 11," the *Nonprofit Quarterly*, vol. 9, no. 1, spring 2002.
19. National Foreclosure Mitigation Counseling Program (www.nw.org/network/nfmcp/default.asp#PUBLICINFO).
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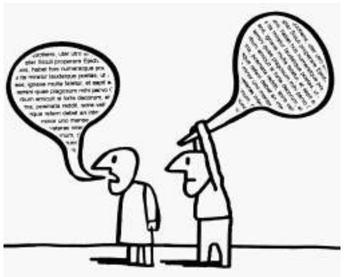

Dr. Conflict

by Mark Light

DEAR DR. CONFLICT,

I have a staff member who, for lack of a better term, is a bit *colorful*. Other than this personality trait, she is an excellent employee. When she was hired, we discussed the importance of our image in the small community in which we operate as well as the need for appropriate behavior.

A board member learned that this staff member is loud and belligerent at the local high school's ball games, and this board member believes that the employee is a detriment to our organization. I believe that when it comes to high-school sports, there is nothing sane and rational about parents and coaches. Moreover, I have attended some of these ball games and have never witnessed questionable behavior.

I don't believe that this board member has ever attended a ball game and, thus, seen this conduct in action. Still, the coach is a good friend of the board member and has leaned on him hard. This board member is very critical and likes power and control. Since I am the executive director, how do I deal with this?

Take Me Out *of* the Ball Game

Dear Take Me Out,

Let's see if Dr. Conflict has this right: The coach is annoyed by your excellent staff member's "Throw the bum out" belligerence at ball games and has pressured your alpha-male board member to make you make her stop. And now you want some advice about what to do.

Some readers might be inclined to roll their eyes and say, "Give it a rest." And they may be right. The employee was at a ball game and not an agency function; yelling at sports events is as American as mom and apple pie (or, in Dr. Conflict's case, beer and pizza). In other words, what she does on her own time is no one's business—case closed, and fuggetaboutit already.

The problem is that you and your board members are never really off the clock; you're always representing your organization, and that goes for your staff as well. This is largely because everyone in your community has a vested interest in your organization; the community pays higher taxes so that your organization doesn't have to. Moreover, nonprofits have a special role to play in society—a trusted one, at that—and are held to higher standards of conduct. No, it might not seem fair that you're on 24/7, that you're not a civilian, but that's the reality. So let's put aside the "Mind your own business" argument and understand that a staffer's conduct matters all the time for everyone—paid and unpaid—who works at your organization.

As in every conflict, there are only two real choices: avoid or engage. Now it's entirely possible that simply ignoring or paying lip service to your board member's complaint will be enough; this is what Dr. Conflict calls the "Maybe it will go away" method. Goodness knows you've been to the games and found nothing to be concerned about; you've done enough, and it's time to move on. This board member needs to get a hobby, get a life, get a prescription; it's not his job to be the conduct police for your crew.

To those who suggest ignoring the board member, Dr. Conflict's experience is that this approach usually works best with those you'll never see again, folks you don't care about, and situations that don't matter much. We all learned this principle in first grade with schoolyard bullies: find different routes to class, don't push back, never let them see you cry, ignore them.

The trouble is that your board member doesn't sound like he'll go quietly into the night. Coupled with his need for power and control, he may very well become a board chair someday soon or, when you're up for a raise review, a member of the compensation committee. You've got skin in this game, and avoiding the conflict won't necessarily help.

The other consideration is that your board member is arguably just doing his job. You've asked your board members *to be champions in the community for your agency and to be your "antenna," right? And you've begged them to help with fundraising, yes? You want them out there hitting home runs but don't want them to tell you about fouls? Doesn't being a good member include protecting the reputation of the agency?*

In other words, it could be that your board member's antenna has picked up something real about your employee. When this employee was hired, didn't you discuss appropriate behavior, and to some degree does her behavior indicate that she ignored the discussion? To be fair, Dr. Conflict knows you are concerned about your board member's agenda; you said that he likes power and control and is critical. But that pretty much describes most board members; you don't invite folks to join a board for campfires, "Kumbayah" sing-alongs, and marshmallows. A board member can make a difference for a lot of reasons, but being a wimp isn't one of them. In his defense, he didn't go directly to your staff member and seems to respect your authority enough to have brought the issue to your attention instead, so maybe he deserves the benefit of the doubt.

If avoiding the conflict here seems ill advised, then engaging is the way to go. In first grade, you learned two other rules about schoolyard bullies: tell an adult, and stand up for yourself. You should start by telling the "adult"—in this case, your board chair—and ask his advice; it's the chair's job to be there for you. Moreover, because the board member reports to the chair, this issue matters to both of you, not you alone. Maybe your board chair will do the eye-roll thing and tell you to let it go, but maybe not.

Assuming that you and your chair decide that the concerns merit attention, you need to stand up for yourself. You might do your own review by touching base with the coach and getting his perspective; you could then visit with the staff member for her point of view. That could give you and your board chair enough information to make a decision and then close the loop with the board member. Be sure to thank your board member for bringing the matter to your attention. After all, that's part of a board member's job.

Dr. Conflict is the nom de plume of Mark Light. In addition to his work with First Light Group (www.firstlightgroup.com), Light teaches at Case Western Reserve University and Antioch University McGregor. Along with his stimulating home life, he gets regular doses of conflict at the Dayton Mediation Center, where he is a mediator.

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Watchdog Wanted: Making the Case for Internal Oversight of the Nonprofit Sector

By Scott Harshbarger and Steven Netishen

THE U.S. NONPROFIT SECTOR IS AT A crossroads. It has lost the public's trust in its ability to carry out its mission. This ebbing trust stems largely from the sector's fundamental lack of accountability, where existing mechanisms have been ineffective at routing out real and perceived corruption, fraud, governance and ethics problems and in ensuring that nonprofits fulfill their mission to those they serve.

To date, we have relied largely on external forces to check nonprofits' behavior; and certainly, nonprofits cannot ensure accountability on their own. But now, after years of nonprofit scandals and abuse, task forces, and reports, the time has come for the sector to willingly adopt more effective *internal* controls. With existing models to draw on, the sector must turn inward and begin to incorporate the principles of existing external watchdogs. To that end, this article is a call to action, where the key to success is to combine internally adopted mechanisms with the pressure of external oversight. In what follows, we propose new mechanisms, including the adoption of enforceable sanctions for unethical nonprofit behavior, developing joint partnerships between existing agencies, and the establishment of a new position of inspector general to oversee nonprofit adherence to regulation. If the sector willingly adopts this combined approach to internal and external oversight, it can begin to restore discipline and accountability and reaffirm its compact to ensure the public good.

According to the *2008 Report on Charitable Confidence*, only 25 percent of Americans believe that charitable organizations do a "very good" job of helping people, which is a decrease from 34 percent in 2003. In the latest Ethics Resource Center report, *National Nonprofit Ethics Survey: An Inside View of Nonprofit Sector Ethics*, survey respondents reported observing more financial fraud than their counterparts in business, and 42 percent of respondents characterized their organizations as "weak" or "weak leaning" ethical cultures, compared with about 38 percent in the 2000, 2003, and 2005 surveys. The significant decline in the public's and insiders' confidence in the nonprofit sector has been driven by scandals such as the Red Cross's massive mishandling of its response to Hurricane Katrina, the embezzlement of nearly $1 million from the Association of Community Organizations for Reform Now (ACORN), the Smithsonian Institution's highly publicized management and governance crisis, and other high-visibility incidents. Nonprofit sector leaders tend to shrug off such scandals as the bad acts of an isolated few that have only marginal impact on the sector as a whole. The mere existence of these scandals, however, should be deeply troubling to the nonprofit sector because scandals, whatever their size and shape, have had a broad and lasting impact on the levels of public trust and, thus, on levels of charitable giving. The connection between confidence and giving is that basic. Now is the time for action. The nonprofit sector must acknowledge its scandals and shortcomings; institute mechanisms to expose, discipline, and guard against illegal and unethical behavior; and challenge itself to take deep and wide-reaching action to restore the public trust.

Existing External Models

Strides have been made to create new, and improve on existing, governance mechanisms to monitor the nonprofit sector. Externally, there are multiple avenues to guide and check the nonprofit sector. Below we explore some of the existing mechanisms to ensure nonprofit accountability.

The Internal Revenue Service. In exchange for charitable missions, nonprofit organizations and foundations receive the benefit of tax-exempt status under federal and state tax codes.

Considering the approximately $300 billion donated to the nonprofit sector annually, this is a windfall of sorts from the public till. Because of the financial advantage of tax-exempt status and the filing processes required to receive it, the IRS, therefore, is perhaps the sector's most vital watchdog.

The IRS's filing and auditing system provides an annual opportunity to review a nonprofit's financials and ensure compliance with the requirements of tax exemption. The IRS's primary enforcement mechanism is the right to impose potentially substantial civil penalties for late or incomplete filings as well as, of course, the threat of losing tax-exempt status altogether.[1] In 2008 the IRS expanded its filing requirements to compel many small organizations with less than $25,000 in gross receipts to submit an abbreviated return.[2] In 2007 the IRS issued a revised Form 990 to help improve transparency and compliance. The new form included major changes, such as the addition of a governance section and schedules relating to executive compensation, related organizations, and foreign activities, among others. The agency also provides educational support in the form of tutorials, published guidance, and other platforms to further counsel the sector.

The federal government. The federal government also uses its legislative and budgetary powers to impose oversight on the nonprofit sector. Quite successfully, the government has linked the granting of federal funds to regulatory compliance, such as by requiring proper accreditation before public universities can receive federal funds and, similarly, before nonprofit hospitals can be eligible for Medicare reimbursement. Further, Congress uses its legislative authority to institute meaningful investigation of the sector. Senator Chuck Grassley of Iowa, the senior Republican member of the Senate Committee on Finance, has aggressively monitored the nonprofit sector, including by spearheading investigations into executive compensation and spending abuses.

State attorneys general. At the state level, much of the governmental watchdog responsibility falls heavily on the public charities division of the attorney general's office. The attorney general's role is to protect the public interest by overseeing the use of charitable funds and the fundraising process, investigating specific complaints lodged against nonprofit organizations, and enforcing the laws and regulations affecting the sector. Attorneys general carry out their mission by imposing civil and criminal penalties, although the practices and resources of the attorneys general diverge greatly from state to state.

The media. The nonprofit sector has also relied on the media to be its watchdog and to highlight instances of bad behavior. But the nonprofit sector's reliance on the media has serious shortcomings. The media can be effective in exposing corruption and illegal and unethical behavior by those charged with safeguarding the public trust. But what happens after an article has been published and public outrage dissipates over time?

Internal Controls Needed

While all of these external mechanisms help to provide oversight to the sector, they are limited in their ability to cause real and lasting change through oversight, enforcement, and sanctions. But the nonprofit sector remains resistant to adopting internal mechanisms that have teeth rather than merely offering aspirational and voluntary guidelines that organizations can choose to follow or disregard.

At root, the nonprofit sector has exhibited a fundamental "Not in my backyard" resistance to policing itself. In spite of its expertise, leadership, and clear identification of its internal challenges, the nonprofit sector has yet to truly stand up on the watchdog issue. Ironically, nonprofits continually support and demand watchdogs to oversee other sectors; consider Common Cause, inspectors general of agencies, independent state and federal ethics commissions and congressional panels, and major federal and state oversight and watchdogs of every kind for the private and corporate sector. But nonprofits haven't been champions of the same principles on their home turf.

Some argue that the complexity and diversity of the nonprofit sector renders substantive, sector-wide reform impossible, not to mention the costs and concerns about unintended consequences. Thus, our recommendations for meaningful implementation that extend beyond education, technical assistance, and other aspirational changes, and toward greater enforcement and sanction-driven oversight, will likely be and have been hard fought. Nonetheless, the nonprofit sector must move beyond voluntary internal controls and accept that with the benefits of the tax code come the burdens of accountability and good governance. Enforcement and sanction capacities should be used to ensure that all nonprofits responsibly fulfill their charitable missions. If encouraged and implemented directly by the nonprofit sector itself, such substantive reinforcements could bolster its reputation in these difficult economic times, when the public is even more likely to require that its donations have been put to good use.

Accordingly, an internal nonprofit sector watchdog could be the guardian of the public trust that the sector so desperately needs. And some strides have been made to devise a uniform and standardized list of "best practices." In October 2007, for example, the Panel on the Nonprofit Sector, made up of 24 nonprofit and philanthropic leaders from a range of organizations, published *Principles for Good Governance and Ethical Practice*. The report presented 33 principles of "sound practice," covering legal compliance and public disclosure, effective governance, strong financial oversight and responsible fundraising. Directed to nonprofit organizations of every size and scope, these guidelines are truly thoroughgoing and broad based. They provide a checklist by which any nonprofit organization can measure its own behavior.

These efforts represent a start, but much more is needed. Significant challenges remain in areas such as training and education as well as in exposing and preventing fraud, abuse, criminality, and unethical conduct. Moreover, existing external "watchdogs" are incapable of correcting these shortcomings for a number of reasons, including a lack of nonprofit resources and expertise. Further, the sector-wide best practices that have been implemented remain largely voluntary and thus lack meaningful enforcement to ensure adherence.

Combining Internal and External Oversight: Five Recommendations

The reality is that the nonprofit sector must do better. Below are some proposed next steps that build on the positive aspects of the current structure but also move toward more aggressive oversight, nonprofit self-determination, and consequences for lack of compliance.

1. Agreed-upon, enforceable principles. The nonprofit sector must extend its best-practice approach to become a valuable educational and technical assistance dissemination model for all in the nonprofit sector, regardless of organizational size, scope, and function. The sector must use its best practices as the foundation for internal oversight, enforcement, and sanctions. And of course, nonprofit leaders need to build a consensus on enforcement and sanctions.

Moreover, these agreed-upon principles must be enforceable and subject to sanctions by regulators, creditors, associations and others. Further, enforcement must be designed to apply uniformly to major institutions and foundations based on size, scope, function, and revenue. While national associations may legitimately argue that they are regulated enough and internal regulation will likely be politically motivated, we must also acknowledge that the resources for external enforcement have been limited, and evidence of meaningful self-regulation and sanctions is almost nonexistent.

2. Resources and joint partnerships. To have any credibility, a proposal must include a commitment to actively provide adequate resources for regulation and enforcement of existing state and federal laws. The best models are joint federal and state task forces, federally funded state programs (like the Medicaid Fraud & Abuse program), or federal grantmaking programs (such as Community Oriented Policing Services) that ensure cooperation and coordination in enforcement as well as uniformity and consistency in terms of the sectors regulated. Hence, the development of a partnership between the Department of Justice, the IRS, state attorneys general, and a state charitable regulator partnership could achieve these objectives. A task force of these groups, together with a nonprofit advisory committee, could be convened to help identify and outline the possible structure, jurisdiction, funding, and power needed to ensure coordination of such a regulatory system.

3. Education and assistance. Another crucial element is education and technical assistance in the areas of governance, ethics, and transparency, enabled by adequate funding. While for years the nonprofit sector has talked about education and training, no one has come forward to actually fund a program focused on building capacity for internal controls and good organizational management. The dearth of funding for education and infrastructure development in these critical areas is plainly obvious and particularly worrisome. Without sufficient funding, the nonprofit sector can never support self-regulation, and internal regulation and initiatives for greater accountability become largely hollow and rhetorical.

4. Independent regulatory systems. Each of the major accreditation organizations and associations should have an independent regulatory system that, in addition to its membership and educational functions, includes effective and efficient enforcement mechanisms for sanctioning those who violate these principles. Similarly, major grantmaking organizations should condition grants based on compliance with governance principles and subject them to audits. Sanctions for any organizations that do not implement governance standards appropriate to their size, shape, and function should be part of any enforcement structure.

5. Inspector general models. Evidence indicates that independent inspectors general are useful (if sometimes unpopular) in governmental agencies, correctional departments, and private corporation or public-sector agencies. So surely they are appropriate for nonprofit sectors and activities. Inspectors general should be funded by major private associations to contribute to education, technical assistance, and compliance budgets of associations, foundations, and grantmaking organizations. As is the case with the federal sentencing guidelines, establishing this kind of compliance mechanism would be viewed as a safe harbor for organizations that face external regulators, prosecutors, and self-regulatory sanctioning.

Making Accountability a Reality

Today's approach to nonprofit accountability and regulation is clearly insufficient. The current external regulatory mechanisms and internal, nonbinding best-practice principles are insufficient to address the far-reaching problems of the nonprofit sector. To respond to these shortcomings, the sector must create a multilevel structure that includes support for external enforcement for crimes, fraud, and fiduciary abuses at all levels; strengthened accreditation and association models; the sanctioning requirements of grantmakers; a presumptive Sarbanes-Oxley–type approach for institutions and foundations of major size and revenue (realizing that there is no one-size-fits-all strategy or program, but there are foundational governance principles that should be adopted sectorwide); the establishment of core principles and methods of self-regulation with teeth at all other levels; and the introduction of the notion of joint federal-state oversight, plus the independent inspector general concept of self-regulation.

This strategy of joint internal and external oversight can create an oversight structure with true power to ensure accountability. It is based on the belief that prevention is the best and cheapest form of protection and that a credible, sector-specific enforcement regime can establish a framework and a minimum ethic as a floor within which autonomy and pluralism can thrive. Such a structure encourages the nonprofit sector to affirm its strength, its belief in integrity, and its potential for doing well by doing good. It affords the nonprofit sector the ability to thrive and invite scrutiny and accountability and allows it to be the first to solve the problems and to implement a remedy. By taking the lead and effectively incorporating its own enforcement and sanctioning watchdog regime, the nonprofit sector stands to benefit in terms of reputation and operational efficiency.

Endnotes

1. For a list of recent revocations of tax-exempt status, see the Internal Revenue Service page on recent revocations of 501(c)3 organizations (www.irs.gov/charities/charitable/article/0,,id=141466,00.html).
2. See the IRS's filing requirements for small organizations (www.irs.gov/charities/article/0,,id=169250,00.html).

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Hybrid Organizations: More Than Just a New Fuel— An Interview with Steve Dubb

by the editors

Nonprofit Quarterly: *What's the definition of a nonprofit hybrid business?*

Steve Dubb: I understand a nonprofit hybrid to be an organization that has some kind of earned income and therefore mixes facets of the traditional business world with the nonprofit world of seeking grants, foundation funding, and individual donations.

NPQ: *What are the characteristics of this category, and what kinds of organizations fall into it?*

SD: I tend to think of the majority of nonprofits as hybrid nonprofits. Universities and hospitals, for example, have always received a large percentage of their income from business revenue, whether it's tuition for universities or bill payment for hospitals.

But when people think of the hybrid nonprofits, they're thinking of these new primarily social service–type nonprofits that raise revenue while serving a social-service mission. One good example is Pioneer Human Services in Seattle, Washington. It is able to provide drug- and alcohol-free housing, employment, and job training. And it has about eight different businesses that employ these participants, thereby raising nearly its entire budget, about $60 million, from its business income. One of its businesses involves manufacturing parts for Boeing; it also runs a couple of restaurants. Now, it gets some government revenue that tends to get underplayed in all this in the form of contracts from the government. But that's an example of nonprofit business. You wouldn't normally think of reintegrating those ex-addict populations as a way they would be able to self-generate a lot of the profit, and yet it's been a very successful model for over 40 years.

In San Francisco, there is New Door Ventures, which operates a print shop and a bicycle repair shop. Again, it's serving the people who are being employed: at-risk, using young adults. So that part of the social service is actually the business itself. So I think when people think of hybrid nonprofits, they are thinking more in terms of this new type of social enterprise rather than merely earning income, which, actually, most nonprofits do. In both of those cases, the businesses are integral to the nonprofit corporation. In the case of others, for example, the Greyston Bakery, I believe, it is a for-profit business subsidiary; so they're legally separate entities: the business and the nonprofit. It can work either way.

NPQ: *We've heard a lot about various organizational forms—such as B corporations, L3Cs, and others—that are trying to sort of straddle and create either for-profit or minimal-profit corporate structures that encourage civic benefit. Where do these organizations fit in the equation?*

SD: There are two different tendencies. I described the tendency coming from the nonprofit direction. There is this other tendency coming from the business world—socially responsible business, in essence. Some of these new forms—the B corporation, and you could even add the fair-trade label—are all attempts to create a niche or a brand, where people are willing to pay more for services in which part of the product is the social value that the business provides (for instance, fair wages in Latin America for coffee farmers).

The L3C is a new specific legal form, enacted by the state of Vermont in 2008, that allows businesses that are willing to accept a lower rate of profit, which obviously can reduce their ability to attract investors who are seeking solely an economic return, to raise capital from foundation program-related investors.

NPQ: *How do these new forms fit into the social-entrepreneurship conversation? You described one stream coming up through the nonprofit world and expand-*

ing and another that's coming from the for-profit world that's interested in changing business models to adapt to social needs. Between these two sides, what kinds of tensions do you see, if any? What are the driving features of each side?

SD: I don't think anybody goes into business saying, "I want to run a hybrid for-profit" (or a nonprofit). Maybe some people do. But I think the driving force is trying to meet a need that hasn't been met in society. Clearly we have a situation where traditional solutions haven't worked as well as we would have liked.

If you're a nonprofit doing social-service delivery, and government funding is being cut, then how are you going to meet your mission of social-service delivery? One way is to organize politically for advocacy. But another way is to try to adjust your funding stream model so that you are less dependent on government financing.

In the corporate world, the problems are different. But I think there are a lot of small business owners who are discouraged with the direction of American business. We have a lot of corporations that picked up stakes and left. There are rampant problems with greed and speculation that—if they weren't obvious before—have become obvious with the collapse of the financial sector both in the United States and internationally. There have been problems with corporate accountability that led to—finally—a policy response in the form of the Sarbanes-Oxley law of a few years ago.

The old-style corporate model seems to be faltering. Some of the government's ability to fund social services seems to be faltering. To deal with these forces, there's some experimentation going on, and some of these experiments, but not all, lead in the direction that we could call hybrid nonprofits, or social enterprises. Or maybe just call them hybrid organizations.

NPQ: *What else will fill this space? What about the space between government and nonprofits?*

SD: One sector that doesn't usually get mentioned at all and is quite large is employee ownership. There are now 11.2 million employee-owners in the United States, who work for companies owned in whole or part by employee stock ownership plans, or ESOPs. Prior to the financial meltdown, the value of the shares of these owners was over $900 billion. That's a pretty significant portion of the economy. That's a greater number of workers than there are workers in unionized jobs in the private sector. Nearly 10 percent of employment in the private sector is ESOP. That's large. And if you look at areas like manufacturing, it's larger than that.

How did this happen? It wasn't a liberal idea or a conservative idea, per se. It started with a tax benefit that came out of the 1974 pension legislation, known as ERISA [the Employment Retirement Income Security Act] that allows an exiting owner to roll over the capital gain. Say you're a family business, and there's nobody in the family who can carry on that business. Prior to the existence of ESOP, you would either shut down or sell to a competitor. The ESOP section of the ERISA law gives the chance to turn over the ownership to the employees and keep the business in the community. That's been attractive. More than half of all employee-owned businesses have been started in this manner: a retiring business owner gradually shifting ownership to the employees, financed through their pension contributions. That's a hybrid form of business that's now very common, and I have never seen it described as a social enterprise or a hybrid.

It's not your traditional stock corporation; it's not your traditional family business. And it does have social benefit. It keeps jobs in the community, and it spreads the wealth in a time of increasing wealth inequality, especially since we are now at 1928–1929 levels of wealth inequality in the United States. It's not too surprising that we have a financial crisis when you look at how concentrated wealth has become in this country. And ESOPs are one mechanism that could ameliorate that and, to some extent, do, though not sufficiently to change those numbers.

NPQ: *There is an ongoing two-way conversation between the social entrepreneurs and the traditional nonprofit community organizers, but is it the right discussion?*

SD: At some level, we are asking the wrong question. I see these as two different trends that happen to be occurring at the same time. One is of nonprofits that are trying to fill needs that are growing because of the withdrawal of government support or the shifting of the type of government support provided. The other is the drive for socially responsible businesses. They're serving different purposes and happening for different reasons. Community development corporations [CDCs] and community development financial institutions [CDFIs] are very prevalent hybrid nonprofits. They do housing development or, in the case of CDFIs, loans to support housing or business development, so that's earned income as well as providing a social benefit. The latest survey, in 2005, found 4,600 community development corporations; 40 years ago there were close to zero. You can't find too many cities that don't have community development corporations. It's changed the landscape. And it's happened because of the privatization of government functions. Government doesn't build very much housing anymore—not directly. It's offloaded that function onto nonprofits. There's also been a lot of movement on the nonprofit side to get in that area. And in some ways, it's been an effective solution.

NPQ: *Do any of these trends have distinct advantages or disadvantages over another?*

SD: I think employee ownership and other forms of socially responsible businesses may have an advantage perhaps, in the sense that they are completely self-sustaining—and certainly with employee ownership, this is true. The other advantage of employee ownership in particular is that, while most of the decision-making authority of employee-owned companies involves management making decisions, there are some decisions that fall to the employees under current law—such as whether to shut down your home plant. So that provides a level of anchoring of capital.

When you look at employee ownership, also the traditional nonprofits—universities, hospitals—these "anchor institutions" can't move too easily. In a global economy, where more businesses are subject to being moved, it's important to have a percentage of the economy anchored. You need a certain level of rooted capital in order to have an environment where you can make productive investment decisions or you can have a new-energy economy emerge—or whatever is going to be the next basis of a stable economy that builds middle-class jobs and middle-class wages. I think these kinds of institutions will play an important role in providing the necessary base level to make a new period of economic growth possible.

NPQ: *Do the community development and social-service fields illustrate the best example, or have other fields experienced an infusion of hybrids?*

SD: This may still be in the community development field, but community land trusts are going to be increasingly important. It's sometimes referred to as shared-equity housing. Typically, you think of the decision of housing as a choice between whether you rent or own. With land trusts, you do both, or a little bit of each. One of the largest ones is Champlain Housing Trust, based in Burlington, Vermont. It has about 2,000 households as members in the Greater Burlington area. The equity split is 25 percent and 75 percent. Seventy-five percent stays with the nonprofit to provide permanently affordable housing. Twenty-five percent goes to a family, which can go toward making a down payment when it moves out of that land trust.

NPQ: *In this trend toward hybridization, there are some true believers; have they in any way distorted the conversation? What is empty rhetoric? And have promising avenues opened up?*

SD: The problems with the rhetoric often have to do with the idea that government doesn't have a role in social-service delivery—because "Nonprofits can do it all on their own!" Or having earned income is a goal in itself. Earned income is a means to an end; if it helps to achieve your mission, then it's a positive. I like the work of Andrew Wolk of Root Cause. He explains that if there's no market, then you have a nonprofit; but if there's some market, then some kind of hybrid solution works.

But there are going to be plenty of areas where you're going to need government support and even 100 percent government funding and support. I don't think you're going to see too many hybrid food banks, for instance (although a hybrid nonprofit could operate a food bank alongside other income-producing activities). Ex-offender programs may in some cases be able to generate income; and if they can, that's great. But in many cases, that won't work. So is hybridization a good thing? Sure, if it solves problems. But I don't think it's going to solve all of our problems. There are going to be some cases where the traditional models, in fact, do work best.

NPQ: *If the trend is that earned income becomes the objective of all businesses, what's the impact of this development?*

SD: To the extent that it encourages nonprofits to be more financially cognizant or savvy, that's a positive. The risk is that earned income will be valorized to the degree where foundations tend only to support nonprofits that also generate earned income—because, after all, that's a higher leverage ratio, right? The tendency is to fail to meet the hardest cases. That's the easiest way to increase your percentage of earned income.

So if you look at housing, public housing serves people who make 30 percent of area median income (AMI) or below. Most CDCs serve people who earn between 50 percent and 80 percent of AMI. Well, if the people you're housing make twice the income of folks in public housing, guess what? They can pay more. You don't need as much subsidy; it's easier to make ends meet as a hybrid nonprofit. So the *most* needy get the *most* neglected, and there is a huge shortage of housing for people who have very low income. And that's a real risk: if hybridization becomes an imperative rather than a tactic that makes sense in some cases but doesn't in others, that's a problem.

NPQ: *In addition to the opportunities and dangers and the trajectory of growth for hybrid nonprofits, are there other points that are worth making?*

SD: I should probably at least mention, because it is a growing sector and it's a growing role for hybrids, the emerging and growing green economy. For instance, deconstruction. In Cleveland I think there are about 7,000 to 8,000 empty houses that need to be taken down as part of the foreclosure crisis and, from before that, the economic decline of that city. So you can either just demolish the house entirely, or you can try to take some of the more valuable pieces of it and try to recycle it. This isn't very profitable, but there is some income in it.

And there are a number of reuse centers—Habitat for Humanity, for example, runs a lot of these—that provide a social good with some government support, plus foundation or donation support from individuals, plus the income that can be earned through this activity. Green Institute in Minneapolis runs a reuse center and deconstruction services, and it has had about 60,000 customers since it opened. We are likely to also see businesses to retrofit buildings to reduce carbon emotions. A lot of those will be very profitable, but some of them are going to be businesses that aren't profitable. If you include the positive externalities of those activities, it's well worth doing. So you may see a growing nonprofit sector of hybrid nonprofits that serve this dual social and economic function.

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The Opportunities and Dilemmas of Technology Support Organizations

by Michael Gilbert

A DECADE AGO, I DELIVERED THE opening keynote address at the first Silicon Valley Conference on Nonprofits and Technology. During my rather nervous talk, I described a vision that differed from that of most of the presenters and with the prevailing ethos of the years to come. I said that I couldn't wait until "all of this went away": that is, when new technology and nonprofits' relationship to it would become mature and ubiquitous enough that we could focus our attention on what we do best. During my talk, I wondered aloud whether we might progress so far that we could stop holding conferences on nonprofit technology.

Of course, that day has not yet come, and of course, we continue to hold conferences on the topic. Nonprofits are still distracted from their strengths by the opportunities, challenges, and powerful frames of reference posed by technologies that have the potential to transform our work. Various factors continue to undercut nonprofit progress in the area of technology adoption: (1) technology providers continue to use anxiety and technology insecurity as sales tools; (2) in technology decisions, nonprofits abdicate leadership responsibility and hope to shortcut the matter by paying for some tools and getting it over with; (3) nonprofits don't pay for—and service providers rarely offer—communication-centered planning of technology; (4) organizations hide behind prevailing practices—sometimes falsely confused with "best practices"—without devising a method for assessing whether these practices are best suited for the organization; and (5) technology decisions often fail to reflect and build on the strengths of the organization that has made them.

How has this situation come about?[1] Technology providers rely heavily on earned income and other kinds of reinforcement from nonprofits. While these providers see the big picture, most cannot afford to lead their market. With some delightful exceptions, nonprofits prefer to shop around for technology cure-alls rather than plan for communication, and thus they abdicate responsibility for the strategic decisions involved. In essence, as a result of their own motivations and the structure of their relationship, technology service providers and nonprofits themselves together conspire to leave technology decisions in technology's terms rather than in the terms of fulfilling nonprofit missions.[2]

What nonprofits need is mindful technological change, but what they get is technological service. The distinction is critical. Change is about leadership and can come from either inside or outside the organization—and preferably both. But just as the nonprofit sector struggles with the tension between social service and social change, nonprofit technology providers struggle with the same dilemma and often provide nonprofits with the service they want rather than the change these organizations need. Who can solve this dilemma? Funders could help unlock the dynamic, but I don't think that they will. Service providers do their best, but they are hamstrung by market forces. Nonprofits pay the ultimate price for poor technology decisions, so it's up to them to take the lead. The following, sometimes idiosyncratic, guide to the technology service–provider landscape is designed to help nonprofits take control of their technology decisions.

The Service-Provider Landscape

In what follows, I've assembled a list of useful resources for nonprofits in the technology adoption process. My selection criteria are simple: I am familiar with these organizations and resources, they are in some way national in scope, and they are not primarily software providers or consulting firms. Unfortunately, this means there are major gaps in the list. It also means I have omitted some genuinely visionary organizations, such as ONE Northwest, which I believe is a model for unraveling the destructive dynamic I've described above.[3]

The Nonprofit Technology Network

(NTEN) is a membership organization for nonprofit technology professionals.[4] I am even less neutral about NTEN than I am about the rest of the field: I was a grumpy critic of the process that led to its creation and then, ironically, became its founding president. At the time, my feelings about NTEN were mixed. The central struggle was a microcosm of the struggle I have already described: Would NTEN take a leadership role with its members, or would it play it safe and provide discounts and other services that didn't rock the boat? Ultimately, the organization has chosen a smart path by leveraging service so it can pursue leadership, and especially under Executive Director Holly Ross, it's been the right approach.

NTEN has many things to offer its members: Its top-notch newsletter and weblog serve as platforms for some of the organization's more visionary members.[5] NTEN's discounts on third-party tools and services shouldn't be taken as recommendations, but if you already use some of these services, you can easily cover the cost of your membership fee. The organization's online seminar program, although delivered via a clunky, proprietary interface, covers a huge range of topics and is affordable, especially to members. NTEN partnered with TechSoup to produce the online vendor directory TechFinder.[6] Recently, the organization launched a speaker directory and an innovative peer-to-peer help desk it calls Office Hours.[7] NTEN also occasionally sponsors research, including the 2007 study of perceived impacts of technology assistance, which confirmed the rarity of planning in the sector and the earned-income pressures that drive it.

In the field, NTEN's Nonprofit Technology Conference (NTC) is easily the most important event.[8] While I wish NTC took a stronger leadership role in program development (the organization's grassroots process lends to a conference program that is heavy on tips, tricks, and the latest fads but light on vision and strategy), everyone involved in nonprofit technology should at least check out the event. You can download materials from last year's conference on the NTC Web page.

TechSoup is a project of CompuMentor, one of the oldest technology assistance agencies in the United States. TechSoup is primarily an online information resource center, with news, discussions, and a growing catalog of articles related to nonprofit information technology. Although it can fall prey to technocentrism, TechSoup is an excellent resource, especially if you have addressed strategic communication questions and are evaluating software.

TechSoup Stock is an online store that offers discounted technology products and services to tax-exempt organizations.[9] If you already know exactly what you want—whether it's hardware, hosted applications, or commercial software—the site makes sense for your organization.

When it comes to software, the TechSoup story is complicated. TechSoup's discounts for commercial software products are ample. (My understanding is that software companies donate products to CompuMentor, and nonprofits in turn pay a small fee for handling.) If you know which proprietary software product you need, I highly recommend TechSoup Stock.

But if you need software for a category of work and are open to different applications, browsing TechSoup's virtual shelves can close off options. The organization's business model may prevent it from distributing genuinely free software. Microsoft Office is prominently featured, for example, but OpenOffice is nowhere to be found. Windows is available, but Ubuntu, an open-source operating system, is missing. If you browse before you know what you need, TechSoup's approach not only restricts your options but also undermines the adoption of open-source alternatives, to which many for-profit companies as well as nonprofits can attest.

Another CompuMentor project called NetSquared has evolved into a exciting framework for competitions for technology-related funding.[10] It maintains a year-round program of blogging and affiliated local meetings called Net Tuesday, but the backbone of its work (and presumably its funding) is competitions. Past competitions, such as the N2Y3 Mashup Challenge, have been associated with a final event in the form of a conference. The organization's current competition, the 2008 USAID Development 2.0 Challenge, is entirely online.

IdealWare fills a critical gap in the nonprofit technology support ecosystem and is our sector's closest approximation to a *Consumer Reports* for software.[11] IdealWare understands how important it is to develop your organization's communication strategies and plans before selecting software, and it frames all comparisons, case studies, and news in this context. The centerpiece of its work is regular, research-based articles, but it offers blogs and online seminars as well.

I was hesitant to include my own organization, the Gilbert Center, as a resource; but without it, I believe this list would be incomplete.[12] The Gilbert Center focuses on strategic communication, technology planning, systems thinking, and network issues in civil society and targets the many technology-related issues that nonprofit organizations have given short shrift. The Gilbert Center publishes high-level publications and also offers online seminars, training, speaking engagements, direct consulting, and coaching.

The *Nonprofit Quarterly* is also a resource for nonprofit technology–related issues. You can consistently count on it to embrace systems thinking and visionary leadership, and it offers regular new online content as well as a newsletter and a weblog by Rick Cohen.

Our field offers several good peer-reviewed journals, which are sadly undervalued by what academics call "practitioners" (which is the bulk of the nonprofit sector). I'm familiar with only these seven (two of which I edit): *Community Informatics*; *Gender, Technology and Development*; *Information Technology and Social Change*; *Information Technology for Development*, *Knowledge Management for Development*; *Networks and Civil Society*, and *Technology in Counseling*.

While it would be good for mainstream nonprofit associations, communications consultants, and assistance agencies to assume greater leadership in the field of nonprofit technology, only a few have. The two main organizations that concern themselves in some way with technology and foundations are the Technology Affinity Group and Grantmakers for Effective Organizations.[13] (The Council on Foundations offers a technology track at its annual conference as well.)[14] In the rest of the sector, technology-oriented organizations are those focused on fundraising, such as the Association of Fundraising Professionals, and have taken an early interest in new technology.

No list of this kind is complete without NPower.[15] NPower is a franchised network of technical assistance agencies, seemingly modeled on the IT Resource Center, now known as Lumity. NPower has affiliates in 13 locations throughout the United States. Heavily supported by Microsoft, NPower's offerings strongly emphasize Microsoft's software. The organization also provides training, consulting, and other technology-related services and, unlike other organizations, emphasizes planning. Finally while the tool is somewhat technocentric, TechAtlas is a Web-based resource to help organizations manage their technology inventory and plans.[16]

To some extent, the Community Technology Network and the community technology centers and movement that it supports have been overlooked. These organizations focus on bringing technology access to underserved communities rather than directly to nonprofit organizations. But these objectives—and their benefits—are intertwined, which gives these organizations a valuable systems perspective.

I would also encourage you to explore Aspiration, which runs several programs uniquely related to the software needs of nonprofits.[17] Social Source Commons is a living compendium of the remarkable range of tools used by organizations around the world. The Penguin Day mini-conferences take place throughout the United States and are a great way to become familiar with free and open-source software.[18]

I want to mention two other publications. The first is Tech News.[19] Though published by the United Way of New York City, the majority of its articles are of broader utility than that might imply. The second is the *Stanford Social Innovation Review* and its affiliated opinion blog, both of which heavily favor new technology as a basis for innovation.[20]

Finally, to start browsing on your own, begin with the resources discussed here. Many of these organizations serve as portals to communities of practice via their discussion groups, directories, and events. In addition, there are myriad knowledgeable people blogging about nonprofit technology. You can also find a wealth of information by browsing on the "nptech" tag on the social bookmarking site, which alone lists more than 18,000 articles.

Being a Good Consumer of Technology Services

With this vast landscape of resources available, it would be easy to retreat to the familiar dynamic of dodging the strategic decisions in favor of technological selections. Therefore, I have three recommendations for nonprofit leaders striving to take charge of new technology and its promise.

First, invest in documenting the information and communication practices of your organization. Understand what you do well so that you can best adopt technology that suits you. Avoid the default of so-called best practices and the anxiety about adopting the latest cool thing and decide what is best for your organization.

Second, invest in strategic, communication-centered technology planning. Exploit the knowledge you've gathered about your communication methods. Accept that planning is a major part of your technology budget and may even be the single largest cost for some projects. When combined with the other "soft" investments such as training, what you consider technology costs may often be the smallest piece of the pie. Often you will find that you get more from your planning processes than you do from the technology itself.

Third, adopt a multiphase technology purchasing model. That is to say, develop your planning needs and pay for that with one vendor, and then hire another vendor (or the same vendor in a clearly separate negotiation) to provide the implementation. This model applies to internally sourced projects as well: Assemble a team to do the planning, incorporating stakeholders in addition to those who provide the technology. Then specify your requirements based on these plans. The outcome of this model is a separation of conflicts of interest and, more important, conflicts of frame of reference. This is how you can translate asking the right questions into taking the right action.

With luck, these three practices will put you in charge of your technology and, thus, your organizational infrastructure. You'll be in control not because you speak the language of technology but because you speak the language of communication, which is what that technology ultimately serves.

The field of nonprofit technology practice is leaving its youth, when decision making was characterized by anxiety and approval seeking. As the field matures, it will become more visionary, authentic, and directed from the heart of our work. With a little insight and a lot of dedication, that maturity is at hand.

Endnotes

1. Previously, I've written about these issues from several perspectives (www.gilbert.org/programs/publications).
2. NTEN, "Technology Service Providers Report Their Views on the Impact of Technology Assistance to Nonprofits" (http://nten.org/research/techimpact/research), 2007.
3. ONE Northwest Web site (www.onenw.org).
4. The Nonprofit Technology Network Web site (www.nten.org).
5. For NTEN's newsletter and blog, see www.nten.org/newsletter and http://nten.org/blog, respectively.
6. TechSoup Web site (http://techsoup.org/techfinder/index.cfm).
7. TechFinder's speaker directory (www.nten.org/members); Office Hours (www.nten.org/officehours).
8. NTEN annual conference page (http://nten.org/ntc).
9. TechSoup Stock Web site (www.techsoup.org/stock).
10. NetSquared Web site (www.netsquared.org).
11. IdealWare Web site (www.idealware.org).
12. The Gilbert Center Web site (www.gilbert.org).
13. Technology Affinity Group Web site (www.tagtech.org); Grantmakers for Effective Organizations Web site (www.geofunders.org).
14. Council on Foundations Web site (www.cof.org).
15. NPower Web site (www.npower.org).
16. TechAtlas Web site (www.webjunction.org/techatlas).
17. Aspiration Web site (www.aspirationtech.org).
18. PenguinDay.org Web site (www.penguinday.org).
19. Tech News Web site (www.technewsnyc.org).
20. *Stanford Social Innovation Review* Web site (www.ssireview.org).

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Stoking the Nonprofit Advocacy Engine

by Gita Gulati-Partee

Advocacy is a core nonprofit capacity, but unfortunately it is often marginalized. Its importance is often overshadowed by direct service and other organizational capacities such as fundraising, financial management, and governance. This is partly due to the lack of resources devoted to advocacy and advocacy capacity building. But it also stems from too much caution on the part of the nonprofit infrastructure, which has thus far been unwilling to aggressively promote, secure funding for, and even name which of its activities constitute lobbying or other forms of advocacy.

Advocacy suffers from an inadequate conceptual frame and inconsistent messages. We are mired in the same old debates about what constitutes advocacy, where the line is drawn between advocacy and civic engagement, and whether we should proudly proclaim lobbying as our constitutionally given right "to petition government" and our public-interest responsibility or should instead avoid the *L* word for fear of scaring nonprofits and funders away. To be sure, legal definitions and confusion about them complicate matters. *Advocacy* refers to action taken to influence public opinion and public policy on behalf of an issue, cause, or constituency. *Lobbying* is a legally allowable though clearly defined and regulated form of advocacy that involves stating a position on specific legislation to legislators and asking them to support that position.[1]

Infrastructure groups have not encouraged greater philanthropic support for advocacy, which could be achieved, for example, by organizing funders into an affinity group that explicitly champions nonprofit lobbying and advocacy. Indeed, they have not produced definitive data about the amount of foundation dollars that currently supports nonprofit advocacy, nor have they stated how much support *should* be devoted to advocacy. And so we continue in this chicken-and-egg spiral: because of too few resources to support advocacy capacity building, nonprofit leaders are prevented from championing advocacy and increasing financial support for this crucial work, and so on. Whether intentional or not, by marginalizing advocacy, the infrastructure has helped guard the status quo rather than lead true social and systems change.[2]

What would a strong, vibrant advocacy infrastructure look like? "It does more than train on the lobby law," says Marcia Avner, the public-policy director at the Minnesota Council of Nonprofits (MCN). "It offers multifaceted strategy development: education, lobbying, grassroots organizing, and media advocacy, plus skill building to execute the whole package effectively. And it's not only about building capacity for advocacy, it's also about *advocating proactively* on behalf of the sector, organizing the nonprofit sector to advocate for the role of government as we advocate for government to meet needs in communities."

No single infrastructure group provides this mélange of advocacy and capacity-building capabilities, as well as the coordinating and organizing function throughout the sector. As a result of too much caution and too few resources, a fuzzy conceptual frame and no unifying campaign, the infrastructure supporting nonprofit advocacy has become more decentralized.

Two national organizations offer the most explicit focus on building nonprofit capacity for policy advocacy: the Alliance for Justice (AFJ) and the Center for Lobbying in the Public Interest (CLPI). There are more than 1 million nonprofits in this country, and these two national organizations strive valiantly against the odds to meet the need for this crucial capacity building.

A recent study indicates that while almost three-quarters of responding nonprofits engaged in some kind of policy advocacy or lobbying during the previous year, the vast majority engaged in low-risk and low-engagement activities, such as signing a letter to a policy maker. Most did not engage at the federal level and devoted 2 percent or less of their budget to these activities.[3]

In 1998, CLPI was born from Independent Sector, and by 2000, it had become the nation's only independent organization devoted to advancing nonprofit lobbying. CLPI provides tools for advocacy action planning for organizations with some experience. It also provides motivation and introductory training about the lobby law and advocacy strategies to predominately apolitical, direct-service–oriented nonprofits that have begun to wade into the policy arena. Note that a recent study showed that the highest-impact nonprofits combine advocacy and service; it is not clear whether infrastructure organizations encourage advocacy organizations to develop their capacity for direct service.[4] This raises the question about whether advocacy organizations have a real connection to the constituencies they presume to represent, a question that the *Nonprofit Quarterly* has explored previously.[5]

In recognition of the critical mass of nonprofits that engage in advocacy, last year, CLPI led a national process to identify "smart and ethical principles and practices for public interest lobbying."[6]

- Public-interest lobbying must add civic value; it should involve a diverse spectrum of voices, take a broad and long-term view, and act to strengthen, not undermine, the public trust.
- Public-interest lobbying must be inclusive, engaging the community and particularly those most affected by the policy. Government of the people, by the people, and for the people works only if the people are centrally involved.
- Smart and ethical lobbying must be credible, trustworthy, and based on reliable facts, figures, and studies. That means obeying all laws and regulations, providing objective information without the intent to mislead, and keeping promises.
- Public-interest lobbying must be multi-faceted and adaptive, complemented by other advocacy tools and taking educated risks as needed. It must always seek to serve the public good.

A related outcome of this process was simply rediscovering the term *public-interest lobbying*, which might provide the antidote to the never-ending struggle between those who insist on using the term *lobbying*—even though people are turned off by it—and those who quickly default to the overly diluted and vague term *advocacy*.

An initial and ongoing challenge to CLPI's effort was, predictably, defining the *public interest*.[7] A central point is that *public interest* is more than simply a tax status, and truly serving it requires intentional choices on the part of the nonprofit, as summarized by a health-care leader in Boston:

> We act to improve the public good. The for-profit community lobbies to make a profit; there is always a self-interest. We lobby to protect the people we serve; there is no self-interest, only a public interest.
>
> That sentiment was consistently echoed across the country by large and small nonprofits, by urban and rural groups, and by those who are actively engaged in public policy and those who are not. Regardless of the accuracy, there is a presumption that the public understands that advocacy by the nonprofit sector is far different from advocacy by the business community.[8]

Like CLPI, the Alliance for Justice provides training and technical assistance on the fundamentals of lobbying, but AFJ works with predominately progressive, advocacy-oriented 501(c)(3)s as well as 501(c)(4)s and 527s. In part due to the success of AFJ's Nonprofit Advocacy Project and the Foundation Advocacy Initiative, several foundations—including the California Endowment, the Annie E. Casey Foundation, and the W.K. Kellogg Foundation—have begun to provide a leadership voice about the importance of nonprofit advocacy by educating grantees and philanthropic peers about advocacy rules and techniques. A recent *New York Times* article reported that a growing number of foundations have increased support for public-policy change. The Gates Foundation, for example, spends roughly 10 percent of the more than $1 billion it gives away each year on advocacy efforts.[9]

In a recent op-ed, CLPI President Larry Ottinger discussed the importance of advocacy in the context of the sector's decreasing resources and economic belt tightening.

> As resources dwindle and expectations increase, charities and foundations will have to be even more strategic in their work. Charities will have to figure out how to do more with less. By increasing support that can be used for grassroots organizing and direct lobbying, as well as efforts to get citizens more involved in the democratic process, nonprofit leaders can bring about change at a scale needed to empower and serve those most in need. Clearly foundations and wealthy donors will have to make ever more difficult decisions about how to invest their limited resources to produce the greatest good for the greatest number.[10]

Nonprofits know they have to *increase* their fundraising efforts when resources decline; infrastructure groups will have to work harder to convince nonprofits to internalize the same message about advocacy.

Because it has not yet joined the inner circle of organizational capacities, advocacy is often the first to get cut in tough economic times, with nonprofits focusing on their core services and other activities that aid their survival. Funders reinforce this choice through their own discomfort with advocacy and their emphasis on tangible, immediate results that do not match the reality of advocacy efforts. (Innovation Network has launched an advocacy evaluation project to help nonprofits better measure the results of their advocacy efforts and to educate funders about how progress takes shape in the policy arena.) Of course, many funders comfortably engage in the legally allowed self-defense lobbying, often at great expense, while several like the Gates Foundation have established Washington, D.C., offices with the purpose of advocating for issues critical to the foundation.

In 2006 the National Council of Nonprofit Associations—now known as the National Council of Nonprofits (NCN)—saw a hunger for nonprofit advocacy when it convened the Nonprofit Congress. During more than 100 town hall meetings across the country that culminated with a national meeting, nonprofits identified their priorities for the sector. One of the top three to emerge was advocacy and grassroots community activities, which was described as "empowering individuals and nonprofits to act collectively for positive change." Thus far, however, the nonprofit infrastructure has not been able to actualize this priority.

As a result of funding constraints a few years ago, NCN cut policy staff and shifted its focus to playing a policy reporting role, informing nonprofits about legislation and regulations affecting the nonprofit sector. Before then, NCN was CLPI's strongest partner in building nonprofit advocacy capacity, leveraging CLPI's content expertise and focus with NCN's national, state, and local reach. Fortunately, there are signs that NCN, which has a new CEO with a strong advocacy background and a close relationship to CLPI, will take on a much more proactive public-policy role. Recently, for example, NCN activated its state association network in a campaign to push for increasing the charitable mileage rate for nonprofit volunteers.

While dedicated capacity builders like CLPI and AFJ must continue to provide focused, expert training and technical assistance on nonprofit advocacy, infrastructure groups like NCN can help move advocacy to the center of nonprofit work and make advocacy, as CLPI founder Bob Smucker described it, "ordinary, not extraordinary."

These national organizations—CLPI, AFJ, and NCN—play an important role and offer needed support. And as good advocates, they have applied pressure to engage philanthropic support and other aspects of the nonprofit infrastructure to see advocacy as a shared best interest. But until the national infrastructure fully embraces and champions advocacy, this work will remain on the margins. Two national organizations cannot meet the diverse needs of nonprofits at various developmental stages advocating for a range of issues at different levels of policy making. As a result, other organizations have stepped into the gap.

Issue-focused umbrella organizations advance federal, state, and local policy change while providing training and resources to members and/or network affiliates and chapters. For example, the National Assembly on School-Based Health Care (NASBHC) represents more than 1,700 school-based health centers in 43 states to integrate school-based care into our nation's health care and education systems. Americans for the Arts trains and provides seed money to state and local district arts advocacy captains who lead advocacy initiatives at the state and local levels, respectively, and help at the federal level.

Constituency-focused advocacy organizations focus on civil rights as well as capacity building for local groups. The National Network for Immigrant and Refugee Rights, an alliance of more than 250 organizations and activists, for example, has organized regional and national campaigns, spearheaded rallies and marches, and provided training and resources to advocates on the ground. Its publication *Building Immigrant Community Power through Legislative Advocacy: A Popular Education Resource for Immigrant and Refugee Community Organizers* offers the fundamentals of nonprofit advocacy through the political and cultural lens of immigrant communities. The National Gay and Lesbian Task Force leads a robust policy agenda and also offers Power Summits to train people to build powerful state and local campaigns, organizations, and coalitions to win at the ballot box and in the legislature.

State-level infrastructure organizations include the state associations of nonprofits or state-level issue-oriented or constituency-focused umbrella groups. The quality and consistency of these efforts depend in large part on the capacity of key staffers. The policy team at the United Way of Texas, for example, brings a rare combination of sharp policy analysis and messaging, an ability to organize and mobilize a base of member organizations, and the skills and sensibility to build member capacity so that members can advocate on their own behalf and as more effective partners in state-level lobbying efforts. Marcia Avner and her colleagues at MCN remain on the cutting edge of the field by providing solid training on lobbying to nonprofits in Minnesota and around the country and by framing lobbying the legislature as one part of a year-round civic engagement strategy that also must include attention to grassroots organizing and nonpartisan voter engagement.

Civic engagement and voter participation efforts expand advocacy strategy beyond legislative cycles. MCN and other state associations have joined with the national Nonprofit Voter Engagement Network (NVEN) to build capacity for nonprofits that integrate nonpartisan, nonprofit voter participation initiatives into their work year round. NVEN works through organizations to fulfill the promise of nonprofits as vehicles for democratic participation and for the practical purpose of reaching voters, especially those with a recent history of lower participation. Robert Egger, the president of DC Central Kitchen and co-convener of the first Nonprofit Congress National Meeting, leads the V3 Campaign to provide tools for nonprofits to legally engage local and state candidates to determine their plans for the nonprofit sector.

Conclusion

Clearly, the infrastructure supporting and advancing nonprofit advocacy is at once small, diverse, and decentralized, making progress in spite of being marginalized and underresourced. In terms of nonprofits that lobby and employ other forms of advocacy effectively, that see advocacy as core to their missions and integrated into their work, and that network with others to create and advance a "public interest" that is broader than an issue or organization, the sector has nearly reached critical mass. And yet still we hear about nonprofits that continue to declare that they are not allowed to lobby; that have not leveraged online media or social networking tools to create both online advocacy and offline action; that shy away from conversations about taxes, campaign finance reform, and other cross-cutting policies that affect every nonprofit; and that compete with other nonprofits for shrinking government funds rather than work together to rebuild the social safety net, realign government funding priorities, and address root causes that perpetuate the need for direct services. While many nonprofits have become quite savvy about advocacy, others have not exploited the full spectrum of strategies to combine legislative work with true grassroots organizing (i.e., by developing local leaders to drive their own agenda rather than using short-lived mobilization efforts that serve an organizational agenda created by professional advocates).[11] And too many nonprofits confuse short-term wins and empire building with long-lasting, far-reaching social change that truly serves the public interest.

So there is work yet to do: to organize the sector in its advocacy, to build its skill in doing advocacy effectively at all levels, and to champion public-interest advocacy as a necessary activity worthy of support from individual donors and philanthropic institutions. And the nonprofit infrastructure could play a critical role in capturing and disseminating best practices, convening thought leaders, practitioners, and policy makers, and providing the connective tissue that can turn diverse and decentralized entities into a powerful force for change.

Endnotes

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7. For a complete overview of CLPI's background research, see "Smart and Ethical Principles and Practices for Public Interest Lobbying" (www.clpi.org/images/pdf/SEPP_ReportFINAL.pdf).
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The Research System: **A Public Utility on Which All Nonprofits (Should Be Able to) Depend**

by Jon Pratt

As the nonprofit sector comes of age, one of its central challenges is how to use data more effectively. Only by analyzing organizational—and sector-wide—metrics can nonprofits identify areas of improvement in performance, staffing, compensation, and other areas central to nonprofits' work.

But simply gathering more data isn't enough. The sector also suffers from inadequate funding for research and, as a result, can treat sector data as proprietary rather than an information source open to the public—a model that undercuts the value of this data as a public good. This article explores how the proprietary model has undermined data quality and inhibited avenues to make industry data available as a vital public resource.

For 25 years, data on the activities of nonprofit organizations has supported research on the sector to facilitate collaborative activity between organizations, such as public education, advocacy, and clearinghouse functions. But with major technology innovations over the past decade and the burgeoning of the sector, the necessity for nonprofits to make regular and timely use of information about their line of work has increased. The field has the opportunity to develop real-time access to current economic program performance information to provide nonprofit decision makers with access to critical data, as is the practice in private-sector industries such as steel, cereal, and apparel. To plan, strategize, and benchmark performance in their fields, nonprofit organizations must employ data on input and output, salary trends, and other areas central to their activities—instead of relying on guesswork and supposition.

In 1996, these high hopes were captured in the mission statement of the National Center for Charitable Statistics (NCCS), a program at the Urban Institute's Center on Nonprofits and Philanthropy.

> The mission of the National Center for Charitable Statistics is to encourage, collect, publish, house and/or sponsor the longitudinal collections of statistics and other quantitative information to help describe, define, and quantify the independent sector, to serve as a bridge between practitioners and scholars in the development and dissemination of knowledge to the sector, and to inform public policy decision makers.

Getting Better Data

But unlocking the information can be a hurdle, which in some ways is counterintuitive. Indeed, more information on the nonprofit sector is available in more formats than ever, but the data infrastructure is hobbled by too little funding and slow adoption of electronic reporting. These new formats don't equal broader access. In contrast to the private sector, nonprofit organizations are largely responsible for data collection and dissemination—without financial support for their efforts. The cost of an army of data-entry operators who can process hundreds of thousands of PDFs of IRS 990 returns is significant, and recovering these costs is a major headache for all data creators.

The basic set of information on nonprofits starts with the annual Internal Revenue Service Transaction files, and the Exempt Organizations IRS Master Data File. Since the early days, nonprofit data collectors have agreed on the importance of matching all organizational data with a single identification number—the IRS-assigned Employer Identification Number (EIN)—to facilitate the building, exchange, and comparison of longitudinal data sets on financially active U.S. nonprofits.

Using IRS Form 990 as the starting point has clear advantages by establishing a national filing requirement enforced by federal authorities and perjury penalties. Nevertheless, researchers have long admitted serious flaws concerning information about nonprofits based on 990 filings, including the following:

- **The data is incomplete**. Organizations with less than $25,000 in financial activity have not been required to file, and religious organizations have been exempt.
- **The data isn't timely**. Form 990 returns are due five and a half months after the end of the tax year, and three-month

Informing Practice with Research

In addition to the problems concerning nonprofit data collection and dissemination, the tools and practical applications to make this information useful have lagged.

Nonprofit organizations require several streams of information to carry out their essential functions. While most organizations' informational needs can be satisfied within their own systems such as databases, spreadsheets, correspondence, documents, and files, organizations need information to understand and make decisions about the larger operating environment in which they work. As a result, nonprofits—as well as foundations and regulators—are consumers of industry-wide data to inform eight functions: resource acquisition, resource allocation, organizational planning, governance and management, human resources, higher education, public policy, and public education.

To that end, we propose the following as a beginning framework for how nonprofit organizations—as well as researchers and policy makers—can conceptualize potential research themes that tap existing nonprofit sector databases. (See box at right.)

Sample Uses of Research on Nonprofit Organizations

1. Resource acquisition
   a. Fundraising planning
      i. Identification of revenue profile
   b. Prospect research
      i. Individual donors
         1. Mailing lists for direct-mail solicitation
         2. High–net worth donors
      ii. Foundations
      iii. Corporations
         1. Grants
         2. Marketing sponsorships
2. Resource allocation
   c. Analysis of potential grantees
3. Organizational planning
   d. Revenue forecasts
      i. Budgeting for future years
      ii. Cash-flow projections
   e. Benchmarking with other organizations
   f. Competition and counterpart analysis
   g. Gap analysis
   i. Identification of community needs and markets for services
   h. Identification of potential business partners
      i. Strategic alliances
      ii. Group-buying programs
4. Governance and management
   i. Inform current managers
   j. Enhance governance
5. Human resources
   k. Compensation
   l. Benefits
   m. Turnover
   n. Job openings
   o. Employment trends
6. Higher education
   p. Degree programs
   q. Certificate programs and other professional training
   r. Contribution to knowledge in the field
7. Public policy
   s. Context for regulation of nonprofits, information for legislators
   t. Enforcement
      i. Identification of enforcement priorities
      ii. Identification of specific enforcement targets
   u. Support lobbying with information
   v. Lists of potential participants for coalitions and so on
8. Public education
   w. Inform potential donors
      i. Aggregate information
      ii. Specific organizations
   x. Inform current and potential volunteers
      i. Aggregate information
      ii. Specific organizations
   y. Improve public understanding
      i. Aggregate information
      ii. Specific organizations

extensions are easy to get and commonly requested. Filing and entering returns by the receiving bodies can take two to four months, making scanned images of the returns for anything close to a full population of organizations available about a year after that and before data entry can begin. Compiled information on a full set of organizations may not occur until two years after the reporting period.

- **The data lacks precision**. Reporting sometimes obscures key facts, such as by conflating revenues from program service fees from private payers with most government payments.
- **Data quality is variable**. Despite lengthy IRS instructions, organizations' and auditors' reporting can be inconsistent.

But several changes on the horizon may address these issues:

- **Removal of defunct organizations**. The new 990-N requires nonfilers to file annually online to confirm their continued existence and contact information (via an "e-postcard"). In addition to providing an address, contact person, and so forth, this process requires organizations to provide a Web address (if the organization has one), and an EIN. Based on returns of the 990-Ns that are due in 2008, the early indications are that the vast majority of nonfilers are defunct.
- **New Form 990.** The newly redesigned and expanded Form 990 for 2008 (due to be filed in 2009) requires additional information, such as separating private-service fees from government payments and greater detail on governance practices.
- **Data reduction**. Some information will be reduced, resulting from changes, such as an increase in the reporting threshold for the full form to $500,000 (organizations with less than that amount can complete the shorter 990-EZ) and an increase in the salary disclosure from $50,000 to $100,000 (which makes comparing salary data among organizations difficult because salaries for many positions will no longer be reported).
- **E-filing**. Electronic form filing should reduce the time and expense of entering data in research databases. The IRS made e-filing generally mandatory for exempt organizations with more than $10 million in assets and is required beginning with returns for tax years ending in December 2006. The IRS

anticipates expanding this requirement to other organizations.

Data Gathering and Ownership

Outside the IRS, three organizations have taken on the bulk of the work to maintain the databases on nonprofit organizations:

- First established as a program of Independent Sector, the National Center for Charitable Statistics provides information on 800,000 organizations as well as access to 140 customizable data files through the NCCS Data Web, a national repository, and other NCCS online tools.
- Formed in 1994, GuideStar USA reports information on 1.7 million nonprofits, with free, basic searchable profiles of organizations, and for $1,000 a year, the premium service targets professional users, from financial firms to philanthropic foundations. In 2006, subscriptions and licensing fees provided 64 percent of GuideStar's total revenue, with the other 36 percent coming from foundation grants.
- Established in 1956, the Foundation Center maintains data on 90,000 grantmakers and 900,000 grants, which are made available through Foundation Directory Online (an annual subscription is $195 to $1,295). The organization also offers publications and materials at 345 cooperating libraries, categorized grants housed in the Philanthropy Data Factory, and a variety of publications, including benchmarking of foundation practices and studies on newer forms of giving. Of the Foundation Center's $24 million in 2006 revenue, 48 percent came from products and services, and the remainder from foundation grants.

During an era of funder enthusiasm for the breadth of scope and impact of these organizations' nascent infrastructure projects, all three organizations launched with substantial foundation support. As information was transformed by increasingly accessible computing and storage capacity, national industry information became universally available, which sparked research, associations, and advocacy activities.

While these three organizations are united by agreements of mutual cooperation, each also receives incentives (and has substantial financial pressure) to create proprietary information to recover its costs. Accessibility of data has also given birth to a small army of vendors competing for attention and resources and has generated additional databases, such as the following:

- The Economic Research Institute generates salary surveys and data on nonprofit and for-profit wage and compensation levels.
- Charity Navigator, the American Institute of Philanthropy, and the BBB Wise Giving Alliance compile analyses and ratings of nonprofits based on fundraising efficiency and other measures.
- The Center for Effective Philanthropy (CEP) conducts surveys of foundation grantees to generate individual-foundation and composite analyses of grant recipients' perspectives on foundation operations

Which information should be free, what should be collected, and who will pay for it?

The challenge of how to finance these data efforts creates distortions of access and distribution. Which information should be free, what should be collected, and who will pay for it? At the urging of one of its major donors, the Center on Nonprofits and Philanthropy raised a substantial endowment to sustain core NCCS operations. GuideStar has experimented with several earned-income models to sustain the low- and no-cost access to 990s and basic financial analyses that it offers registered users, partly by selling premium services to the financial services industry.

Other entities also generate data on the nonprofit sector. They include the Bridgespan Group, national nonprofit infrastructure organizations (such as the annual management member surveys by the Council on Foundations [COF], which focuses on larger foundations, and the Association of Small Foundations [ASF], which produces annual information on its membership of foundations with typically few or no employed staff), and for-profit consultants.

The challenge is to find funding for maintaining core databases such as GuideStar and NCCS at nominal cost and to create incentives to make other databases, such as COF's, ASF's, and CEP's, available to those other than members or contract-paying foundations.

Public Funding for Nonprofit Research and Data Collection

The dilemma of long-term funding for resources like sector data is that foundations see themselves less as sustainers and more as pioneers and adventurers that explore new ground and then move on.

For industry after industry, the U.S. departments of Commerce, Energy, Transportation, Labor, Health and Human Services, and the Small Business Administration, assume the responsibility of making data available.

To maintain the core activities for an ongoing, widely accessible base of reliable and timely information on nonprofits might cost $15 million a year, which is a modest investment given the scale, scope, and expectations of the U.S. nonprofit sector.

The rationale for this kind of funding is both complex and simple. The complexity stems from the variegated nature of the nonprofit sector itself. Unlike many industrial sectors, nonprofits are quite diverse. Nonprofits' 501(c)(3) status is broad based;

there is only a tenuous connection, for example, between Harvard University, which has a $34 billion endowment, and a surviving-on-a-shoestring tiny nonprofit that files a 990-N electronic postcard.

The simplicity stems from the emerging strength of the nonprofit sector. When industries succeed in getting the federal government to devote IRS, Labor, or Commerce attention to generating databases, the result is definitional profile and importance. By virtue of being accorded government-subsidized data collection and compilation, an industry, in essence, becomes recognized, important, and analyzed.

As this issue of the *Nonprofit Quarterly* notes, the nonprofit sector has gained heft and clout as a result of its national growth and its delivery of programs and services. Indeed, but for the sector's presence, these services might not have reached disadvantaged and disenfranchised populations so effectively. Consider the on-the-ground work of charities in the wake of September 11, Hurricane Katrina, and the Southeast Asian tsunami. Because of the growing legitimacy of the nonprofit sector and by virtue of its expanding role in U.S. society, federal funding for the nation's nonprofit infrastructure—including nonprofit database generation and use—should be encouraged. Only with new avenues of funding can sector research and data serve their ultimate purpose: providing the information necessary for organizations to succeed at their public-benefit missions.

Jon Pratt is a contributing editor at the *Nonprofit Quarterly* and the executive director of the Minnesota Council of Nonprofits.

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The Take-Away

by the editors

Dancing with Uncertainty: Keeping the Heat and Lights on in the Nonprofit Sector
by the editors
In the introduction to this issue, the editors describe a nonprofit infrastructure that aggregates knowledge and builds collective power. This piece argues that the infrastructure's circuits to transmit information need to be broadly based to prevent stagnation.

The U.S. Nonprofit Infrastructure Mapped
by David O. Renz
In our maps of the nonprofit infrastructure, we depict the complex and overlapping system of national-level support organizations that span the nonprofit sector and provide services that range from data collection to research and advocacy to technology support.

Accelerants: The Nonprofit Infrastructure on Fire
by Elizabeth Boris
Nonprofits will confront the current financial crisis with grit, creativity, and backup from a strong network of nonprofit support organizations. And this support is vital to ensure the resilience

and success of nonprofits in the best and the worst of times.

One Step Removed: The U.S. Nonprofit Sector and the World
by Geoff Mulgan
Geoff Mulgan notes that for many years U.S. nonprofits led global thinking on third-sector issues. But more recently, U.S. leadership has eroded. Despite the innovation taking place globally, many U.S. nonprofits have remained too insular. Key to ensuring continued leadership for U.S. nonprofits is the ability to collaborate beyond borders.

Nonprofits: The DNA of Democracy
by Cynthia M. Gibson
Some still believe that solving community-based problems just takes a few million dollars and five minutes with a legislator. But history has demonstrated the danger of removing nonprofits from the decision-making process. Nonprofits need to make civic engagement a top priority by boldly embracing, rather than shying away from, the right to advocate.

Nonprofits and Philanthropy: Scenario I—An Interview with Kelvin Taketa and Chris Van Bergeijk
by the editors
Kelvin Taketa and Chris Van Bergeijk of the Hawai'i Community Foundation discuss the organization's ability to effect change that exploits the skills, dedication, and competencies of nonprofit organizations.

Over the past few years, the organization has used this framework to collaborate with grantees who want to achieve big change at the local level.

Seizing the Day: Opportunity in the Wake of Crisis—An Interview with Lester Salamon
by the editors
If services like Medicare and Medicaid become lowest-unit-cost-of-services reimbursement systems, it could smother the


Seizing the Day:
Opportunity in the Wake of Crisis—
An Interview with Lester Salamon

relationships that make nonprofits distinctive. At a time of capital meltdown, the nonprofit sector needs access to capital as much as it needs revenue, which makes program-related investments and tax-exempt bonds critical tools..

Nonprofits and Philanthropy: Scenario II—An Interview with Ralph Smith
by the editors
This interview with Ralph Smith of the Annie E. Casey Foundation explores the


Nonprofits and Philanthropy: Scenario I
An Interview with Ralph Smith

evolving role of foundations in traditionally nonprofit activities. The question is, how far foundations will move into nonprofits' historical domain?

An Era of Powerful Possibility
by Margaret Wheatley
Nonprofits that focus on communities need to recognize that they are the keepers of knowledge about community engagement and development, the very asset most needed in today's volatile environment. Nonprofits and philanthropy have to get serious about doing this work together.

Obama Campaign Provides Lessons for Nonprofits
by Paul Schmitz
This article outlines five best practices as exemplified by the Obama campaign that nonprofits should emulate: (1) a consistency of brand; (2) specific measurable goals; (3) disciplined management; (4) a potent combination of online social networking and face-to-face organizing; and (5) innovation by young leaders.

The Obama campaign has earned praise from supporters and opponents alike for its record-setting fundraising and direct participation, and this article explores the lessons to be learned.

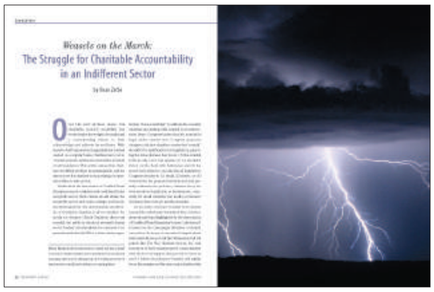
Substantial Activity: Building Nonprofit Political Heft
by Tim Delaney
How can the nonprofit sector realize its potential to influence public policy? Removing legal barriers to advocacy by charitable organizations needs to come first.

To reinvigorate the advocacy tradition, the author proposes that foundations be allowed to make grants for lobbying as well as an increase in the allowable lobbying expenditures by nonprofits. Nonprofits also need to take a cue from business lobbyists and participate in associations to influence policy and take the initiative in introducing legislation.


Substantial Activity:
Building Nonprofit Political Heft

The Dialogue Challenge: Nonprofits' Central Role in the Conversation
by James Jennings
For nonprofits, at least four critical challenges lie ahead.

First, nonprofits need to address alarming race-related inequality. Second, nonprofits must learn—as exemplified by the Obama campaign—to exploit "interethnic alliances." Third, the sector has to find true cures for the housing crisis that has further impoverished the working-class poor. And fourth, nonprofits must confront the heritage of trickle-down economics and champion the cause of the nonwealthy.


Weasels on the March:
The Struggle for Charitable Accountability
in an Indifferent Sector

Weasels on the March: The Struggle for Charitable Accountability in an Indifferent Sector
by Dean Zerbe
When is a nonprofit like a weasel? According to Dean Zerbe, the former senior counsel for the Senate Finance Committee, it's when a nonprofit abuses the public's trust. It's time, says Zerbe, to take nonprofit accountability seriously.

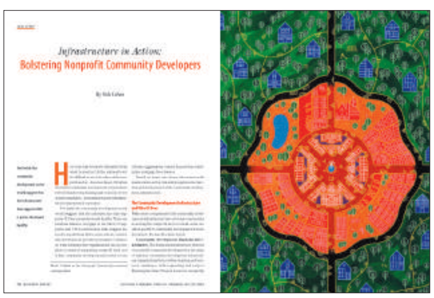
Four Futures
by Paul Light
To thrive over the coming years, what capacities do nonprofits need to cultivate? The nature of the nonprofit sector's future is up for grabs.

Will the leaders of today make choices that ensure a vigorous sector grounded in the communities it serves, or will they simply muddle through and allow nonprofits to evolve according to the dictates of the market? The author explores the forces at work in shaping tomorrow's nonprofit sector.


Four Futures

Infrastructure in Action: Bolstering Nonprofit Community Developers
by Rick Cohen
During the subprime mortgage crisis, nonprofit community development infrastructure organizations supported constituents and did the right thing. They sprang into action and played a leading role in crafting the congressional response to the mortgage crisis.

Rick Cohen argues that despite its areas of dysfunction, the community development infrastructure has admirable features that exemplify a robust sectoral support system.


Infrastructure in Action:
Bolstering Nonprofit Community Developers

Dr. Conflict
by Mark Light
When is your personal time not your personal time? Dr. Conflict explores employees' behavior in their off time, whether such behavior can damage an organization's reputation, and whether the organization has latitude to do something about it.

Watchdog Wanted: Making the Case for Internal Oversight of the Nonprofit Sector
by Scott Harshbarger and Steven Netishen
When the former head of Common Cause concludes that the nonprofit sector "has lost the public's trust in its ability to carry out its mission," you know a remedy is in store.

Coauthors Scott Harshbarger and Steven Netishen walk us through the existing mechanisms to ensure nonprofit accountability and call for greater oversight. They propose a combination of internal and external oversight mechanisms, including the creation of a nonprofit inspector general, to fill the void.

Hybrid Organizations: More Than Just a New Fuel—An Interview with Steve Dubb
by the editors
Can "hybrid" organizations—those that blend nonprofit and for-profit elements—perform and deliver better than traditional nonprofits?
While some organizations have successfully blended nonprofit and for-profit approaches to serving their communities, the author cautions that there is no one-size-fits-all approach, particularly to address issues for which there is little or no revenue generation potential.

The Opportunities and Dilemmas of Technology Support Organizations
by Michael Gilbert
Michael Gilbert provides a view of the various resources available to help nonprofits in technology decision making and offers some brass-tacks advice for organizations shopping around. The purchase itself, he warns, is but a small piece of the pie of organizational considerations.

Stoking the Nonprofit Advocacy Engine
by Gita Gulati-Partee
Lobbying by nonprofits is legal and can be critical to social progress. So why do so many organizations avoid lobbying and invest so little in the resources to lobby effectively? This article explores why so many nonprofit leaders and funders fail to acknowledge the importance of lobbying and proposes possibilities for a more vital future.

The Research System: A Public Utility on Which All Nonprofits (Should Be Able to) Depend
by Jon Pratt
What would it take to make data on nonprofits widely available, up to date, and reliable? The National Center for Charitable Statistics, the Foundation Center, and GuideStar now house databases of nonprofit IRS Form 990s.

But even with more information available than ever, each of these organizations struggles with the need to sell proprietary information to cover its costs. The solution is public funding to ensure real-time, broadly available data on the sector.

In Desperate Times, Bad News Is Good News for Fundraising
by Phil Anthrop
When the political tide shifts against nonprofits on an issue like gun control, many organizations might just succumb to changed circumstances. But Missouri Gun Control Now staged a comeback that you have to read to believe.


In Desperate Times, Bad News Is
Good News for Fundraising

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organizations used against them (such as fake grassroots campaigns on behalf of farmers defending newborn lambs from wolves, gun-owning widows that had been burglarized, grandmother-and-granddaughter moose hunting clubs, and so on), Arneson and Newborne had an idea about how to get started. They decided that they could establish their new organization online, a largely anonymous and virtually zero-cost method.

Newborne purchased a cell phone and created a P.O. box in Washington, D.C., giving the Safe Transport Coalition a 202 area code and 20036 zip code as its away-from-home base.

Arneson and Newborne created an elaborate Web site describing the Safe Transport Coalition as a large national grassroots campaign formed to defend the Second Amendment rights of gun owners carrying firearms from restrictions on travel.

Arneson called one of the Jefferson City lobbying firms that represents the NRA, Palin Ellerbe, and discussed a retainer to represent the Safe Transport Coalition and help it move as-yet undrafted legislation.

Arneson and Newborne spent a month drafting a bill called the Safe Transport Law that included vague language about the need to keep transportation systems, streets, sidewalks, public places, and private workplaces safe from hazard, including (but not limited to) sharp overhangs at eye level—with a long list of statutory references and inclusions. If anyone had taken the time to piece together the complex chain of 13 citations, it would have been clear that the proposals created a new right for any gun owner to bring any kind of firearm to any workplace, post office, child care center, counseling center, hospital, courtroom, or playground.

With newly established Gmail accounts, Arneson and Newborne wrote earnest e-mail messages on behalf of imaginative names to newspapers, blogs, discussion boards, and legislators complaining about how the Safe Transport Law hadn't gotten anywhere.

Via e-mail, blog, Web site, and robocalls to lists of gun magazine subscribers, they created buzz about the Safe Transport Coalition and convinced three other gun owners' rights groups to endorse the gun control legislation.

The trap was almost set.

Still, it was discouraging. The NRA was so well financed and had hundreds of thousands of die-hard supporters who truly believed that you could only pry their guns from their cold, dead fingers.

The number of gun deaths hadn't decreased, however. Many of Gun Control Now's most active members had lost family members to guns. More guns in more places had made the United States not a safer but instead a more dangerous place for everyone.

Each year 2,000 bills are introduced in the Missouri legislature, and getting one more introduced is no difficult task. Senator Smarts hardly needed persuading. The firm Palin Ellerbe was a trusted vehicle, and from force of habit all the players knew how, amid the rush of legislative business, to play their roles.

A Year Later

A year later, some good fortune had finally come to the gun control advocates' corner. Missouri Gun Control Now had moved into new offices, with four and a half staff and a now-healthy board-designated reserve. The firestorm over the Safe Transport Law had been horrendous—Missouri Gun Control Now's fundraising went through the roof—and embarrassed various Second Amendment advocates. As the chamber of commerce, hospital association, postal service, and child care association held a joint press conference denouncing the legislation, the press and everyone else desperately searched the audience for a representative of the Safe Transport Coalition to comment on the situation.

And when the NRA publicly alleged that the Safe Transport Coalition was an unfair ruse cooked up by its enemies, it was viewed as just one more denial in the world of Astroturf politics as usual.

At Merrick Neighborhood Center, the weekend before the new legislative session, the newly expanded Gun Control Now board and staff held its all-day Saturday planning retreat and covered the walls with ambitious plans and reframing statements. Newborne rejoined the group as the treasurer, and Arneson returned as the chair of the Committee on Public Policy. During a lasagna lunch, Arneson and Newborne got some ribbing for their return. "When the going gets easy, the easy get back on board," their colleagues joked. Newborne laughed it off by saying, "Oh, well, you know the old saying, 'Bad news is always good news in fundraising.'"

After the last Next Steps flipchart sheet had been completed, Arneson's cousin Rob (and the event's volunteer caterer) came to collect the dishes and took Arneson aside with an early copy of the Sunday *Post-Dispatch*. Rob said, "I thought you would want to see this."

Page two featured a full-page ad with a bold proposal. In neighborhoods with children, it called for house-to-house police search and seizure for unlocked guns and hunting knives of nine inches or more by the new organization Seize Missouri's Dangerous Guns and Knives Now!

Phil Anthrop is a consultant to foundations in the G8 countries.

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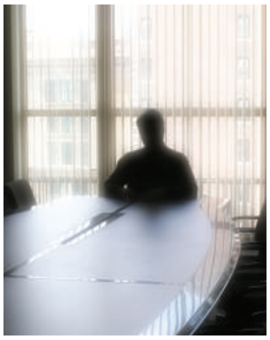

In Desperate Times, Bad News Is Good News for Fundraising

by Phil Anthrop

It began as a nonprofit's innocent venting session in a coffee shop but ultimately launched a most unusual fundraising strategy: not recommended, not approved, not ethical. But at the same time, it was, well, effective.

Once again Jenny Arneson could see that Missouri Gun Control Now had entered its fourth financial crisis since she had joined the board, with decreasing contributions and two staff positions that had hemorrhaged the organization's budget. And the looming recession had hit concurrently with a lull in incoming funds and reduced public interest in the issue. Arneson and Brent Newborne, the board treasurer, had to ask the big questions: "Should we go back to operating as an all-volunteer organization? To get Gun Control Now back on its feet, can we realistically rebuild the donor base?"

They always knew it would be a struggle, but something inside Arneson and Newborne snapped when they read articles exposing the well-financed National Rifle Association (NRA) for having hired private detectives to infiltrate a Pennsylvania gun-control organization and for subsequently placing an agent on the organization's board and public-policy committee for 10 years.

When Arneson met Newborne at the Driftwood Espresso coffee shop to review finances, she told him, "This isn't civil society; this is war. They have no ethics or compunction about lying, while we are transparent and weak," she railed. "Their money and numbers beat us every time—that's why we lost on the conceal-and-carry law. That's why we lost on the silencer bill."

"We shoot ourselves in the foot," Newborne replied. "We're held back because we're small, underfunded, and maybe overly principled."

As Arneson met Newborne at the Driftwood Espresso coffee shop to review finances, she told him, "This isn't civil society; this is war."

"You mean our board is more concerned about being ethical than being effective?" Arneson asked.

"I mean that the way things are going, we're going to be sustainably broke for the next five years, and the NRA and their phony front groups will walk all over us," Newborne replied. "But even if Gun Control Now is ineffectual, at least we can tell our grandchildren we raised important issues and stood our moral high ground. That sucks."

Both sat silently for several minutes. Then Arneson leaned forward and said quietly, "You know, there could be a way to mess with the NRA and get our donor base jazzed. Somehow get a new red-meat gun group started, get an obscure but outrageous bill introduced, make it our number-one issue, and take it all the way to the bank," she mused.

Newborne laughed. "That would be wrong, of course, and our board could never know about it, but how about protecting the Right to Transport Assault Weapons through Playgrounds Act?"

"Or the Parental Discipline Taser Freedom Act," Arneson countered. "I'm sure Representative Smarts would like that one."

"OK, so the group that wants to be able to carry assault weapons through playgrounds because it is an infringement to have to walk around a park could be called the Safe Transport Coalition."

From Humble Beginnings

That's how it started. By definition a conspiracy requires more than one person; but generally, the fewer the better. Arneson and Newborne decided to keep the closely held secret to two. After the staff at Missouri Gun Control Now was laid off, Arneson and Newborne separately left the board but promised to return as soon as they could.

Having seen all varieties of Astroturf

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