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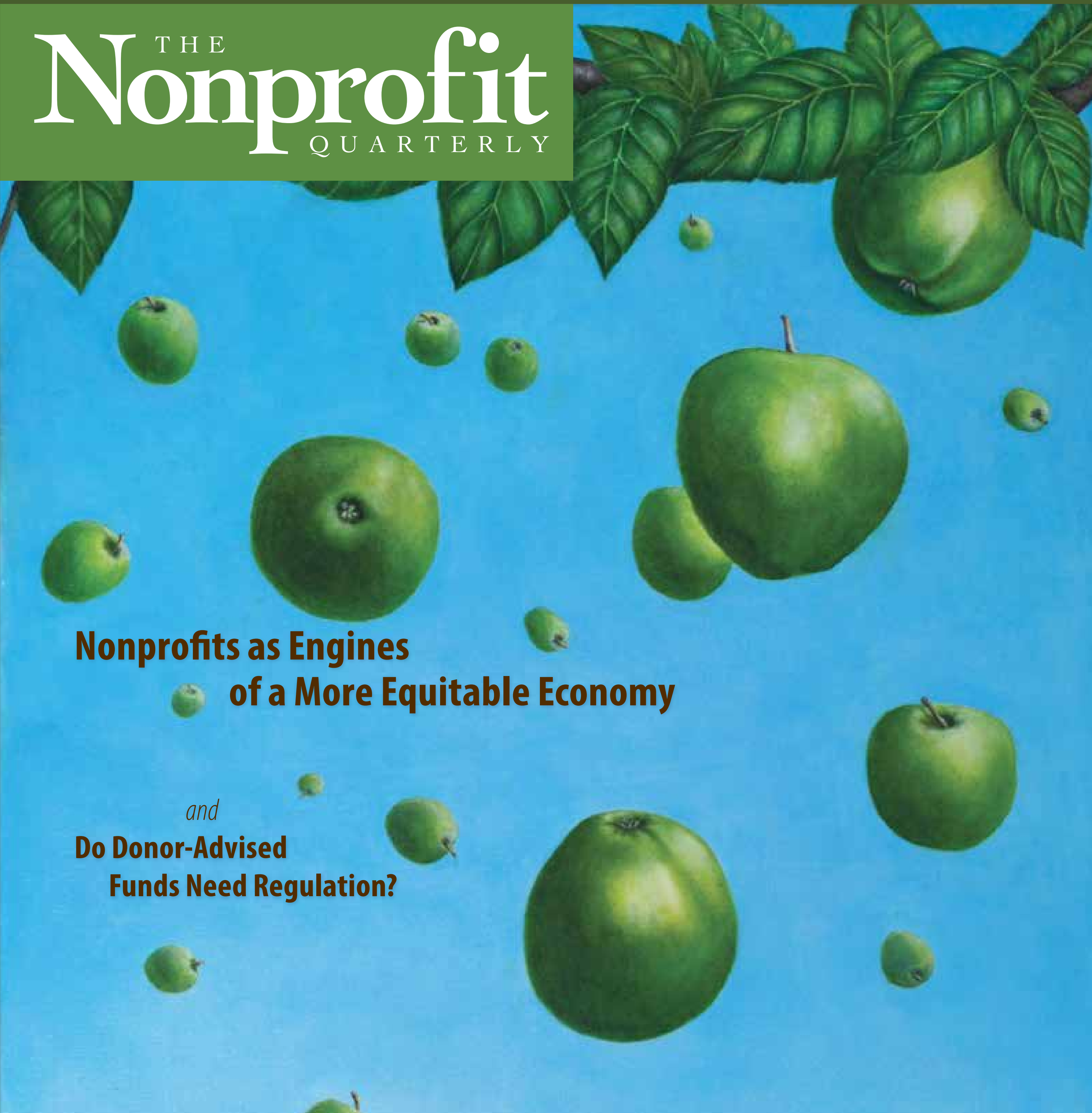
THE Nonprofit QUARTERLY



Nonprofits as Engines of a More Equitable Economy

and

Do Donor-Advised Funds Need Regulation?

Rushkoff, Yakini, Dubb, and Kerlin *on* **Building Community Wealth**

Madoff, Zerbe, and McCambridge *on* **Tensions around DAFs**

Also:

Understanding Nonprofit Markets

Ethical Leadership in Divided Times

SPECIAL REPORT: **Effects in the Sector of the IRS's Nonprofit Automatic Revocations**

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Welcome

Dear readers,

This edition of the *Nonprofit Quarterly* focuses on advancing two conversations that the editors saw as being "stuck." But when we talk about stuck conversations, we are not simply addressing polarized communications but also conversations avoided or badly framed. The two topics we have taken up here are (1) ideas around community wealth building, and ways in which social enterprise might really matter to the economy (and what, in our understanding of it, is holding it back); and (2) questions around whether donor-advised funds, which make up an ever-expanding portion of the charitable giving sector, are in need of regulatory attention—and if so, what kind.

In both cases, the conversations have gone off track and are stalled. With respect to social enterprise, any thought of extractive capitalism as not being the natural way of things sends the dominant culture into a panic. So, what we have done in this country is to infantilize the movement for a pluralistic economy, treating it as if it has no way forward except as a collection of boutique-type efforts to be cooed over. This is true even as a movement to encourage worker-owned business structures has taken root across the country and as land trusts are being used in increasingly creative ways. Peter Senge, who popularized the idea of the learning organization, once commented that one of the reasons why that concept did not take off more in the corporate sector was that it challenges some of the most central notions of power and pay and intelligence, and this has erected a natural obstructive wall. Thus, the problem with spreading the concept of an alternative economy may have everything to do with a relatively hostile larger economic culture that drowns out any sense of promise. This, then, requires a clearer explication of that promise and of the central proposition of the difference social enterprise can make to community wealth.

In the case of DAFs (which have been in relatively wide use for at least thirty years), any arguments about the need for regulation are stalled by the fact that there is a veil that obscures from public scrutiny what is happening in individual funds, even after the donors are given tax breaks—which is at least a part of the allure for donors. So, we can see the basics about the donor-advised sponsor—what its payout rate is, for instance—but not about the individual funds. Some will see the lack of bad news as good news, of course, but others see at least the potential for abuse in the hazy depths of these funds. There have been any number of problems with this conversation, including the fact that those having it have tended to attribute bad motives to the other side, and that this sector appears to be stuck in a preventive mode from having conversations about potential regulations—and that mode is defensive.

As ever, we welcome your input!

The Nonprofit Whisperer

Matching the number of grant writers to the amount of funds an organization wishes to raise may sound logical, but it's not the way to go. Rather, a grant writer's work should be well integrated into the organization's fundraising goals, which should be developed based on past results and supported by sound fund development plans and financial management practices—in other words, by a healthy culture of philanthropy.

DEAR NONPROFIT WHISPERER,

Is there a rule of thumb or some such guideline for how many grant staff members are needed to raise a certain dollar level of just grants? I am the only person managing, writing, researching, and submitting grants, yet I'm expected to raise a certain amount (which I have never achieved, and which gets larger every year).

What kind of staffing is needed? For example, one staff member for every $100,000 received in grants? Or, ten for every million?

Frayed

Dear Frayed,

Oh my gosh! You cannot measure grant work in such a linear way. Seasoned development folk know that the time spent on writing a grant sometimes seems in direct contradiction to the amount of money on possible offer. Thus, it is possible for a $10,000 grant request to be more time intensive than a $100,000 grant request.

And neither ask is likely to be very cost effective if you (or your organization) have not already struck up a relationship with the source. The Whisperer tries never to send out a grant request without having a conversation with a decision maker ahead of time, even if that takes asking someone who has been effective with that organization to introduce me. And, actually, if you are not the executive director, that too may be hard—because, after all, many grantmakers still wish to craft that relationship with the human in charge, unless the organization has established a tradition of multiple high-level representatives.

From your letter, it sounds as if you might be working in some isolation (asked to sit in a corner and write grants). I hope you are more integrated into the whole organization, and minimally able to meet with program staff and the organization's constituents to get a real sense of the work on the ground. Your grant writing will be more authentic as a result. But to get to a sort of fundraising *flow*, you have to go yet one step further;[1] *NPQ* has recently published and provided webinars on the need to build a culture of philanthropy in nonprofits.[2]

A culture of philanthropy means that fundraising is not seen as an evil necessity but rather as an integrated way of life for the entire organization. Each person, from the board chair to the receptionist, has a role in the philanthropic life of the organization—not necessarily asking for money directly, but in understanding that resourcing the mission is as important as ensuring good strategy.

Within the context of a culture of philanthropy and a fund development plan, some organizations will employ grant requests to aligned foundations and government, corporate, and religious giving programs. The goal for the grants portion should be based on research done by first understanding the cost of business by program area for the organization and then projecting that cost at least one year (ideally three years) forward, and developing a plan for resourcing the costs. The grant-writing goal is further established by researching the usual and unusual grant-giving suspects for your field or in your geography, and identifying likely and possible grants within realistic ranges. And, hopefully, your organization is not asking you to "spray and pray"—sending out multiple proposals to multiple sources without benefit of researching whether or not there is a true match. Over-the-transom requests, where there has been no personal contact of any type (like a call to ensure a request might be considered) are the least likely to be funded.

We hope, for your sake, that your work is integrated with fundraising goals for each type of fundraising technique your organization uses: individual gifts, grants, events, and so forth. The goals should be developed based on past results—in your case, in grant writing—and within the context of an overarching fund development plan that board members and other staff have been a part of creating. The fund development plan needs to be nested in organizational values, vision, and current and near-term strategies. And, it should be supported by sound financial management practices, including the ability of the organization to accurately forecast budgets beyond the current fiscal year—a critical need for the fundraising folks.

Many organizations write grants to raise money for their current financial year. Ideally, though, you are writing grants for the *projected year*—meaning, raising grant funds that will be used six to twelve months from the time the proposal is submitted. The planning process should include the organization's management team, who help keep future programming strategically aligned with future resources—and your research should be supporting the latter part of the budget plan by establishing a *realistic* goal for all fundraising (including grants), with maybe a 5 percent increase over the previous year. (So, if you typically raise $300,000 via grant requests, the increase is to $315,000.) The final piece is internal capacity: there may be $500,000 in potential gifts sitting out there, but if there is not enough "labor power" or leadership attention to organize yourself and other staff and board members to execute it, then the goal must be reduced to match staff and/or organizational capacity.

Of course, the plan will not be static and must include contingencies and time to manage new opportunities or a change in fortune and to begin the strategy-plan-request-"get"-implementation-report loop all over again simultaneously. A kind of *planned flexibility* is required to be able to forecast change and manage surprises. These might include: a new resource that appears on the horizon; a new board president who has connections to those very-hard-to-access donor-advised funds; a foundation that changes strategy and is no longer aligned; a change in the political landscape that decreases current contracts or opens up new sources; a recession that hits and is a predictor for decreasing grants; and so forth.

If you are working for the type of organization that sidelines fundraising and puts "Baby in a corner," or if you are working without a plan, simply churning out grants against a goal that does not seem based on a reasonable triangulation of data (again, an established cost of doing business, researched future sources of grants, and internal capacity to reach those sources), then consider looking at some other organizations that might align with your personal mission and have their act more together as regards their culture of philanthropy. Fund development staff, including grant writers, are in high demand, and you shouldn't feel stuck in a less-than-ideal situation.

Notes

1. I mean "flow" in the positive psychology sense of the word. See "Flow (psychology)," *Wikipedia*, updated April 13, 2018, en.wikipedia.org/wiki/Flow_(psychology).
2. See, for example, "Fundraising Bright Spots: The Secrets of Successful Fundraising from Individuals," *NPQ* webinar, April 18, 2017, nonprofitquarterly.org/2017/04/18/bright-spots-fundraising-secrets/.

The Nonprofit Whisperer has over thirty years of experience in the nonprofit sector, serving variously as nonprofit staff and board member, foundation staff member, and nonprofit management consultant.

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Rethinking *the* Economy *and* Our Role within It

As the articles in this section stress, the economic system as we know it needs a profound reboot. And the nonprofit sector—whose mission is largely (if erroneously) seen as plugging the holes and filling in the gaps left by inadequate government and for-profit services—needs to focus on changing systems to help make possible an equitable economy.

The word *economy* derives from the Greek word *oikos*, which, roughly translated, means managing the household. Ultimately, no matter how technical economics may seem, the decisions about how we structure our economy and our policies are decisions about how we as a community manage our common home. And if the economic system that we have known all of our lives is faltering and failing to meet social needs, that will affect us all.

The idea that the economic system as we know it needs a reboot, is one that permeates the articles that follow. Steve Dubb, a senior editor at the *Nonprofit Quarterly*, notes that labor unions played a critical role in the post–World War II economic system in the United States and in the rest of the so-called "developed" world. For many decades, labor unions were able to serve as a countervailing force to business, helping to ensure the broad sharing of wealth generated from our common economic home. But labor has shrunk to a sliver of its former self. While nonprofits have grown in scope and scale to fill some of the gap, more and more "the duct tape is not holding," Dubb remarks. Noting the increasing concentration of wealth and income in our economy, he suggests that one way out of the dilemma may be through greater community ownership in the economy, including nonprofit social enterprise—changing who owns the profits generated by business. As for nonprofits, Dubb proposes that in an economy

"WATCHING" (DETAIL) BY KEITH POINTING/WWW.SAATCHIART.COM/ACCOUNT/PROFILE/970048

and polity that is fragile and where systems are increasingly unstable, nonprofits need to focus less on plugging holes and filling gaps and more on changing systems to help make possible a transition to a more equitable economy.

For her part, Janelle Kerlin, an associate professor at the Andrew Young School of Policy Studies at Georgia State University, examines both the U.S. and European experiences of social enterprise, with an eye toward identifying how these divergent experiences of the interaction of nonprofits and the economy help us respond to a period of increased systemic instability. In the United States, Kerlin notes, two schools of thought predominate—one that focuses on earned-income activities that generate commercial revenues for social goals, and another that places greater emphasis on the innovative social entrepreneur, "with the social enterprise as the vehicle through which a social innovation is delivered with or without a commercial base." In Europe, by contrast, much more emphasis is placed on social criteria, such as having participatory, stakeholder-based governance. A notable difference, too, is that in the United States, cooperatives are largely excluded from the discussion of social enterprise; by contrast, in Europe cooperatives—or what are sometimes called "social cooperatives"—are the most typical form of social enterprise. What becomes clear in Kerlin's analysis is that the effort within social enterprise to more effectively address social problems through business intervention is part of a broader journey, as she puts it, "to find a more sustainable answer to the problems of society."

This section also includes two interviews with field leaders. One is with Douglas Rushkoff, author of more than a dozen books on media, technology, and society. Rushkoff calls on nonprofits to think of their role not as charities but rather as businesses: "Nonprofits are businesses. Nonprofits are a better model for doing business than for-profit companies. The only difference between a nonprofit company and a for-profit company is that a nonprofit company can't be sold," Rushkoff says. In particular, he emphasizes that the current economic model, while generating considerable wealth, is also resource-intensive. And, because our economic system relies on continuous growth, it is increasingly resource-intensive over time. Science-fiction fantasies aside, developing our common economic home, limited by the resources of a single planet, requires an economy structured around forms of business ownership—like nonprofits and cooperatives that share wealth—alongside democratic, stakeholder-governed commons management systems.

The second interview is with Malik Yakini, who situates the search for a more democratic economy in the history of the movements for Black liberation and food justice in Detroit. Yakini came of age politically shortly after the 1967 urban rebellion in Detroit. His work has been grounded in many local projects—ranging from participating in a free breakfast program in nearby Ypsilanti while in college to creating a school informed by an Afrocentric curriculum to developing a seven-acre urban farm to now helping create a food co-op and commons space in Detroit's North End neighborhood. But Yakini emphasizes the need for that work to be informed by a "vision of where we are headed, and align our work with that." He adds that to rebuild our economic home, we must challenge both capitalist exploitation and white supremacy, which are intertwined. A democratic society, he contends, requires embedding the economy in "a universal, respectful, inclusive approach to spirituality that recognizes . . . the connection we have to each other and to the planet."

Of course, while we can recognize that old assumptions regarding the stability of our economic system and many other social systems no longer hold, we do not know any more than our readers do where our path of social and economic change will take us. Much of the *Nonprofit Quarterly*'s coverage of the economy—whether critiquing current mainstream practices (such as the mad scrum to "win" Amazon's multicity competition) or highlighting promising emergent practices—is part and parcel of a broader civil and social exploration of better paths forward. Readers' thoughts on how our community can meet this challenge are welcome—and submissions on the many topics that are arising within this emerging field are highly encouraged.

The Economy Is Changing— And So Must We

by Steve Dubb

Since fall 2017, the Nonprofit Quarterly has covered a growing number of stories on emergent forms of economic organization. This includes writing on employee ownership, cooperatives, social enterprise, community development finance, anchor institutions, the growth of nonprofit-owned businesses, and the rise of community land trusts. We've run features on a union-co-op conference in Cincinnati; on the use of employee ownership as a business succession strategy as the baby boom generation retires; and on the rise of platform cooperatives—that is, app-based platforms that are co-owned by the workers, in lieu of the investor-owned Ubers of the world.[1]

In their own right, these are important stories, but there is something deeper going on here, too. A few years ago, Clara Miller, then president (now president emerita) of the F.B. Heron Foundation, wrote a paper titled "The World Has Changed and So Must We."[2] Miller was talking about capital markets and the need for a mission-based approach to investing foundation assets. But what about us? In other words, what is the role of civil society—the people who our sector represents, independent of our legal form—in a world where the economic ground beneath us is shifting rapidly?

In our sector, nonprofits typically act to mend problems. The basic assumption behind this is that the system, despite major problems here and there, is more or less functional, and our role is to come up with clever solutions—be good social entrepreneurs, if you will—to plug the holes and fill in the gaps.

But it is increasingly evident that these basic assumptions don't remotely describe the world in which we operate. Last December, *NPQ*'s Cyndi Suarez wrote:

> "Places like Puerto Rico that are experiencing full-scale collapse are simply at the edge, experiencing it first. In Dmitry Orlov's *The Five Stages of Collapse: Survivors' Toolkit*, he proposes that current civilization has entered the collapse phase where, rather than long-term decline, we have sudden changes caused by systems out of control. Perhaps these moments are the new high-leverage points in systems change; when systems are collapsing, there is a vacuum and a battle for the new order."[3]

Steve Dubb is a senior editor at *NPQ*. Dubb has worked with cooperatives and nonprofits for over two decades, including twelve years at The Democracy Collaborative and three years as executive director of NASCO (North American Students of Cooperation). He is the lead author of *Building Wealth: The Asset-Based Approach to Solving Social and Economic Problems* (Aspen, 2005), coauthor of *The Road Half Traveled: University Engagement at a Crossroads* (MSU Press, 2012), and curator and author of *Conversations on Community Wealth Building* (Democracy Collaborative, 2016), a collection of interviews of community builders conducted over the previous decade.

"WATCHING" (DETAIL; AND P. 19) BY KEITH POINTING/WWW.SAATCHIART.COM/ACCOUNT/PROFILE/970048

Before talking about the contemporary process of corruption, decay, or collapse, it is important to start out with the obvious: that for all of our society's accomplishments, for many the United States has never been the shining "city upon a hill" that leaders dating back to colonial Massachusetts governor John Winthrop have envisioned.

So, if the current political and economic systems in the United States are corrupt, decaying, or even collapsing, then plugging holes and filling in gaps—no matter how well we are guided by sophisticated logic models showing the wisdom of our interventions—will fail. This means that those stories about so-called alternative forms of economic organization may be more than "feel-good" narratives of community self-determination;[4] in fact, they may be glimpses of another world emerging. In short, if our economic, political, and social systems are changing before our eyes, then community-based economics stops being a nice-to-have and starts becoming a must-have.

How Did We Get Here?

Before talking about the contemporary process of corruption, decay, or collapse, it is important to start out with the obvious: that for all of our society's accomplishments, for many the United States has never been the shining "city upon a hill" that leaders dating back to colonial Massachusetts governor John Winthrop have envisioned. The "American project" has always been an imperial one. Noting the country's history of genocide against Native Americans, Yale historian Paul Kennedy, for example, remarked, "From the time the first settlers arrived in Virginia from England and started moving westward, this was an imperial nation, a conquering nation."[5] And, of course, the nation was also built on the sweat and tears of Black slave labor. Another Yale historian, David Blight, points out, "Slaves by 1860 were worth approximately $3.5 billion. That was the largest single asset in the entire U.S. economy. That was worth more than all railroads, more than all manufacturing, all other assets combined."[6] As Ta-Nehisi Coates and others have demonstrated, the impact of slavery, Jim Crow, and ongoing discrimination has ensured the persistence of vast race-based gaps in income and, especially, wealth. And, without enumerating them all, the United States has been riven by many forms of inequality—among them, patriarchy, discrimination against Latinx and Asian Americans, homophobia, transphobia, and class divisions—throughout its history.

In short, there is no sense in idealizing the past. And yet, even with all of its shortcomings, the nation's political-economic institutional structures were somewhat functional—for some—for a time. The result was that wages broadly kept pace with productivity. But that world hasn't existed for a good four decades now, even though some often pretend that it still does.

To greatly simplify history, for the past nearly three-quarters of a century, the existing U.S. institutional structure has been based on a series of compromises that emerged out of the Great Depression and World War II. One can call this infrastructure many different things—common names include the New Deal institutional infrastructure, American liberalism, and the welfare state. Similar structures, with generally more generous social benefits, emerged at roughly the same time in Canada, Europe, and Japan—often under the guise of social democracy. But call it what you will, two critical elements of the economic model that emerged after World War II were the following:

- A relatively strong central (federal) government, funded by relatively high taxes and growing welfare state protections—especially Social Security, Medicare, and Medicaid, but also many other benefits, such as subsidized student loans, job training support, food stamps, and welfare
- A relatively strong labor movement that could effectively pressure corporations for higher wages and benefits, and lobby government for greater social benefits

Note that nonprofits do not appear above; this is because *initially* nonprofits were not major players. Broadly speaking, if one looks at the economics of the period spanning from 1945 to the present, it is clear that the United States has experienced two markedly different periods within the past seventy-plus years. The first era—the one that coincided with a relatively strong labor movement—was marked by a relative degree of economic equality; this began to shift, however, in the 1970s, and the period of 1980 to the present has been marked by rapidly rising inequality.

In 1945, 35.4 percent of private sector, nonagricultural workers were in unions.[7] According to the U.S. Department of Labor, figures for 2017 reflect that the number in the private sector is a paltry 6.5 percent. Only the continued strong (34.4 percent) presence of unions among public sector workers keeps the overall union membership rate in double digits (barely), at 10.7 percent.[8]

The economic contrast between these two periods is quite clear. As Jared Bernstein, who served for a time as the chief economist and economic adviser for Vice President Joe Biden, testified to Congress, "Over the three decades from 1947–79, real median family income grew almost in lock step with productivity growth."[9] Bernstein added that while between 1947 and 1979 the top 1 percent of Americans saw a 119 percent increase in real income, the median household also saw incomes climb a similar 112 percent.[10] Disaggregating by race, median income for Black families (adjusted to 2011 dollars) rose from $14,216 to $32,537 between 1947 and 1969, a 128 percent increase, and faster than white incomes rose. In 1949, Black median income was 51.1 percent of white income; by 1969, the ratio had improved to 61.3 percent.[11] (In the 1970s, Black income growth slowed as deindustrialization hit Black workers first and harder than white workers, at least initially.)[12]

By contrast, between 1979 and 2010, the top 1 percent of Americans saw their real incomes rise by 80 percent, while the median income increased only 11 percent.[13] Meanwhile, the ratio of Black income to white income has been stuck at 61 percent.[14] Because overall income growth has slowed, median Black household income since 1969 has risen only to $39,715, a much more modest 22 percent.[15] To reiterate, over a span of twenty years (1949 to 1969), Black incomes increased by 128 percent, compared to a much more modest gain of 22 percent in the forty-year "post-civil rights movement" period that followed.[16]

As labor unions receded—and as economic inequality increased—nonprofits have grown. Colin Burke, writing in the *Nonprofit and Voluntary Sector Quarterly*, finds that in 1945, nonprofits contributed a rather paltry 0.9 percent of gross domestic product (GDP). By 1980, that number had gradually climbed to 2.9 percent of GDP.[17] Today, nonprofits generate 5.4 percent of GDP.[18]

Moreover, it is worth noting that the GDP figures understate the importance of the nonprofit sector. For example, in 2013 the nonprofit contribution to GDP was $905.9 billion, while nonprofit revenues were nearly twice as high, at $1.73 trillion.[19] As a percentage of employment, nonprofits employ an estimated 10.2 percent of the workforce.[20] The difference between nonprofit revenues and their contribution to GDP derives from the need to avoid double counting. It gets complicated—but, to give one example that might illustrate the complexities: if government pays for insurance that individuals use to purchase services (for example, Medicare or Medicaid), that counts as a nonprofit contribution to GDP; and, if government pays for a government employee's insurance to use the same nonprofit hospital, that counts as a government contribution to GDP.

Between 1979 and 2010, the top 1 percent of Americans saw their real incomes rise by 80 percent, while the median income increased only 11 percent.

It would be remiss not to point out the obvious—namely, that healthcare is a major driver of nonprofit sector growth. The Urban Institute estimates that 49.8 percent of all nonprofit revenues are from hospitals, and 59.1 percent are in nonprofit healthcare, broadly defined (including nursing homes and clinics).[21] According to the 2016 *Nonprofit Almanac*, healthcare under that broader definition generates 76 percent of commercial nonprofit revenue—that is, the number that feeds into GDP.[22] Still, the growth of the nonprofit sector has been remarkable. Even if you wanted to assume—incorrectly, of course—that health played no role at all in the nonprofit sector in 1945, and subtracted all healthcare nonprofit income from today's numbers, nonprofits still would have outpaced overall economic growth in the postwar period by at least 50 percent. More reasonable assumptions would likely show that the nonprofits' share of GDP outside of healthcare has doubled.[23]

And, of course, GDP numbers fail to consider the nearly $800 billion gap between nonprofit total revenue—this latter figure includes donor contributions and government and business contracts, as well as commercial revenue—and direct nonprofit contribution to GDP.[24] Of course, many of these noncommercial sources of revenue speak to shifts of service responsibility from government to nonprofits. Data for total nonprofit revenue can't be tracked as far as GDP numbers, but a 2008 IRS study found that nonprofit sector revenue, adjusted for inflation, increased by 174 percent

The United States would be a much colder, harsher place were it not for the intervening role of nonprofits in the wake of government cuts. But even as nonprofits win battles, the war has often been a losing one as wealth and income inequality reach record highs.

from 1985 to 2004, far outpacing GDP growth of 58 percent during the same period.[25]

What has caused the growth in the nonprofit sector, in short, is *not* an increase in generosity. Indeed, Burke shows that total U.S. voluntary giving relative to national income was three times as high in the 1940s as in the 1990s. And even as a percentage of personal income, U.S. giving peaked at a little over 2.5 percent of income in the early 1960s before dropping back down to 2 percent, where our sector has seemed stuck ever since, be what the tax laws may be.[26]

The main driver of nonprofit growth, in fact, has been government funding. At first gradually, then more rapidly (as one of the critical elements of the initial post-World War II model—namely, strong labor unions—eroded), nonprofits have filled the gap. Indeed, the pace of nonprofit sector growth (sixfold, relative to GDP) is almost a mirror image of the decrease of private sector unions, which have declined more than 80 percent, relative to the size of the nation's workforce.[27]

Of course, correlation is not causation. But as unions and the politicians that they had backed saw their power decline, they often still had enough power to shift government services to the nonprofit sector when the government cut back on service provisions. Healthcare is the most obvious area, but hardly the only one. Such a shift was bipartisan in nature, as Democrats could claim victory for preserving social programs while Republicans could claim victory for limiting the role of government.

An example of this process at work is the growth of the neighborhood-based nonprofit community development corporation (CDC). The first CDC formed in 1966;[28] forty years later, approximately forty-six hundred CDCs exist in cities, suburbs, and rural communities across the country.[29] Back at the start of the millennium, the late Louis Winnick, formerly of the Institute of Public Administration, perhaps too gleefully wrote in a *Public Interest* journal article that the "meteoric growth of CDCs and related grassroots initiatives owes much to their appeal across the political spectrum."[30] He continued:

> The anti-statist Right saluted community development as a proxy for government, which might shield the succored poor from the dead hand of bureaucracy. . . . On the opposite end of the ideological spectrum, radical activists envisioned community-based organizations as weapons of political empowerment, instruments to liberate the poor from chronic neglect.[31]

It is probably not necessary to observe here that nonprofits have been a continuing source of innovation, and that the United States would be a much colder, harsher place were it not for the intervening role of nonprofits in the wake of government cuts. But even as nonprofits win battles, the war has often been a losing one as wealth and income inequality reach record highs.

And it's not just about money or who controls the wealth—it's fundamentally about how people live. As James "Gus" Speth found in 2011—basing his analysis primarily on data culled from the Organization for Economic Cooperation and Development (OECD), which ranks the status of the group's generally wealthy member nations in manifold issue areas—the United States has the following:

- The highest poverty rate, both generally and for children;
- The greatest inequality of incomes;
- The lowest government spending as a percentage of GDP on social programs for the disadvantaged;
- The lowest number of paid holiday, annual and maternity leaves;
- The lowest score on the UN's index of "material well-being of children";
- The worst score on the UN's gender inequality index;
- The lowest social mobility;
- The highest public and private expenditure on health care as a portion of GDP, yet accompanied by the highest:
  - Infant mortality rate
  - Prevalence of mental health problems
  - Obesity rate
  - Portion of people going without health care due to cost
  - Low birth weight children per capita (except for Japan)

- Consumption of anti-depressants per capita

- The shortest life expectancy at birth (except for Denmark and Portugal);
- The highest carbon dioxide emissions and water consumption per capita.[32]

And there is more—for Speth's complete list of woes is even longer. Of course, the United States does better in some areas, and has a respectable ranking (tied for tenth) on the overall United Nations Human Development Index.[33] Nonetheless, the growing signs of a fraying of the U.S. economy, polity, and society as a whole have never been more obvious. Since promoting a flourishing civil society could be thought of as our sector's raison d'être, these trends require a nonprofit sector response.

And yet nonprofits cannot do it alone. I once asked a United Way staff member about the organization's goal to end poverty, and whether that was something the United Way could reasonably hope to achieve. The woman replied that when she had first heard that her organization had set a (then more modest) goal to cut poverty in half, she had said under her breath, "If that is possible, it should have already been done."[34]

Her considered response touches on something that I think in our hearts we already know: we are not going to program our way out of poverty. She added that while nonprofits—using the best data and methods—can play an essential role, ending poverty would take "multiple sectors . . . a social movement, the people who are in poverty playing a part."

What Is the Extent of Our Nation's Economic Hole?

In short, even though nonprofits are growing, economic inequality is growing faster. Overall, government figures show that labor's share of income in the U.S. economy has fallen by six percentage points in the past four decades.[35] Since total personal income in the U.S. economy is over $16 trillion, this decline means that employees receive about $1 trillion a year *less* than they would have received had labor's share of income in the growing economy remained constant.[36] Put another way, since there are a little over 125 million households in the United States, having a trillion more dollars in those households would work out to every family having an additional $8,000.[37]

And if we break the numbers down by income group, for most that trillion-dollar number climbs even higher. Because wages of workers at the very top (the 1 percent, if you will) have seen their earnings climb even as labor's total share of total income has fallen, economist Olivier Giovannoni found that the share of income going to the bottom 99 percent of the U.S. population "has fallen 15 [percentage] points since 1980," an amount that he calculates to result in a $1.8 trillion shift in income.[38] That is more than the annual revenue of the entire nonprofit sector.[39]

Then there is the nation's ever-increasing wealth inequality. According to *Forbes* magazine, the four hundred wealthiest Americans in the United States have net assets of $2.7 trillion, an amount that works out to $6.75 billion each.[40] This is more than the combined net worth of the bottom three-fifths of the United States' population, who, according to data culled from the Federal Reserve 2016 triennial Survey of Consumer Finances, collectively have about 1.9 percent of the nation's net worth. And given the Federal Reserve's calculation that total assessed personal net worth is $98.7 trillion, this would work out to a net worth for the bottom 60 percent of the U.S. population of $1.9 trillion, or 40 percent less than the Forbes 400 list.[41]

As a paper released by the Board of Governors of the Federal Reserve this past January put it, "The U.S. is becoming more economically unequal than is generally understood."[42] In terms of racial inequality, the wealth disparities are enormous and getting larger. A study released last year found that if current trends continue, "by 2053 the median Black household would have a net worth of zero—meaning that at least half of Black households would have a negative net worth, with Latinx households hitting the same negative threshold 20 years afterward."[43]

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The nonprofit response to these negative trends has been impressive, but it still often feels like putting fingers in a dike. Nonprofits have reacted not just by growing in size but also in

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scope. As institutions, nonprofits have taken on a seemingly endless number of roles, including in business (think of the growing role of nonprofit social enterprise), labor (think of the growing importance of nonprofit advocacy), and even public governance and direct representation (in which they are playing a greater role than ever).

Regarding the growing quasi-governmental or representation role of nonprofits, in a 2016 *American Sociological Review* article, University of Michigan sociologist Jeremy Levine remarks:

> Over the course of four years, I followed nine CBOs [community-based organizations] in six Boston neighborhoods as they planned community development projects. The CBOs in my study superseded elected politicians as the legitimate representatives of poor urban neighborhoods. Private funders and government agencies legitimated CBO leaders' claims and treated them as the preferred representatives of neighborhoods' interests. Elected district representatives, by contrast, exhibited limited influence over resources and were rarely involved in community development decision-making.[44]

Levine's research resonates with my own experience. I can recall walking with a CDC executive director in the South Bronx back in 2005. We couldn't go more than fifty feet without somebody coming up to my colleague to ask about some project or favor or request. It felt like I was walking the streets with the mayor. That was because, for all intents and purposes, I *was* walking with the mayor—the de facto mayor of the neighborhood.

But even though I may have felt like I was walking with the mayor, the reality is that I wasn't. And what Levine saw (and perhaps he had similar feelings while conducting research in Boston as a graduate student many years later), while heartening at one level, also disappoints—for city council representatives should not be irrelevant but rather effective representatives of their constituents. Nonprofits may be filling critical gaps in business, community organizing and advocacy, and representation, but ultimately a new path forward has to include a new form of generating and distributing the wealth of our society. That requires taking seriously the gaping holes in our nation's political–economic system and creating paths to make it function more effectively for what has become an increasingly disenfranchised majority.

A Community Wealth Path

For the past dozen-plus years, I have been writing about community ownership. The central idea behind this strategy is that for communities to act as agents of their own transformation, they need to build their own businesses, own their own land, generate their own livelihoods, and—broadly speaking—operate from an economic base of a reasonable level of self-sufficiency.

The reason for this focus gets back to that declining labor's-share-of-income conundrum. The complex combination of reasons behind the shift of income away from working people—among them, the rise of neoliberalism and a general political shift to the right, the development of global supply chains, and technological change—is daunting. But, in terms of how this situation has led to a shift in income from workers to investors, at the most basic level there are only two ways a shift back toward greater equality can occur: (1) some mechanism—the traditional one being the union—enables a greater share of business income to once again go to labor; or (2) laborers have to become owners of capital themselves and increase their share of income that way. There are, of course, at least a million different possible permutations of these two routes—including, of course, varying combinations of each; but, fundamentally, these are the only two possible paths. If increasing the labor share of income is the traditional union path, community wealth building is predicated on the alternative path of fundamentally altering ownership of capital in ways that result in a more equitable distribution of assets and ownership.

It is not out of the question, of course, that labor could stage a comeback. But structural economic changes—especially the relative decline of mass production—mean that if labor does revive, it will look very different. This is true demographically, of course, but it is also true in terms of sectors. For example, in Dearborn, Michigan, a single factory—the Ford River Rouge plant—once employed over 100,000 autoworkers.[45] By contrast, in 2015, General Motors and Ford combined employed 101,000 autoworkers nationwide.[46] On the other hand, entirely new sectors have emerged. For instance, the United States today has more than two million home-care workers.[47]

Labor activists themselves recognize the need for a shift in how workers organize. Rob Witherell of the United Steelworkers union has led his union's effort to support the development of union-affiliated worker co-ops.[48] Witherell explains the union's thinking:

> What we have in common is that we are trying to accomplish the same things. Why do unions exist? [Why] do people try to create cooperatives? At the most basic level, in both cases, it is about workers helping each other out to create a better life for themselves. When you start from that baseline, we can start thinking about worker ownership and cooperatives and unions as part of a broader labor movement. The means for achieving their goals are different, but their goals are very much aligned.[49]

In terms of mechanisms, there are many ways to apply community ownership principles to business. Employee ownership, whether of the employee stock ownership plan (ESOP) or worker cooperative variety, is an increasingly common mechanism not only to ensure a more equitable distribution of ownership but also simply to keep businesses alive as a growing number of baby boomer business owners retire.

Worker co-ops are still fairly small in the United States, with about three hundred to four hundred businesses with seven thousand total worker-owners.[50] Despite the sector's small size, it has a lot of growth potential, particularly for smaller businesses (say, with fifty employees or fewer), where setting up a pension plan—as an ESOP requires—is impractical. ESOPs, by contrast, are already quite prevalent. The latest figures show 10.8 million workers at 6,669 businesses as of 2015, with worker equity at $1.3 trillion.[51]

Community land trusts enable nonprofit community-based organizations to take land off the market and place it in a trust, thereby creating permanent housing affordability. Typically, most of the equity gain accrues to the trust and only a minority accrues to the resident—allowing the trust to offer housing to a subsequent low- to moderate-income owner at an affordable price. More than fifteen thousand families own homes on Community Land Trust property.[52]

Platform cooperatives—that is, common platform ownership by workers and/or community members—also show promise. While in their infancy, such instruments could assure that the profits of companies structured like Uber are broadly shared in the field by the providers of those services instead of going to outside investors.

One could also go on to discuss a variety of potential mechanisms: from nonprofit-owned social enterprise to community development finance to hybrid enterprises—such as benefit corporations and low-profit limited liability companies (L3Cs)—to new forms of crowdfunding to innovative uses of common resources for common benefit (as the Wikimedia Foundation has demonstrated). There are also mechanisms that policy-makers can use to leverage public assets to reduce wealth inequality. For example, public banks, using a mechanism first developed in the United States by the state of North Dakota in 1919, are a way to leverage assets that states and cities already possess to support community-based economic development.[53] As Oscar Perry Abello noted in Next City, "State and local governments hold around $458 billion in deposits, according to the Federal Reserve Bank of St. Louis, while state and local pensions hold $3.7 trillion in investments."[54] This provides the potential base for redirecting the investment of a considerable amount of public capital. New democratic planning mechanisms are also important to coordinate investments. An emerging form of governance, called participatory budgeting, is a means to use community engagement to ensure that public assets, such as capital improvement dollars, are spent wisely. The practice, which first emerged in Brazil, is increasingly being employed in U.S. cities. To date, twenty-two

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All of this leaves us in a new place—a place where practices once considered mainstream may become marginal, and practices currently seen as marginal may (soon) become mainstream.

U.S. cities have used participatory budgeting strategies, resulting in community-based allocation decisions that have provided $238 million in public dollars to support over fifteen hundred community-based projects.[55]

Of course, these efforts are marginal after a fashion—but if you start adding up some of the dollar amounts, one can see that these emerging practices are gaining ground. After all, if the U.S. economy as a whole has a little under $100 trillion in assets, and if you add state and local government assets of over $4.1 trillion, ESOP assets of $1.3 trillion, cooperative assets of over $3 trillion, and nonprofit assets in excess of $3 trillion—well, that's over 10 percent of the overall asset value of the economy.[56]

In theory, the economic foothold of nonprofits, cooperatives, employee-owned companies, and public pensions provides nonprofits and their civil society allies with the potential to leverage existing assets to begin to design an economy that works toward economic equality. And small steps are happening in this direction. For example, following the lead of the F.B. Heron Foundation, the Nathan Cummings Foundation recently announced that it would dedicate nearly 100 percent of its assets to impact investing.[57] The Ford Foundation, too, recently announced that it would place $1 billion of its $12 billion endowment in impact investments.[58] At a policy level, both the city of Richmond, Virginia, and the city of Rochester, New York, have open offices of "community wealth building" to coordinate public policy to support community-owned enterprises.[59] And, as *NPQ* covered back in February 2018, Great Britain's opposition Labour Party announced the establishment of a Community Wealth Building Unit to back national policy that would support the creation of community-owned enterprises among British cities.[60]

Still, while there is growing interest in a community wealth building approach, it would be erroneous to suggest that we're at the cusp of a paradigm shift. So far, the dominant approaches to economic organization remain. There is growing ferment and experimentation, but the necessary cultural shift has yet to develop, except in rudimentary forms.

Questions to Address on the Road to Restoring the Norm of Reciprocity

Last fall, in an article for *NPQ*, Elizabeth Castillo wrote about how our present mixed capitalist economy has been built on two contradictory principles, citing the work of Austrian theorist Karl Polanyi:

> "The one was the principle of economic liberalism, aiming at the establishment of a self-regulating market . . . using largely laissez-faire and free trade as its methods; the other was the principle of social protection . . . using protective legislation, restrictive associations, and other instruments of intervention as its methods."[61]

Of course, historically, late nineteenth-century capitalism—think the Gilded Age and the robber barons—gave way to the reforms of the New Deal. Now, however, the New Deal's institutional framework (with Great Society additions) is increasingly fraying. To a certain degree, nonprofits have helped keep that framework in place far longer than it otherwise would have held. Often, our present safety-net infrastructure is being kept together with the institutional equivalent of duct tape, as one of the key pillars of the old social contract—namely, the labor union—has largely disappeared.

Alas, increasingly the duct tape is not holding. We can see this process of unraveling in so many places. I have not even mentioned such critical pressing challenges as mass incarceration, police brutality, gun culture, the ecological crisis, the opioid epidemic, and the rise of new technologies (for example, artificial intelligence), to name just a few.

Broader cultural shifts are afoot, too, both in response to the United States shifting from being a white majority nation to one where people of color are in the majority—a shift that the nonprofit sector itself is far behind on addressing—as well as the decline of U.S. geopolitical power, also known as imperial decline. Much of U.S. identity has been tied up in what former secretary of state Madeleine Albright once called "the indispensable nation."[62]

All of this leaves us in a new place—a place where practices once considered mainstream may become marginal, and practices currently seen as marginal may (soon) become mainstream. We are hopeful that, just as the New Deal emerged in response to the excesses of its day, the growth of movements today for community ownership and community wealth building (which are gaining ground but still fairly small) may also gather momentum in the years to come. As for those of us working within nonprofits, Castillo, in her article, talked about restoring norms of reciprocity in our economy. And that is certainly one way to think about these challenges facing our sector.

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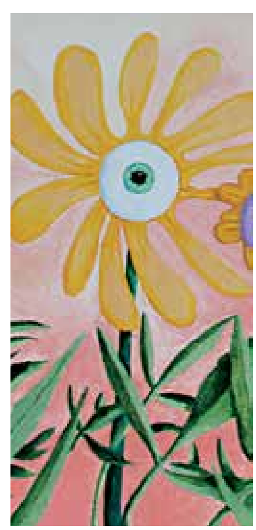

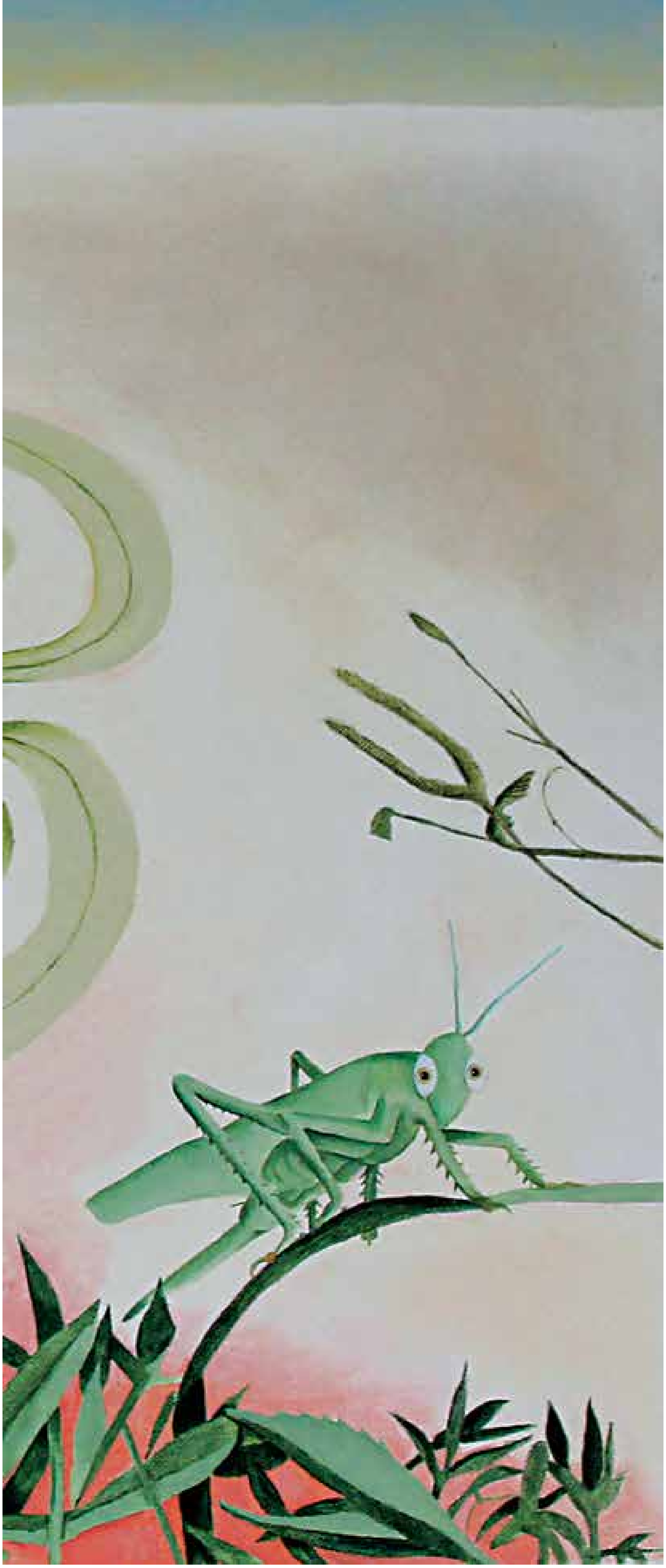

Organizing Our Economy *as if* We Lived *on a* Single Planet:

A Conversation with Douglas Rushkoff

Editors' note: *Douglas Rushkoff is a writer, documentarian, and lecturer, whose work focuses on human autonomy in a digital age. He is the author of more than a dozen bestselling books on media, technology, and society, including* Program or Be Programmed, Present Shock, *and* Throwing Rocks at the Google Bus. *His award-winning documentaries include* PBS Frontline's Generation Like *and* Merchants of Cool. *He is Professor of Media Theory and Digital Economics at CUNY/Queens, technology and media commentator for CNN, a research fellow at the Institute for the Future, digital literacy advocate for Codecademy.com, and a lecturer on media, technology, culture, and economics around the world.*

Nonprofit Quarterly: *You've promoted the concept of a distributed economy. Could you talk about what your notion of this is, and, if there were to be a distributed economy, what that would look like? The idea you develop is*

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rooted in some ways in the history of craft economies in the Middle Ages, but a new kind of craft economy, based on high technology rather than isolated villages.

Douglas Rushkoff: I think that the simplest way to understand what I'm talking about is to remember that the economy in which we're living right now was constructed by particular people at a particular moment in history with very particular agendas. And, you know, it's not conspiracy theory or anything strange—it's just that they developed an economy to work in a particular way. So the economy we live in, the way it functions is to give capital returns to investors—and that's fine. But when that's the only thing an economy is optimized for, you end up getting some weird, maybe unintended, consequences.

So, yes, in the late Middle Ages there was an economy that was based in the exchange of value. It was really based, let's say, in revenue—in people making money for trading stuff or doing services for one another. And the basic problem with that kind of economy was that the wealthy didn't know how to participate in a system where everybody was just buying and selling things to each other. So they needed to change the regulations under that economy to make it harder for people to buy and sell stuff to one another without borrowing money from big banks or central treasuries, or working for chartered monopolies that had exclusive dominion over a particular industry. So, today we live in an economy where we understand that to have a successful business you need to borrow money from someone and then pay them back bigger returns.

Thus, what I'm suggesting to large corporations is that they change their business model—that instead of thinking about how much of the world they can own, instead they look at what services they can provide people and organizations and companies and towns and cities.

And what I'm suggesting is that people are now open to doing business in other ways; that people are willing to start companies that may not grow forever; that people's long-term vision of their companies is switching to something where the focus is not on growth but rather on what size they need to get to in order to be a sustainable business. And I don't mean sustainable environmentally or good for the world—just a sustainable business that doesn't need to extract more resources from the world and grow in order simply to survive.

NPQ: *Can you expand on the current economy's growth imperative, and how that's become a problem given environmental constraints?*

DR: Well, the growth imperative was embedded in our economy once we made it illegal for anyone to use anything other than interest-bearing central currency. So, kings in the early Renaissance outlawed market monies and local currencies and non-growth-based exchange mechanisms, and said everyone had to use coin of the realm, which was borrowed at interest. And the way the math works is, if every dollar that you borrow or every unit of money that you borrow has to be paid back with interest, then you need the economy to grow in order to keep paying back more money to the lenders. So, that's why we're stuck in this growth trap.

And the problem with the growth trap is, we're living on a planet with finite resources. I know there are many opinions on this, but I do think that our planet and the atmosphere are rather fixed. And when you have a growth-based economy, it not only needs to grow but also needs to accelerate its rate of growth, because 2 percent of a zillion-dollar planet is more than 2 percent of a million-dollar planet.

And then, when you look at the sort of digital solutions that are carrying this ethos forward, you get either an Uber or an Amazon achieving these giant platform monopolies, or you get ideas like bitcoin—which does what? Bitcoin basically burns fossil fuels as proof that it has value, and that's all bitcoin is doing. So, not only do we have an energy shortage on the planet, now we also burn energy symbolically as a way of showing our commitment to some kind of digital coin.

NPQ: *There have been those who have given bitcoin and its like a sort of liberatory veneer.*

If every dollar that you borrow or every unit of money that you borrow has to be paid back with interest, then you need the economy to grow in order to keep paying back more money to the lenders. So, that's why we're stuck in this growth trap.

Right now, we have an economy that punishes doing business in an appropriate, generative way and rewards people who just take money out of the system.

How do you see the role of those currencies? As you know, bitcoin has often been sold as a way to get back to that market-based exchange that you were talking about.

DR: Yeah, but it's not. It's retrieving something. Marshall McLuhan, the great media theorist, used to talk about how technologies retrieve things from the past in new forms. So what we really needed to retrieve were market monies. And market monies were basically valueless—like poker chips, which were issued in the morning and which allowed people to conduct their trade and then settle up in the evening. No one wanted those chips. They weren't worth anything after a certain period of time.

Bitcoin is more like gold. Gold was the long-distance currency used by royals and large chartered companies. Regular people couldn't use gold—it was too valuable. You would hoard gold once you had it. Bitcoin is a currency that celebrates its limited supply and celebrates the fact that it's an excellent investment—and that's what it is right now. They call it gold for millennials. It's a hedge against the rest of the market.

But that's not what we're looking for. The one good thing about bitcoin—or the blockchain really, the technology undergirding bitcoin—is that it gives people a way to authenticate their transactions without turning to some central authority. So, you don't need the bank or the Fed or the government to say, "Yes, you're you and he's him and you just exchanged money."

The problem with bitcoin is, it doesn't really engender trust in any way. It just *replaces* trust in a new way. All it's really doing is substituting technology for trust instead of substituting some institution for trust.

NPQ: *Switching gears a bit, how do you see nonprofits fitting into this effort to restore trust?*

DR: No one likes hearing this, but nonprofits have to stop thinking of themselves as some adjunct to the market—as something other than business. Nonprofits are businesses. Nonprofits are a better model for doing business than for-profit companies. The only difference between a nonprofit company and a for-profit company is that a nonprofit company can't be sold.

Think about it like this: if you had a furniture company, what if the thing that mattered most to that company was the quality and sales of the furniture? I know it sounds like I'm being ironic or strange, but that's not the way business works. What you care about is the company making revenue.

Right now, the product of most businesses is the shares that they're selling to investors—and if the share price isn't going up, then an activist investor comes in and figures out how you can hurt the company in order to give more money to the shareholders. So, the object of the game becomes: How do we squeeze our suppliers? How do we fool our customers? How do we outsource our production? All to the detriment of the actual business.

NPQ: *One other difference with nonprofits is that they don't pay taxes.*

DR: Yes, and part of the reason they're exempt from tax is their mission, but another part of the reason they're exempt from tax is because they're putting money into circulation. Right now, we have an economy that punishes doing business in an appropriate, generative way, and rewards people who just take money out of the system.

NPQ: *If you're trying to move from an extractive to a generative economy, there's the transition problem of how you get there. You've talked about implementing the sort of pilots that would foster more circulatory economic practices. How would you do that, or what would some of those pilots look like in your mind?*

DR: One I talk about a lot is, rather than a bank giving a one-hundred-thousand-dollar loan to a pizzeria in order to expand its business, it would give the pizzeria fifty thousand, dependent on its ability to raise the other fifty thousand from its community. In this way, people from the community would be investing in their town rather than outsourcing investments to the S&P 500. They would be seeing their investments make their main street better—increasing their property values, raising the tax base, improving their schools—because they would be *in*vesting rather than *out*vesting.

So far, the only entities that have taken me up on the idea of running small trials of this kind are credit unions. Credit unions are nonprofit. A credit union's mission is to improve the economic functioning of the region where it's operating, whereas a bank's mission is to extract as much capital as it can from the region where it's operating.

The reason to experiment with small trials is you don't threaten as many of the powers that be. You can prove that something is profitable even if it's not working in a way that *they* understand and do it—I mean, the object of the game is not to threaten the shareholders or the board of directors before you've had a chance to prove that it is a good way of doing business.

NPQ: *Credit unions do have over a trillion dollars in assets; so, while they're not a huge part of the financial system, they're not tiny either. That's a lot to build off of, actually. Are there any specific examples you can give of credit unions that have implemented the idea you were giving of a kind of half bank loan and half crowdfunding strategy?*

DR: An example like it is VSECU, Vermont State Employees Credit Union, which does something called "milk money." At VSECU, people can invest locally in other local businesses in return either for a stake in the business—just as a regular loan—or for a special relationship with the business.

NPQ: *Tacking back to ecology and the finite planet we live on, you have noted that a trait of our age is a growing understanding of ourselves as a single organism. Can you say a little about that? For instance, if we accepted that in some respects we're part of a single organism, how should that understanding affect our behavior?*

DR: Well, you can think of it physically or temporally or spiritually, I guess; but I mean most simply that all the cells in your body may not be conscious of the fact that they're all part of this one big body. They're just doing their individual jobs, and they have little walls. There are some membranes and permeability between them, but they might think—for as much as they think—"I'm just me." They don't think, "Oh, wait a minute, there's this thing called Doug that we're all part of." And I think of human beings the same way—that we're all part of this large team, this human organism. And even if we're not part of one organism, we'd better start acting like we're part of one organism, because we're sharing a scarce resource of planetary abundance. So, if we don't orient to the planet as a commons rather than a property, then we're going to continue to exploit it at our peril rather than maintain it for our collective benefit.

NPQ: *Could you talk a little more about the commons? There are obviously some very prominent examples in the digital world, such as* Wikipedia *and the Creative Commons licensing. But, more broadly, when you think about commons management, what forms do you think it might take in this coming era?*

DR: I feel that if we don't start treating water as a commons, things could get kind of dark. There are people making markets in water even in places where it's not scarce, because everyone is realizing that it's going to become a really fixed resource. And they use this so-called "tragedy of the commons" as their rationale for why people can't be trusted, or government can't be trusted, to maintain the viability of a shared resource. But the tragedy of the commons isn't valid, it's not real, it's not based on anything. A real commons is governed. There are rules around a commons. It's not a weird free-for-all. The market is the weird free-for-all.

A real commons is governed. There are rules around a commons. It's not a weird free-for-all. The market is the weird free-for-all.

NPQ: *You mentioned platform cooperatives earlier. Could you expand on their significance?*

DR: Really, it's just another way of saying employee ownership. I mean, once you understand platform cooperativism, which is basically just employees owning the thing instead of employees being just another resource, you start to look at a lot of things differently, like universal basic income [UBI].

When you understand platform cooperatives . . . well, UBI is kind of silly. You shouldn't give people only income; you've got to give people ownership. That's why I like Marina Gorbis's [(executive director of the Institute of the Future)] idea that universal basic *assets* are better than universal basic *income*. Are you willing to let the people share in ownership of the business, platform, or resources, or do the corporations really have to own everything?

When you understand platform cooperatives. . . well, UBI is kind of silly. You shouldn't give people only income; you've got to give people ownership.

And that's where it gets interesting. Right now, most big corporations are not willing to become cooperatives, but they're being successfully challenged by cooperatives and employee-owned companies. So, Walmart is under fire by WinCo. In most of the states where they're competing head to head, WinCo is doing better than Walmart, and that's because WinCo is an employee-owned company and Walmart is not. And when I've talked to Walmart's investors about it, they're so confused as to how WinCo could be doing better than them, when WinCo is paying their workers more. The reason is because WinCo doesn't have the investors to pay back. It doesn't have to give 90 percent of its assets back to these people who have nothing to do with the operation or profitability of the business. It's a better, leaner model.

NPQ: *Another thing you've written about is that technology has often made people work harder rather than smarter—and there's a bit of irony in that. For example, the economist John Maynard Keynes famously wrote a treatise called "Economic Possibilities for Our Grandchildren," about the idea that, as technology developed, we'd have more things produced in fewer hours, therefore we'd spend less time working and have more time for leisure. And it hasn't worked out that way, at least not so far. So, where did we go wrong, and how do you see us getting back on track?*

DR: Well, if anybody still read Adam Smith, today he would be considered a socialist—although, of course, he's not. It's because he imagined an economic landscape that would be regulated to favor the smaller operators. He saw everybody involved in small businesses and exchange. He didn't really understand the danger of a few large players dominating the whole economy or the whole landscape. But I think he thought that we would want to avoid that.

So, now, because the entire society that we've built is servicing credit or debt—or the entire society is about paying bankers for money—we can't imagine or understand a society in which people worked less. That's why even well-meaning folks like Obama say, when they look at the problem with the economy, "Oh, all we've got to do is figure out how to create more jobs," or, "We're going to lend money to banks so that they can lend money to companies, so they can build factories, so they can hire people." We've lost sight of the fact that, if we have enough goods and we have enough services, then we don't need to be working as much.

Plus, the reality is, we are working in ways that are unsustainable, anyway. If the way we're using labor requires us to send slaves into caves to get the rare earth metals for our smartphones—and if the way we manufacture is destroying the planet, is creating so much toxic waste and mountains of used-up technology that's being buried in China and South America, and that's going to destroy everything—if that's what we have to externalize to be this efficient, then we should be less efficient. Maybe if we hired more people to work in better, more meticulous, maybe more time-consuming ways, we would get to stay on the planet longer.

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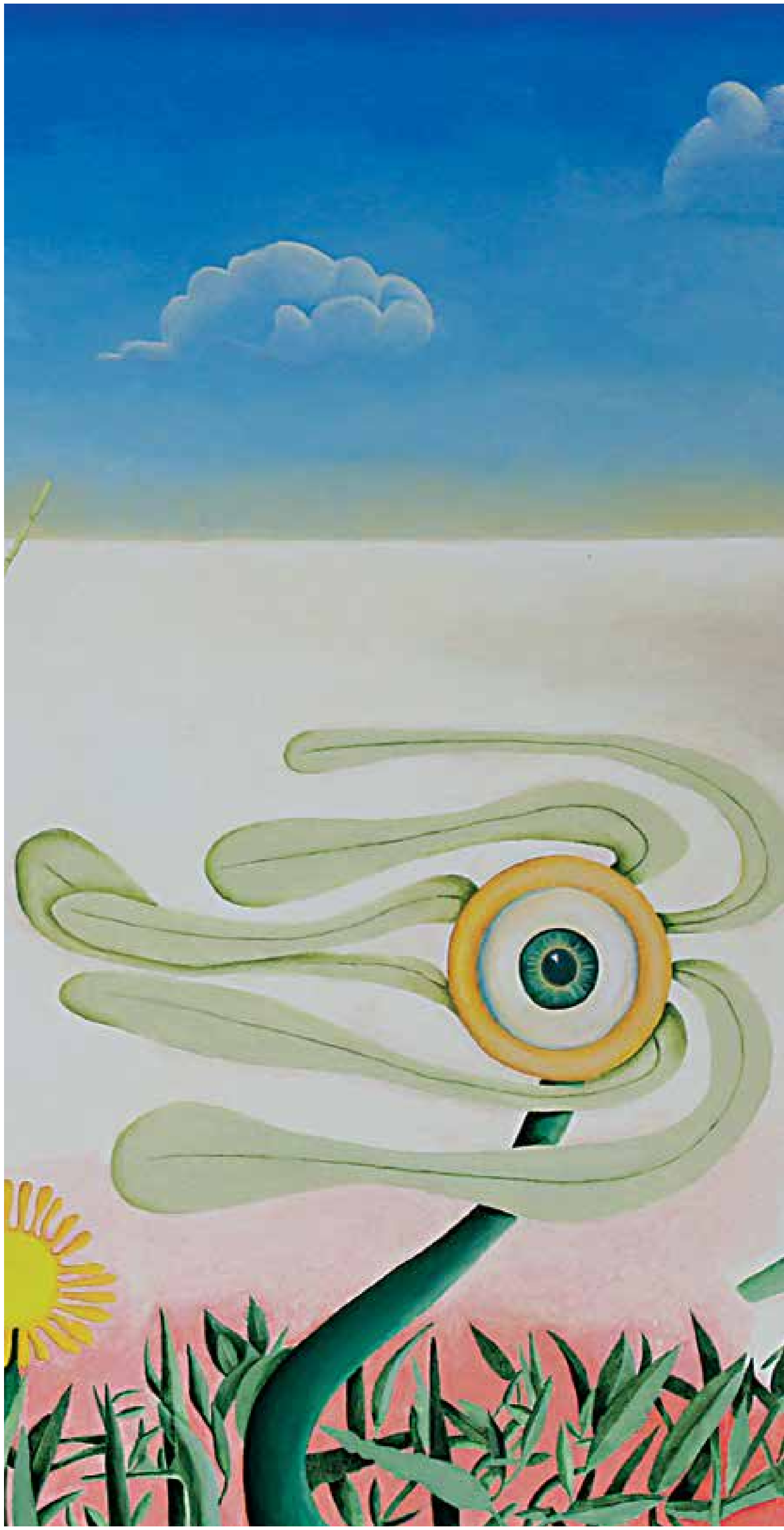
Visions *of a* New Economy *from* Detroit:

A Conversation with Malik Yakini



***Editors' note:** Malik Kenyatta Yakini is an activist and educator who is committed to freedom and justice for African people in particular and humanity in general. Yakini is cofounder and executive director of the Detroit Black Community Food Security Network (DBCFSN), which since 2006 has managed the seven-acre D-Town Farm. DBCFSN is also leading efforts to create the Detroit Food Commons, a thirty-thousand-square-foot facility on the city's North End that will include a food co-op, café, kitchen incubator, office, and community space.*

Nonprofit Quarterly: *Could you talk about your background?*

Malik Yakini: I was born in 1956. Both of my parents were postal workers. They didn't go to college, but there were many people with college degrees working at the post office. It was a vehicle for upward mobility.

The 1960s was a period of great hope—it was a relatively prosperous time for a lot of people in Detroit, and things were opening up for many Black Detroiters. The neighborhood we moved into had opened up. Black people followed Jewish people—that seemed to be the pattern, and that's what happened where we moved. Restrictive housing covenants were breaking

"WATCHING" (DETAIL; AND P. 31) BY KEITH POINTING/WWW.SAATCHIART.COM/ACCOUNT/PROFILE/970048

No matter which of the paths you take, the dismantling of capitalism is the necessary prerequisite. You're not going to be a sovereign socialist state existing side by side with capitalism.

down. The auto industry was booming. Blacks were moving into jobs.

We were in and out of each other's houses. We used to have block parties. There was a real sense of community in my neighborhood. All of our parents knew each other. That was my experience, and it was a wonderful childhood.

In 1966, I played Little League Baseball on the field at Detroit's Central High School. A year later, the field was turned into a military base with the 101st Airborne Division, after what at the time we called "riots" but which activists in Detroit now call an "urban rebellion." In recent years, social justice activists have challenged the language—a rethinking, a reframing of history.

That year was a watershed moment; in some ways, Detroit history can be divided into pre- and post-1967. It was a huge defining point, a period of tremendous hot-fire Black consciousness. Detroit was an epicenter of that—it was certainly a strong epicenter of this Black revolutionary consciousness.

I turned thirteen in 1969. Thirteen is a critical year in many traditions. You go from childhood to the beginnings of young adulthood. It is a time when you're very impressionable and create a concept of yourself. I was going to a school called Post Junior High—one of many schools that were centers of Black consciousness. Walkouts, protests, were mostly at the high school level, but my junior high was also active. In 1969, a teacher of mine played a recording in the classroom of Malcolm X's "Message to the Grassroots." I don't follow behind any man, but Malcolm's life example and teachings had a profound impact on me. In fact, in many ways my activism is rooted in hearing Malcolm X for the first time.

That was the beginning of my social activism, and we saw it as the Black liberation movement more than a movement for social justice.

Early on, one of the tenets of Black radical thought was this sharp critique of capitalism. I read Mao, Marx, Black radical thinkers, becoming very committed at a very early age to the idea that capitalism is in many ways the root of our problems—not the *only* problem, but a huge factor. I've been anticapitalist for the vast majority of my life, and anti–white supremacist. Those are the two pillars. Sometimes I was in a kind of strange space, because many Black nationalists didn't have a clear analysis of capitalism. Much of what some Black nationalists were proposing was a painted Black version of capitalism. Even though I wasn't a Marxist, I was always willing to be supportive of groups that were. If we agree that capitalism needs to be dismantled, we have a strategic alliance. But many of the Marxist folks didn't understand revolutionary nationalism, where you have a clear analysis that there isn't going to be any kind of Black sovereignty as long as capitalism is intact.

There are multiple tendencies within the Black liberation movement. The New Afrikan Independence movement—of which Chokwe Lumumba [1947–2014] was a major voice—are secessionists, and seek to carve out five states. Some favor repatriation. With Rastafarianism, many ultimately hope to return to Africa. Then there are those that see the city as the Black man's land, and seek to build zones of power in cities. In many ways, the Black liberation movement has been fragmented. No matter which of the paths you take, the dismantling of capitalism is the necessary prerequisite. You're not going to be a sovereign socialist state existing side by side with capitalism.

In college, I was chairman of the Black Student Association at Eastern Michigan University, in Ypsilanti. We ran a free breakfast program at an elementary school, patterned after the Black Panther Party, and we also had a co-op—a buying club—that we called the Ujamaa Co-op Buying Club. We would take orders in our organization and the community, and two of us would make the forty-minute drive to Detroit's Eastern Market on Saturday, buy things in bulk, and divide it up. At that point, I didn't know anything about a food movement, but cooperative economics was part of our thinking.

In 1989, I cofounded Nsoroma Institute, an African-centered school rooted in the ideas of unity, self-determination, collective work and responsibility, and cooperative economics. The school was designed to give African-American children a sense of where they fit into their own cultural and historical continuum. I directed the school for twenty-two years, and doing gardening work there in the late 1990s got me into the food work that I am doing now.

NPQ: *What is the story of Detroit that we do not hear?*

MY: There has always been this revolutionary consciousness in Detroit. A sharp critique of capitalism has been part of the thinking of many activists in Detroit for a long time. And the labor movement, while not anticapitalist, provided an analysis of the economy and how the average person should have greater benefits than those enjoyed within the rampant capitalism that existed pre-union. There is a certain consciousness in Detroit's having been shaped by movements—as being a movement town.

Contemporary Detroit is informed by its own history. The Detroit People's Food Co-op is rooted in that history. For some time, we had various visions of how we might create an alternative economy within capitalism, at least on a community level—how we might stop the hemorrhaging that occurs in Black communities, and how we might find ways to capture our own value instead of having that extracted from us. Instead of being seen as a market for larger forces to dump cheap goods into, how do we start seeing ourselves as an answer to our problems? How do we create structures where we are cooperating with each other to meet our own needs?

One of the things that [*Collective Courage* author] Jessica Gordon Nembhard points out is that many efforts that we can call "cooperative" didn't necessarily call themselves that. They were sometimes framed as "self-help efforts" or "mutual aid societies," but they functioned cooperatively for the collective good. There is a strong history of efforts to create a more just and more cooperative economy.

One of the things that is so stark about Detroit is the clear racial element of the wealth extraction that is going on. It is so clear, that the average person sees it and sees how it impacts his or her community every day—and that makes it easy to appeal to people. Many of the stores are owned by Chaldeans, an ethnic minority from Iraq. You have a city that is 80 percent African American, yet few Blacks own stores. The average person can see that, and experiences it every day. So that kind of explicitly racialized way in which wealth is being extracted, at least in Detroit, is quite evident. There is a need for us to cooperate for our own collective benefit.

NPQ: *Some within the Black community have suggested that the pathway to liberation is through changing the color of capitalism. Why isn't that adequate?*

MY: There are some efforts now by progressive Black folks in Detroit to do just that. One reason it is not adequate is that there are fundamental flaws in the concept of private land ownership. Who has the authority to own the earth? This is a rhetorical question, of course. It is just based on who has power. The universe doesn't bestow authority on anyone to dole the earth out. The whole thing is a con game. We need to push back on that.

I don't want to advocate going backward, but we need to think about how to move forward informed by the ideas of indigenous cultures, who saw themselves as stewards of the earth and as temporary occupants in harmonious balance with the animals and plants, in recognition of the matrix of life. That whole idea of private ownership of land, which in large part is how wealth is generated in capitalism, is problematic. The question of access to land is critical. It is on land that we build houses, communities, extract resources; it is where most of our food is grown, how we acquire many of our fibers and materials for housing. What we used to say in the seventies was land is the basis of power. If land ownership is based on who has the most might, those with the most might will also have the most economic power. We need to figure out different ways of relating that reduce the disparities in wealth that in large part are based on land ownership.

The other flaw—which can exist in socialism, also—is the idea that the earth is a commodity, and what we need is more production, more extraction. I think a new way of looking at our relationship to the earth is required.

But the other thing is that because capitalism intersects with white supremacy, you have an

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enormous amount of wealth concentrated in the hands of (usually) a few white men. That is a huge problem, as the Occupy movement pointed out. It is based on the genocide of indigenous people, the enslavement of Africans, and the enormous amount of wealth that forced labor created in the process of industrial production. We have the vast majority struggling to survive and a few people with an obscene amount of wealth. There are multiple reasons why capitalism is flawed and shouldn't be replicated in blackface.

We need to figure out ways that communities benefit from their own labor, instead of having that labor extracted to create value for someone else.

NPQ: *What do you see as guiding principles for a more socially oriented economy?*

MY: In terms of guiding principles, I don't have it all figured out. We might have some ideas of what a post-capitalist alternative economy might look like, but not a clear, coherent plan by any means.

We need to figure out ways that communities benefit from their own labor, instead of having that labor extracted to create value for someone else. Another principle might be communities meeting their own needs. So, if people in Detroit need something, such as shovels, how do we produce shovels within the community? And, since I'm an advocate of cooperatives, if we can have a shovel cooperative, it creates collective wealth, collective ownership, and greater participation in democratic decision making. To me, that is the preferred mode. How do we first find ways to supply our own needs, and in the process capture the value of the wealth that we generate?

Communities don't have walls around them—they are porous. I'm talking in generalities here. It's not like there are clear lines of demarcation. I don't think we want communities to be in isolation but rather to be pods or liberated zones that connect in an economic way and also connect socially and culturally. That would be a principle of what this might look like.

NPQ: *What is the role of education in building a new economy?*

MY: Schooling prepares people to participate in the economy. While that shouldn't be the only reason, it is a primary function of school in this society. If we are going to create communities that are first looking to serve their own needs, to capture their own wealth and labor, then we have to have an education system that prepares people for that kind of economy. In other words, we need an educational system that prepares us to take our energies and turn them inward to our own communities rather than outward toward an extractive system that we have very little control over.

NPQ: *Do you see principles of a new economy being articulated widely in Detroit?*

MY: There is the Allied Media Conference in Detroit that is advancing these ideas and attracting people across the country. The production and planning of it is an articulation of the principles, and the principles are articulated at the conference itself. There is the Boggs School. There are a few African-centered schools. There is urban farming. Not everybody is involved for the same reason—some are profit driven, some are social-justice focused. There are a number of small co-ops. There is the Colors Co-op Academy, run by Restaurant Opportunities Center. There is the work of the Detroit Black Community Food Security Network. There are a number of small efforts that are manifestations of this vision of a new economy.

NPQ: *How should nonprofits and philanthropy respond?*

MY: The nonprofit sector is diverse, of course. You have people on the left-leaning radical edge who are functioning within nonprofits, and you have others who are very conservative upholders of the status quo. For those who see themselves as consciously working toward a new economy, what we need is more cooperation among the groups. If we are trying to work on a new economic vision, that is bigger than the work of any single organization. What are the individual pieces? Who is creating what? How do we make linkages between those pieces?

Sharing of staff might be one piece. Maybe not every nonprofit needs its own accountant or finance department. Maybe we create a cooperative business that serves multiple nonprofits, allowing those nonprofits to use their hard-fought-for funding more effectively but also generate another institution that builds the alternative that we are trying to create.

We need to sharpen our analysis. We need more discussions about the big ideas. I was on a panel last week talking about the big ideas that sometimes are not on the ground, although I do on-the-ground work, too. It is important to ask the bigger questions. We can't just do the day-to-day. We need to have some vision of where we are headed and align our work with that. If we don't have time to create the vision—if we don't have time to explore the big questions like, What would a just society look like or a cooperative new economy look like?—then we can't get there. We need to get a little bit out of the boxes we are in so that we can align our actions with our visions.

There is a robust discussion within the emergency food sector about the limits of the charity model and how in some ways giving food to people may create further dependence. So, how do we think about the causes of the hunger? How do we foster community self-determination? We need to spend more time collectively looking at the bigger goals of a society that we are trying to bring into being. We need to have a dream of what we want in order to move in that direction.

NPQ: *You have said in talks that none of us escapes the impact of white supremacy. How does racial equity get incorporated into community economy building work?*

MY: The last several hundred years of the history in the so-called Western Hemisphere have been shaped by a European colonial-conqueror narrative. It is so pervasive that it is almost like the air that we breathe. It is so much around us, it permeates our consciousness. In broad generalities, people who are defined as white tend to have a sense of arrogance and a sense of feeling that their particular experience is the universal experience by which others should be evaluated: their standards of beauty, their ways of operating, their ways of being. It functions in so many ways, this sense that their way of doing things is somehow better. People of color have issues of inferiority, and of feeling like we have to measure up and that we're inadequate, and that white people have some special monopoly on shaping reality.

We have all been debilitated. Even as we struggle to bring about a more just society, inevitably what happens is that this white arrogance still manifests itself. It is not even always intentional. White people have been conditioned. The only way to get past that is to first recognize that it exists, that we have all been afflicted by it. Then, most importantly, enter into a course of action to heal the damage from the system of white supremacy. It takes a life-long commitment. Hopefully, we can pass a saner way on to the next generation. It takes a real commitment, particularly for white people—people who are defined as white—to be introspective and to look to value ways of being beyond what has been their experience.

Inevitably, when we try to create multiracial formations, this rears its ugly head. Across the country, I hear Black folks pushing back. In nonprofit settings they feel marginalized, with white men taking up all of the air in the room. It takes commitment to recognize and hold ourselves accountable. It is one thing to say that you believe in racial justice and equity, but what does that look like? Who are you accountable to? If you get off track, who holds you accountable?

If we talk about a fair and just society, we need to change not only our relationship to the economy but also how we see ourselves as human beings. Otherwise, we will replicate, maybe in different ways, the same sort of distorted relationships. The same can be said for the socialist–capitalist argument. Capitalism promotes racial division and inequity. But changing from capitalism to socialism doesn't mean that the same kinds of racial elements won't be replicated in socialism. White supremacy is a system that is overarching. It can infect both a capitalist society *and* a socialist society.

If we talk about a fair and just society, we need to change not only our relationship to the economy but also how we see ourselves as human beings. Otherwise, we will replicate, maybe in different ways, the same sort of distorted relationships.

NPQ: *What is the role of arts and culture in building a new society?*

MY: I'm a musician. I'm an artist of sorts, also. For many of us, there has never been a line of demarcation between activism and the arts. In the 1960s, Detroit was a hotbed of the Black arts movement. We have had a long-standing tradition of socially informed art.

Art can help motivate people, can help people to see the world in different ways. Art can touch people in ways beyond the intellectual touching that might happen as a result of a lecture or of reading a book. Art touches on a deeper emotional level, gets us out of our heads. That's part of the Eurocentric paradigm. The idea of being in your head is very much a construct of European colonialism as opposed to models that look at your heart and how your heart and head are connected to your spiritual self.

As we are building a new society, I would like to see this sense of spirituality—not a reductive religious manifestation that pits people against each other but a universal, respectful, inclusive approach to spirituality that recognizes that the connection we have to each other and to the planet is a fundamental part of how we think of a new economy.

Most African and indigenous ways of knowing and being are rooted in a sense of spirituality. This idea of the economy or social aspects of life devoid of spirituality is not rooted in the traditions of African people or indigenous peoples, which is one of the reasons that Marxism has had a hard time in Africa. Marxism has had influence in some places in Africa, but because Africans are largely spiritual, an ideology that is based on materialism often doesn't resonate. As we are building a new society, I would like to see this sense of spirituality—not a reductive religious manifestation that pits people against each other but a universal, respectful, inclusive approach to spirituality that recognizes that the connection we have to each other and to the planet is a fundamental part of how we think of a new economy. If not, then profit becomes the main measure. We need something larger connecting us to past and future generations. If we are not part of the fabric of life, we are moving in isolation. And the arts connect one's entire self.

NPQ: *Grace Lee Boggs talked about how automation and decentralization meant that the conditions that had placed industrial workers in a privileged position no longer hold. She suggested community building from the ground up. Where are the points of leverage today?*

MY: Grace and I disagree somewhat. I agree with her on the importance of building from the ground up, but I think it is still important that we try to kick the legs out from under capitalism. Yes, it is declining and will eventually decay. Rather than just build our vision for the future, we need to build new community models and still undermine capitalism.

Some of the social movements become points of leverage—for example, the pushback against police killings. People are starting to see how oppression is racialized in the United States—how it connects to wealth and lack thereof. It activates people to push a bigger analysis of society—not just what we *don't* want, but what we *do* want: policing justice, a new relationship to the economy. These are a huge focus in the Movement for Black Lives.

The #MeToo movement that is challenging the historic way that women have been exploited and abused is another point of leverage. It is causing people to rethink many things. It is prompting a rethinking of masculinity, femininity, womanhood, and how women function. To me, what is most important is the shift in consciousness, the shift in how we are seeing and valuing women in families, the workplace, and the larger society.

Another point of leverage is the blatant putting of democracy into a coma that occurred with emergency management in Detroit. And, as I mentioned earlier, the clear ownership of businesses by other ethnicities in African-American communities. Such points of leverage can help to shift people's consciousness and ultimately shift societal relationships.

But once you shift people's consciousness, they need to have specific activities they can become involved in. So, what do we do differently? And on a national level, not just in isolation, because what is happening on the national level is also a point of leverage. There is a tremendous amount spent on the military, while people see suffering and dilapidated infrastructure in places like Detroit. The general regressive and xenophobic approach is something that people can readily see. We are in a time period that is ripe for alternatives. Those of us who have some idea of what those alternatives might be must develop models that people can participate in.

NPQ: *How should nonprofits conceive of social enterprise?*

MY: We favor cooperatives. Social enterprises may be a step above capitalism driven solely by profit, where there is some degree of concern for the welfare of the community and the environment, but it is still short of the benefits that derive from cooperatives. Cooperatives are what we need both to collectively hold wealth and, equally as important, to learn to make decisions collectively. What happens to people in a capitalist system is that their sense of agency is eroded. They become used to being decided for. Having to make decisions on our own behalf, and do that in league with other community members, is a process we need in order to heal ourselves and restore our humanity. People need to exercise those muscles and know how to make decisions on their own behalf.

NPQ: *What can be done to identify, lift up, support existing efforts that build toward new vision?*

MY: This idea of race enters into the discussion again. In many cases, some of the most progressive efforts are being done by people of color. If we don't hear about them, we can't replicate them. Shifting the narrative is important. Telling the stories of Black-, indigenous-, and Latinx-led efforts is one of the necessary steps. Many of these collective, self-help efforts may not always be called cooperatives. Regardless, identifying and lifting community-based innovations—through social media, speaking, publications, films, video—is important. We run a seven-acre farm. There are many people who have never heard of us. How do we get the word out? There are people around the world who know of us, and people around the block who do not. Most people in positions of power are thoroughly wedded to the capitalist system. Any models that fundamentally challenge that don't get much media play. It is critical that we build a more cohesive movement that is capable of injecting these ideas into the public discourse and consciousness.

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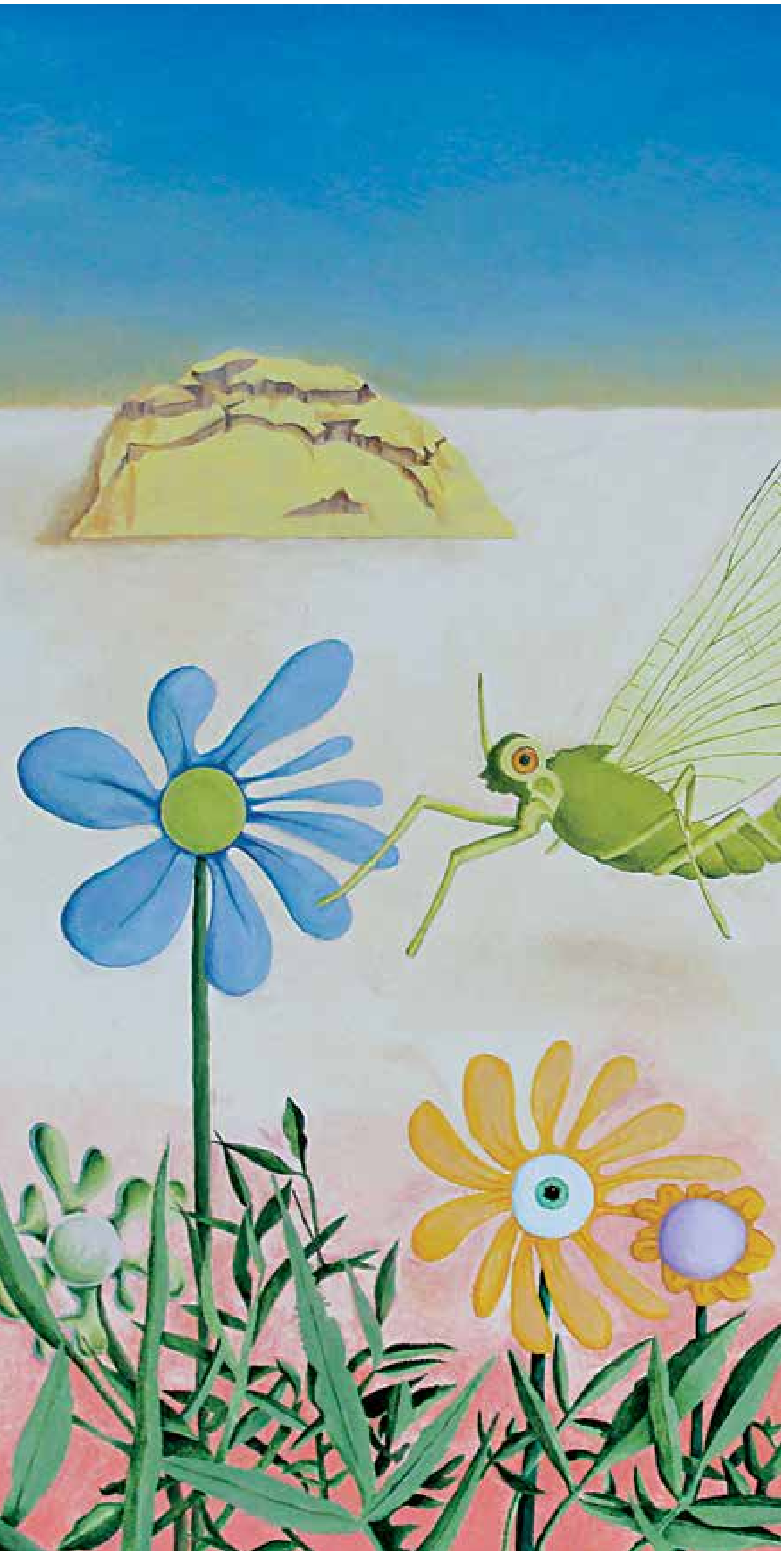

Social Enterprise: What *the* U.S. *and* European Experience Can Teach Us—And Where *to* Now?

by Janelle A. Kerlin

USE OF THE TERM *SOCIAL ENTERPRISE* HAS BEEN growing in popularity since the mid-1980s, though the activity itself has long been in existence. Generally defined as any market-based activity to address a social issue, social enterprise has by some accounts become a global movement to sustain socially beneficial activities largely by means other than traditional government and philanthropic resources.[1] Though the value added from

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undertaking social enterprise can be emphasized differently depending on geographic context, social enterprise generally speaks to increasing the self-sufficiency, long-term sustainability, programmatic autonomy, and beneficiary empowerment of organizations involved in pursuing a social mission. Looking globally, the social enterprise movement of the last three decades has been spurred on by the need for resources or programming (or both) to fill gaps in systems attempting to serve the disadvantaged.[2] Largely as an outlier, social enterprise in the United States also encompasses activities that support the improved well-being of populations beyond the disadvantaged. Thus, typical examples include organizations that provide work for the hard to employ, thrift stores that sell secondhand goods to support a social purpose, scouts that sell cookies or other items to fund their youth programming, microfinance organizations that lend money to the poor for their small business start-ups, and museum stores, among many others.

The exact definition of social enterprise is often contested along its commercial and social boundaries. Indeed, Trent University associate professor Raymond Dart says of social enterprises that they "blur boundaries between nonprofit and for-profit."[3] Some in the burgeoning social enterprise field, however, appear to be coalescing around parameters, albeit broad ones, for the term. Social enterprise is increasingly defined as distinct from corporate social responsibility (CSR), where profit-driven businesses donate only a fraction of their funds or employee time to social projects. Corporate philanthropy is also often seen as separate from social enterprise, due to the primacy of the profit motive in the corporate generation of revenue relative to the comparably small social cause work of the organization. Other discussions exclude charitable/nonprofit organizations that generate only a small amount of commercial revenue. Thus, while the broadest definitions may include all of these forms of commercially backed social efforts, definitions of social enterprise—either inherently or explicitly—often exclude undertakings that are relatively lacking in either the social or commercial aspect.[4]

Understandings of the concept of social enterprise and what it is associated with can vary across global regions as well as individual countries and even subnational spaces.[5] Variation can be seen in the predominant activities, clients, outcome focus, funders, regulation, and legal forms for social enterprise in different contexts.[6] In Europe, a number of countries provide strong national government support for social enterprise, including some welfare states that are viewed as having co-opted social enterprise for their own policy purposes (namely, the work integration of the hard to employ), often through social cooperatives that enjoy substantial government subsidies—though there are variations on this model.[7] Strong government support for this particular type of social enterprise activity has led to the term's association with the provision of employment and less so with other social purposes, though this is more the case on the continent than in the United Kingdom.[8] There is also a growing list of countries with specific legislation for social enterprise legal forms on the national level, many of which are adaptations of the cooperative form. In 1991, Italy was the first to adopt the social cooperative legal form, with a number of other countries later following suit[9]—including France, Greece, Poland, Portugal, and Spain. Alternatively, in 2005, the United Kingdom passed a modified for-profit legal form, the Community Interest Company (CIC), to address the call to elevate social mission in a for-profit setting.[10]

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Differences between Social Enterprise in the United States and Europe

Social enterprise in the United States is, by comparison, largely left to the private and civil society sectors. Here, a national-level legal form has not been created for social enterprise, though there is significant state-level tinkering with adaptations of for-profit legal forms that legally allow social and profit goals to coexist, such as the *low-profit limited liability corporation (L3C)*, the *benefit corporation*, and the *social purpose corporation*. The cooperative form has historically not been associated with the term *social enterprise* in the United States; however, this is changing with the emergence of

A hallmark of European social enterprises is that they are established and managed by citizen groups rather than public or private entities, though they can receive significant funding from these sources.

such entities as the Evergreen Cooperatives in Ohio and the Cooperative Home Care Associates in New York.[11] Also, by contrast, in the United States there is generally more emphasis on revenue generation in support of a wide range of social purposes that may or may not involve beneficiaries in the earned income activity and that focus on the disadvantaged as well as improved well-being more generally. Historically, the development of social enterprise has involved more foundation than government support.[12]

Typical organizational arrangements for social enterprise in the U.S. context span both nonprofit and for-profit legal forms.[13] In terms of nonprofits, the social purpose organization involves the generation of earned income through the in-house sale of products or services. An example is the physical fitness and recreational services provided by the Young Men's Christian Association (YMCA).

The sale of products or services can also be arranged through a nonprofit or for-profit subsidiary. The creation of subsidiaries allows a nonprofit to engage in activities that may only be peripherally related to its mission or to reduce its risk as it experiments with a new program or business ideas. Such subsidiaries are considered social enterprises when they include an earned-income component. For example, a comprehensive social service provider might establish an employment agency for hard-to-place inner-city residents as a separate nonprofit subsidiary. While the parent organization may provide start-up funding and administrative services, the subsidiary is able to adopt its own structure and create a business-like culture.[14]

The for-profit subsidiary is often chosen when a nonprofit seeks to protect its tax-exempt status while engaging in substantial business activity that is not related to its charitable exempt purpose. Profits from the for-profit subsidiary are taxed at normal corporate income tax rates, even though they support the charitable activities of the nonprofit. The Sustainable Community Initiatives' establishment of a for-profit subsidiary called Community Forklift (a recovered building materials store) is an example of this. At times, nonprofits go a step further and establish a network of nonprofit and for-profit subsidiaries, creating a nonprofit conglomerate such as Housing Works, which serves the homeless with HIV/AIDS in New York City.[15]

In the United States, social enterprises are also housed within a for-profit business form. Dual-purpose businesses (hybrids) mediate profit goals with internally realized social objectives to achieve either a double bottom line (financial and social returns) or triple bottom line (financial, social, and environmental returns). An example is Pura Vida Coffee's mission, which calls for providing living wages for farmers and producers in Latin America through the sale of fair trade coffee, the education of consumers and business leaders to take action toward social good, and serving at-risk children and families in Latin American communities and around the world.

In the European context, there can be variations on these organizational arrangements with the for-profit and charity/association (similar to nonprofit) legal forms found there. However, the use of a single organization appears to predominate over a conglomerate, with this typically being the cooperative or social cooperative legal form (when such legislation is present). Associations may also house a revenue-generating component; however, this is only where laws allow business activity within the association legal form.

Another point of differentiation between Europe and the United States is the internal governance of the social enterprise. In the European context, the governance of the organization carries greater importance due to its expected role in the democratic advancement of the economy.[16] Indeed, the European social enterprise focus on autonomous development, decision making exclusive of capital ownership, and participation of multistakeholders in the governance of the organization all speak to the cooperative roots of social enterprise in Europe. In terms of autonomy, a hallmark of European social enterprises is that they are established and managed by citizen groups rather than public or private entities, though they can receive significant funding from these sources. As such, public–private partnerships are not included in their conceptualization of social enterprise, though they can be at times in the U.S. context.[17] Decision making in European social enterprises is based on the premise of one member, one vote, and is not determined by capital ownership, as it can be in the United States with for-profit social enterprises. The involvement of multiple stakeholders—including employees, beneficiaries, volunteers, sponsors, and government and business actors from the local community, either on the board or as members—creates a situation of multistakeholder ownership and governance of the social enterprise. These last two characteristics are captured as requirements in the legislation for social enterprise legal forms in some European countries.[18]

In the U.S. context, democratic governance of the social enterprise gets less attention, and more focus is placed on ensuring business management expertise, especially in the case of the nonprofit social enterprise. *Enterprising Nonprofits: A Toolkit for Social Entrepreneurs* by Greg Dees, Jed Emerson, and Peter Economy discusses many alternative means to structure social enterprise in relation to the nonprofit that has given the enterprise birth.[19] Alternative board structures might include an advisory board or a business enterprise board. If the enterprise is located inside the nonprofit, an advisory board can be established to specifically provide support and counsel on the enterprise side. Such advisory boards typically have more representation from clients and the community, and can be formal or informal. When the social enterprise is housed in a legally separate for-profit subsidiary, a business enterprise board can be established at its head with a focus on profit making.

Given the above, it is not surprising that Europeans and Americans often define social enterprise differently. In the United States, there are, broadly speaking, two principal schools of thought: the *earned-income school* and the *social innovation school*. The earned-income school focuses on social enterprise organizations and activities that generate commercial revenue in support of social goals.[20] Indeed, a version of this definition is used by the Social Enterprise Alliance (the U.S.'s professional association), as well as among many social science scholars.[21] From this perspective, social enterprise encompasses a variety of forms along a continuum from dual-purpose businesses that mediate profit goals with social objectives (hybrids) to nonprofit organizations engaged in mission-supporting commercial activity (social purpose organizations, for-profit subsidiaries of nonprofits, nonprofit-business partnerships, etc.).[22]

The second school of thought, the social innovation school, is more focused on the individual (as opposed to the organization), and is embodied in the innovative social entrepreneur, with the social enterprise as the vehicle through which a social innovation is delivered—with or without a commercial base.[23] Business schools and foundations in the United States largely espouse the social innovation school.[24] Some authors, however, promote a distinction in the use of these terms that aligns with the two schools of thought. Paul Light, for instance, states, "Whereas social entrepreneurship seeks tipping points for innovation and change, social enterprise seeks profits for reinvestment and growth."[25] Citing J. Gregory Dees, Light argues that on an academic level there is increasing agreement that social enterprise is distinct from the foundation definition of social entrepreneurship due to its connection with revenue generation.[26]

In Europe, the EMES International Research Network established a set of loose criteria to use in identifying social enterprises in that context. These include the economic/entrepreneurial criteria of "a continuous activity producing goods and/or selling services; a high degree of autonomy; a significant level of economic risk; a minimum amount of paid work." They also include the social criteria of "an explicit aim to benefit the community; an initiative launched by a group of citizens; a decision-making power not based on capital ownership; a participatory nature, which involves various parties affected by the activity; a limited profit distribution."[27] This approach differs from the ways social enterprise is typically conceived of in U.S. circles. One

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Their affirmative critique . . . challenges those involved to not settle for the status quo but rather to push the field's frontiers to achieve the full potential of social enterprise and address any needed corrections along the way.

key difference is the European focus on having a multistakeholder governing body as well as a lack of emphasis on social enterprise as involving "innovation." It should be added that in the European approach, not every criterion listed above needs to be met precisely in order to place an organization in the social enterprise sphere.[28]

Moving Forward

As I have noted elsewhere, "The concept of social enterprise continues to raise the interest of people around the world. From practitioners to policymakers, activists, and funders of the social good, social enterprise has captured the imagination and hopes of a growing cross-section of society that seeks to find a more sustainable answer to the problems of society."[29]

Realizing that potential, however, can be a challenge. Indeed, social enterprise is not without its critics on both sides of the Atlantic. Pascal Dey and Chris Steyaert recently published an edited collection of papers written by scholars in North America and Europe that critique social entrepreneurship and enterprise. The five sections in the book bring awareness to and open a discourse around assumptions about social entrepreneurship; its political and ideological representations; how it is enacted through language, trust, and compassion, with sometimes unintended consequences; its moral predicaments and limitations with respect to participation and democracy; and how newly understanding it from a relational view can shift thinking around what is possible, including systems change. Their affirmative critique—which positions the current phenomenon of social entrepreneurship and enterprise as "inadequate yet necessary"—challenges those involved to not settle for the status quo but rather to push the field's frontiers to achieve the full potential of social enterprise and address any needed corrections along the way.[30]

As Dey, in an article with Hanna Schneider and Florentine Maier, puts it, this requires "first . . . an enticing positive vision (e.g., democracy, justice, good life, human decency). Secondly, in alignment with such ideals, it should be made clear that they will always remain elusive, and that the road towards approximating them will remain forever arduous."[31] What is increasingly clear is that social enterprise is one of the important tools that can take us along this path—if due diligence is paid to the steering of it.

Notes

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13. Kim Alter, "Social Enterprise Typology," The Four Lenses Strategic Framework, accessed June 5, 2018, www.4lenses.org/setypology.
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Advancing *a* DAF Regulatory Agenda *from* Within *the* Nonprofit Sector

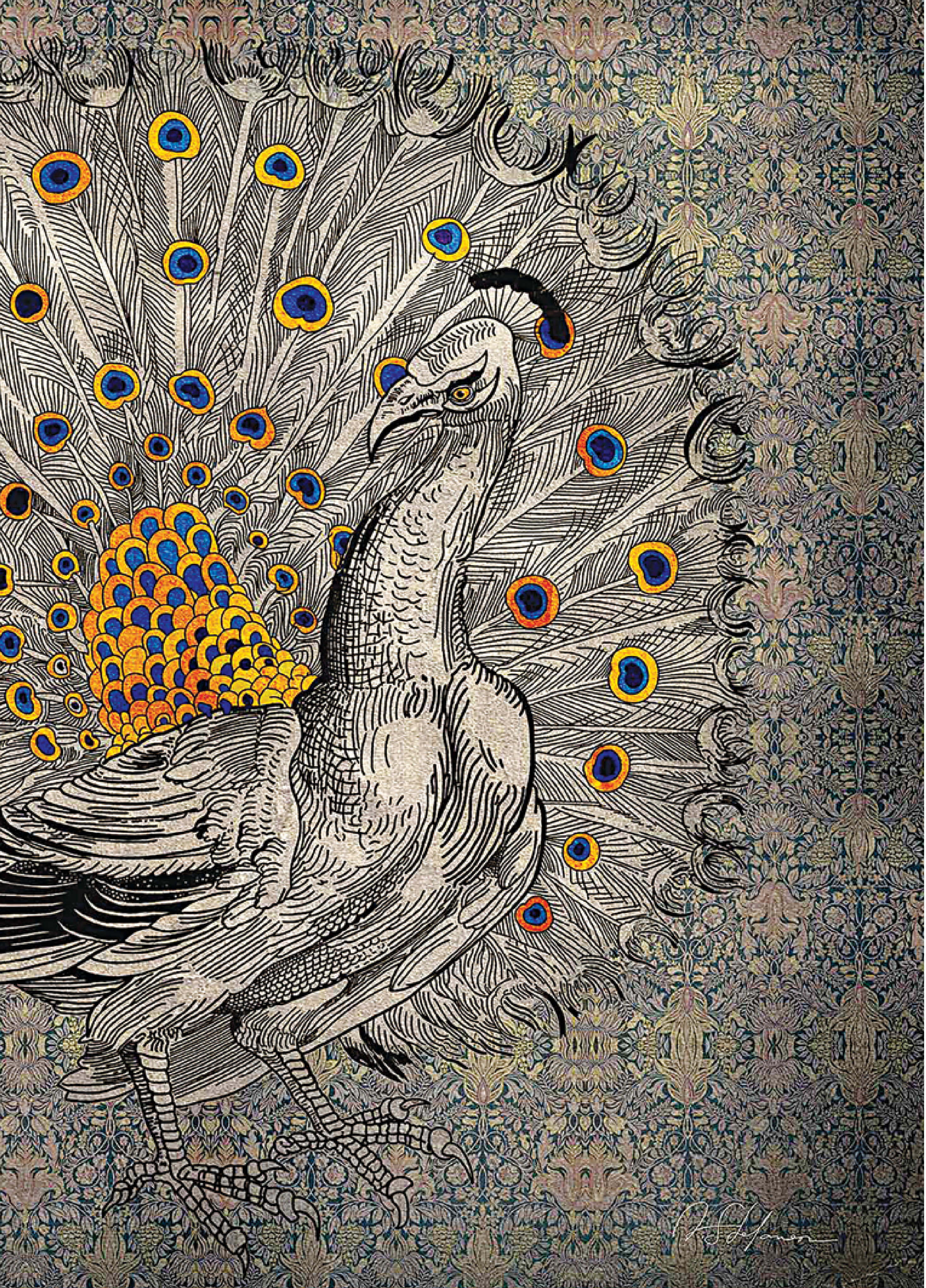
As the following articles describe, tension has built up around the lack of substantive regulation of donor-advised funds. "Tracking the extent of any problem (or whether a problem even exists)," writes Ruth McCambridge, "is made difficult by the veil provided by sponsors—which allows DAFs to be almost entirely opaque. This raises questions about accountability and access, and it should come as no surprise that these questions are emerging even as these funds grow relatively astronomically in numbers and dollar value." But there is a place for both self-regulation and external regulation of DAFs, and the general sense is that this is where we will eventually land.

There are all kinds of dynamics that get in the way of advancing any particular conversation, but in many cases those dynamics are pretty familiar—and if we name them, there is at least a chance that a true dialogue can get traction. The following articles address a set of proposals for regulations having to do with donor-advised funds, or DAFs. These proposals are not actively in play in Congress, but as that field—characterized in part by its built-in veil for individual funds—continues to grow explosively, the need to respond to concerns grows ever more critical.

The Dynamic

Thirteen years ago, former Massachusetts Attorney General Scott Harshbarger wrote an article for *NPQ* in which he characterized the policy-related behavior of the nonprofit

"The Emperor" by Anca Stefanescu/www.ancastefanescu.com



infrastructure as “ragging the puck” (“Ragging the Puck: Not a Viable Strategy for the Whole Game,” *Nonprofit Quarterly* 12, Special Issue, 2005). He was referring to policy related to regulating the sector itself. “Ragging the puck” is, of course, a hockey term that refers to the practice of worrying the puck around the rink while running the clock down, so that the opposing team has no chance to make a goal. The article was written over a decade ago, but much of the sector’s response to regulatory proposals has remained defensive—largely, attempts to keep regulatory advocates from scoring. There are some exceptions to this, as with the proposal for a Universal Deduction last legislative season—but that was being floated against the tax overhaul’s curtailment of the charitable deduction, and could also have been seen as part of a defensive strategy.

A good defense is great, but if it is your only move, after a while it will become less than effective. At the time, Harshbarger was reacting in part to the insistence by some national groups that the sector could achieve better results through self-regulation and the affirmative promulgation of best practices than it could through external regulation.

Clearly, there is a place for self-regulation and the dissemination by a field of its own standards and best practices, but there is also a place for external regulation—as is the case with the rapidly expanding field of donor-advised funds. The articles in this section give space primarily to those advancing reform proposals, but we also suggest that some of the work needed to respond to those concerns is being done already or could be done affirmatively by the DAF sponsors themselves, with the help of independent researchers who could be used as monitors.

We end, here, as we began—with advice in that long-ago article from Harshbarger:

> Too often and too consistently, the nonprofit sector’s leadership has resisted review in the same terms and to the same effect as corporate America. Much of the “leadership” that has had the time and drive to lobby on the regulatory environment at all has or is well aligned with a particular set of vested interests. . . . While I believe in the importance and mission of our sector, and while I have observed a host of exceptional leaders and governance models, I have great fears that the sector, given the choice, will do exactly what it has done historically, and in fact exactly what the leaders of corporate America are doing now: ragging the puck with task forces and studies proposing more standards and more voluntary action, while at the same time talking only to fellow “insiders” and true believers. Assertions that regulation will divert time and money from our core missions, and that we should not all be tainted by a few bad apples, prevent us from considering the benefits of meeting the challenge to participate actively in the evolution of a carefully crafted, well-tended, well-bounded, well-refereed, and sun-drenched playing field—and one that need not be “one size fits all,” form over substance, or unduly costly.
>
> . . .What we are missing is the kind of positive, proactive advocacy from the sector—at the national level as well—that will help achieve the best balance of imposed and voluntary accountability measures. We must all value, not fear, the principles of democracy—accountability, transparency, disclosure, checks and balances, integrity, openness, robust debate, public and private-sector partnerships, and, above all, civic engagement by all of us, including an educated, active constituency.

Finally, the following questions by Harshbarger apply as strongly today as they did back in 2005:

> So, will the nonprofit sector and its leadership follow the for-profit leaders in its response to the call for more accountability? Will it rally to resist mandatory change by circling the wagons, raising the rhetorical flags, prophesying doom, and trying to run out the clock? Or will it seize the moment to help order the regulatory and accountability landscape?

Do Donor-Advised Funds Require Regulatory Attention?

by Ruth McCambridge

The Nonprofit Quarterly is by no means convinced that there is widespread abuse in donor-advised funds—but do we believe that the *conditions* exist for widespread abuse? That is a different proposition. There are two categories of concern that some advocates would like to see answered with regulation: the first has to do with the establishment of systems of accountability that look into the transactions of individual funds, and the second is what such a sight line might reveal—for example, overvaluation of noncash contributions, inactivity in disbursement of funds, and transfers of funds from private foundations in an attempt to bypass their payout rates. Thus, the first concern about opacity can lead to the polarization we now see about whether or not the field is in need of regulation, because the concerns of DAF skeptics are not disprovable while DAF sponsors see the veil as being of value to the donors they serve. Is there a way forward other than waiting for the almost inevitable scandal to catch the attention of Congress? We think so.

Background

A donor-advised fund (DAF) is defined as "(1) a fund or account owned and controlled by a sponsoring organization, (2) which is separately identified by reference to contributions of the donor or donors, and (3) where the donor (or a person appointed or designated by the donor) has or reasonably expects to have advisory privileges over the distribution or investments of the assets."[1] Donor-advised funds tend to be held at three different types of institutions: community foundations, commercial funds established by investment firms, and charities serving a particular field or need.

To establish a little background, while donor-advised funds have by some accounts been around since 1931 (when the first such fund was started by the New York Community Trust, by its own claim), DAFs only started to spread significantly since the Tax Reform Act of 1969, when Congress enacted regulatory reform (including reduced tax benefits and payout requirements) on private foundations.[2] Given the new constraints, community foundations (which were designated public charities rather than private foundations) realized that they could provide donors with a beneficial alternative (to foundations) by offering a relatively individualized giving vehicle for donors through the donor-advised fund model. Donors would get all the tax benefits of a transfer to a public charity, but there would be an understanding that the funds would be segregated and the donor would retain functional control over

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the distribution (and sometimes investment) of the donated funds.

In 1981, the category of donor-advised funds was written into law.[3] At that point, DAFs began to proliferate largely in community foundations, but they have only become controversial since commercial financial firms entered the field as sponsors in the early 1990s, establishing their own public charities to receive, hold, and dispense the funds.[4] This placed them in direct competition with community foundations, and there was a good deal of hostility that built up. That hostility has since dissipated to some extent as community foundations realized that the marketing of DAFs done by the financial services industry assisted the growth of DAFs in community foundations as well. But the discomfort that others feel with the vehicle in general has grown, along with the very rapid expansion of the field, which is maintained below the sight line of the public. Tracking the extent of any problem (or whether a problem even exists) is made difficult by the veil provided by sponsors—which allows DAFs to be almost entirely opaque. This raises questions about accountability and access, and it should come as no surprise that these questions are emerging even as these funds grow relatively astronomically in numbers and dollar value.

Tracking the extent of any problem (or whether a problem even exists) is made difficult by the veil provided by sponsors—which allows DAFs to be almost entirely opaque.

DAF asset values more than doubled between 2010 ($33.6 billion) and 2015 ($78.6 billion).[5] Year over year, as you can see below, the growth has been nothing short of phenomenal while all of giving as a proportion of disposable income has stayed relatively stable.[6]

Changes in the Number of Funds and the Asset Value of DAFs and Private Foundations from 2014 to 2015

Type of Giving Vehicle	Total Number of Funds (thousands)			Dollar Value of Assets (billions)		
	2014	2015	Percent Change	2014	2015	Percent Change
DAFs	242.4	269.2	11.1%	$70.3	$78.6	11.9%
Private Foundations	79.7	81.8	2.6%	$712.45	$781.6	9.7%

Source: National Philanthropic Trust (2016)

Another grounding issue for those trying to make sense of policy needs for this vehicle is that DAFs have a dual character that leaves them sitting oddly between foundation and individual giving. You must approach the individual (or vice-versa), but the grant is finally made by the DAF sponsor, which retains real ownership/stewardship over funds that have been transferred to the DAF. Lila Corwin Berman calls this an "intersection of these two modes—charitable endowments and individual donor control over public charitable dollars."[7]

This plays out to hold the sponsor responsible for its own transparency as a whole entity while obscuring the activities of the individual funds. Tax guidelines promulgated in [the Pension Protection Act of] 2006 require each donor-advised fund sponsor to report the total number of funds, total assets in the funds, and total contributions to and from the funds on their Forms 990, but any information on the individual funds themselves, regardless of size, is obscured.[8]

To explain what the issues are, we invited two advocates, Ray Madoff and Dean Zerbe, well known for their criticisms of the DAFs field, to provide their takes on what needs regulatory attention. We also invited others to write about

For the most part, charities with DAFs face laws and rules simpler than those applying to private foundations, but they must still deal with some provisions not applying to other public charities. For example, donors can donate assets (and sometimes capital gains taxes) on the unrealized appreciation, but the deduction limits as a share of adjusted gross income for the deduction are lower for donations to private foundations than for those to DAFs, which are treated like most other charities. Private foundations must pay a 1 or 2 percent excise tax on net investment income each year, but DAFs are not subject to the excise tax. Private foundations are mandated to make minimum distributions each year, but DAFs do not have a distribution requirement, although some sponsoring organizations have their own policies regarding minimum or occasional distributions. Private foundations must disclose donor information on tax form 990-PF, but sponsoring organizations (e.g., a community foundation or Fidelity Charitable) are not required to publicly disclose donor information. Thus, DAFs can grant more anonymity to donors than can private foundations, but not necessarily any more anonymity than donors to other public charities.[9]

Proposals from Madoff and Zerbe		
Proposal	**Problem it addresses**	**Objections**
Impose some requirement that encourages or ensures that DAF assets make their way to nonprofits. Three proposals are: (1) Create a legal annual percentage requirement for payouts from donor-advised funds. (2) Require that all funds in donor-advised funds be spent out within a set period of time. (3) Adopt rules that incentivize distributions from each fund such that donors are encouraged to move more quickly in making final distributions. **(Madoff and Zerbe)**	The problem being addressed here is the concern that donors are being given maximum tax benefits for contributions to DAFs (because they are public charities), but there is no requirement for the funds to ever be distributed out of the DAF. Currently, it is impossible to determine how many of the individual donor-advised funds may simply be in holding patterns and for what periods of time.	Those in the field object to payout requirements, because overall payout percentages on the pools of funds are in many cases higher than at most private foundations, which have tended to view the minimum floor payout of 5% as a ceiling requirement. In contrast, some donor-advised fund sponsors report payout rates of 10% to 20%; this, of course, is an average, and may include some funds that act as pass-throughs (receiving and dispensing funds in close chronological proximity) and some that are relatively inactive. Furthermore, the donor-advised funds are as much like individual donors as they are like foundations; in other words, the individual funds are not regarded as endowments.
DAF sponsors should have boards that are credibly independent from their related for-profit financial institutions. **(Zerbe)**	The boards of any public charity should be free from the temptation to serve the interest of a private institution over the interests of the public.	
Tie the tax benefits of complex asset contributions to the actual amount that becomes available for distribution for charity rather than an appraised value. **(Madoff and Zerbe)**		
End the practice of transfers from foundations and/or make them transparent. **(Madoff and Zerbe)**	Some foundations use giving to donor-advised funds to meet the 5% payout requirement. This constitutes a violation of public trust and exacerbates the sense that the funds are being used as a workaround to the legal requirements of private foundations.	There are pages of examples of why this practice of transferring between private foundations, public foundations, and other DAFs should be allowed. Objectors to curtailment of such activity include the Philanthropy Roundtable, the Council on Foundations, Independent Sector, and others.
To provide protection against abuse of charitable laws, improve reporting requirements and transparency so that reasonable monitoring is possible on payout, dormant/inactive funds, acceptance of non-publicly-traded property, and other issues. **(Madoff and Zerbe)**		

why such broad-based congressional attention was not now needed and to speak up about what additional, but more limited, regulations were needed, but we mostly got demurrals. So, we were stuck trying to make some sense of what may be priority issues for regulation, which we have done below with the benefit of prior analyses from the Urban Institute and others. The issues we have identified as deserving of attention are not the issues you may most commonly hear from nonprofits, by the way, which have to do with the ability to identify donors with DAFs; but they are the issues where we have determined the most abuse might be occurring.

None of the proposals advanced below have to do with affording more access for nonprofits, which is what bugs many organizations. When complaining about donor-advised funds, nonprofits generally talk about the inability to access the names and contact information of fund advisors and related information about grant types, amounts, and so forth. That particular issue flows from the individual giver aspect of the DAF identity. Despite the fact that the money is being held as charitable funds and a deduction has been taken, there is no requirement for the publishing of material that identifies the giver, and the funds see that prospect as being a potential wet blanket on the proposition they are offering donors—that of nailing the donor down to a dollar-giving intention but not revealing that publicly nor requiring any precommitment to any particular nonprofit.

While the funds are championed as democratizing giving, there are some indications that the donors continue to act more like high- than low-end givers; as the Lilly Family School of Philanthropy at IUPUI reports, "there are some similarities between donor-advised fund granting patterns and the national distribution patterns . . . there are even more similarities when donor-advised fund granting patterns are compared to data on individual donors only."[10] Some may feel that providing a veil for high-end givers primarily is unfair treatment; that veil, in fact, stands directly in the way of our understanding the extent of some of the problems identified by Madoff and Zerbe. Thus, no one really knows the extent of the problem of private foundations avoiding the 5 percent payout rate through the use of donor-advised funds, but they have been left trying to surmise it through the use of other information, as is described here by IUPUI:

While the funds are championed as democratizing giving, there are some indications that the donors continue to act more like high- than low-end givers.

> . . . researchers endeavored to understand why giving to public-society benefit (PSB) from donor-advised funds was higher than the national trendline. In 2015, giving to PSB accounted for 16 percent of donor-advised fund grant dollars, while PSB garnered 8 percent of total giving in the same year according to *Giving USA 2017*.
>
> The public-society benefit subsector, as defined by *Giving USA*, is a collection of many distinct charities including national donor-advised funds, United Way chapters, Jewish appeal funds and federations, veteran's affairs organizations, civil rights nonprofits, and others.
>
> Upon closer inspection of the public-society benefit subsector data, we found that a certain proportion of granting from donor-advised funds was going to other organizations classified as donor-advised fund sponsors (DAF-to-DAF granting).[11]

This particular problem of private foundations using contributions to DAFs to bypass payout rules should be seen as especially egregious, since it may not be illegal but certainly flouts the intent of the payout requirement. But there is no way to determine the extent of the problem without extraordinary efforts. Of course, there *is* a way for donor-advised fund sponsors to help make the field more transparent by funding more independent research themselves, based on increased access to the data. See more on this idea below.

• • •

It is unclear what the congressional appetite is for the regulation of DAFs. Former Michigan Congressman David Camp's proposal in 2014 to levy an excise tax on DAF funds not distributed within five years of contribution has been largely left for dead.[12] However, as evidenced by the recent rules regarding university endowments and sports seating, Congress does appear largely mindful of concerns over the relationship between charitable tax benefits and the public good.[13] While Congress appears largely uninterested in donor-advised funds, it is demonstrably increasingly and critically interested in endowments that do not accrue properly to the benefit of the public. Donor-advised funds that aren't fluid are alike enough to endowments to pose a threat to the entire field by providing rich soil and a veil for misbehavior in that sweet spot of congressional attention. Additionally, it is in the best interests of the whole sector to understand how these bodies work to ease or dam the flow of charitable giving into nonprofits that provide benefit to our communities and society.

The one issue that is most talked about as in need of policy change is the issue of payout rates, which has compared very favorably to foundation payouts—but not so favorably, of course, to direct giving, if you assume that the same amount would have been given elsewhere.

In any case, in the absence of transparency, one could assume that none of the proposals have merit or almost all of the proposals have merit—and therein lies a big problem. It should be said that many DAF sponsors have already begun implementing internal rules that answer some of the concerns—for instance, some have rules in place to prevent funds from remaining dormant for too long. Fidelity Charitable, for example, sweeps funds that have been dormant for three years or more, and grants the money itself in individual funds. But codifying such practices and fine-tuning them to close any loopholes that have opened up during this period of explosive growth will either be done by the field in a way that lends itself to strict fieldwide standards or may eventually end up in the hands of Congress when we least expect it (and possibly following a scandal or two).

Finally, the whole field would benefit from independent research that examines a number of key questions, identifying patterns that violate standards already in law or regulation. This proposal was advanced in 2015 by the Urban Institute, in their paper "Discerning the True Policy Debate over Donor Advised Funds," in which a call was issued to national DAF sponsors "to share data with independent third-party researchers in ways that could accommodate privacy concerns."[14] In fact, such access could provide the robust research and data that would allay regulators' concerns—if no cause for concern exists.

In the end, as former Massachusetts Attorney General Scott Harshbarger asserts in the introduction to this section, the field itself has an opportunity to achieve the best balance of imposed and voluntary accountability measures if it moves toward accrediting DAF sponsors, but it cannot expect the public to continue to take it on faith that these bodies are managed to the highest ethical standards without more assurances than exist now.

Notes

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Three Simple Steps *to* Protect Charities *and* American Taxpayers *from the* Rise *of* Donor-Advised Funds

by Ray D. Madoff

WITHOUT A DOUBT, THE MOST NOTEWORTHY story affecting the charitable sector over the past twenty-five years has been the meteoric rise of donor-advised funds (DAFs). Within the blink of an eye, DAFs have grown from obscurity to ubiquity—and with the 2017 tax law[1] making *bunching* the new word in charitable giving, the growth of DAFs is expected to continue unabated.

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Consider the following:

- In 1992, the top ten fundraising charities were all well known to the public and included such familiar names as the American Red Cross, the American Cancer Society, and Catholic Charities USA. In 2017, none of the above charities were on the list, and six of the top ten were DAF sponsors and were unknown to most Americans (and sounding more like commercial financial institutions than traditional charities).[2]
- While contributions to charities as a whole have grown at a slow and steady pace, the rate of growth in DAF contributions has been astronomical. Since 2011, overall annual charitable giving has grown from $300 billion (in 2011) to $410 billion in 2017[3] (total growth of 36.6 percent).[4] Over that same time period, annual contributions to Fidelity Charitable, the largest DAF sponsor, have grown from $1.7 billion in 2011[5] to $6.8 billion in 2017 (total growth of over 400 percent).[6]
- DAFs are not only being funded by individuals. Many private foundations make significant distributions to DAFs. Private foundations can use DAFs to satisfy their 5 percent distribution requirements while still retaining ongoing control over the distributed property. In addition, DAFs allow private foundations to meet their disclosure requirement (by reporting their distribution to the DAF sponsor) while maintaining secrecy about the ultimate recipient of their distribution.

Why have DAFs moved to such a dominant position in the charitable landscape? There are three main reasons for their extraordinary growth:

1. DAFs enable donors to obtain current tax benefits of charitable giving while maintaining functional control over the investment and distribution of the donated property, without incurring the administrative expense and disclosure obligations imposed on private foundations.
2. DAFs enable donors to obtain maximum tax benefits for their contributions by facilitating the donation of appreciated property.

   The donation of appreciated property provides a double tax benefit for donors, because it enables donors to both avoid capital gains taxes on donated property and offset their income tax liability based on the fair market value of the contributed property.[7] These benefits are particularly valuable as applied to donations of complex assets—property other than publicly traded stock—because these assets only provide very limited tax benefits when contributed to private foundations.[8]
3. DAF sponsors earn fees for the management of DAF funds. Ever since financial services companies have begun creating DAF sponsors, they have used their considerable marketing skills to fuel their growth. In addition, because individual financial advisors are also able to profit from managing DAF funds, their influence has assisted the growth of DAFs, as well. This increased public awareness of DAFs has fueled the growth of all DAF contributions, not just those associated with the financial services industry.

DAFs are not only being funded by individuals. Many private foundations make significant distributions to DAFs.

Three Steps to Ensure That DAFs Work for Everyone

DAF sponsors and their representatives take the position that DAFs have been an unmitigated good for the charitable sector—democratizing philanthropy by making it easy for small donors to create their own perpetual endowments, and opening new sources of charitable giving by facilitating donations of complex assets (referred to by some as "philanthropic fracking"). However, by focusing on the interests of donors, these arguments fail to recognize that two critical interests have been ignored in the existing regulatory approach to DAFs: (1) charities and the beneficiaries they serve, and (2) American taxpayers.

The following three rules would address these interests by ensuring that charities get the necessary funds to do their work, and that the government doesn't provide tax benefits that are incommensurate with public benefit, thereby burdening American taxpayers.

Rule #1: Save Charities by Ensuring or Encouraging the Flow of Dollars from DAFs to Charities

Tax benefits for charitable giving were granted in order to increase the flow of dollars to organizations engaged in charitable work. DAFs undermine fulfillment of this purpose by allowing donors to get all of the tax benefits of charitable giving at the time that the donation is made to the DAF, without providing any mechanism (or even encouragement) to ensure that any of the tax-benefited dollars are ever made available for charitable use. Because current law does not require payouts from DAFs, donors can indefinitely defer charitable distributions from their DAF accounts, even across multiple generations. While some individuals distribute their DAF accounts entirely within a single year, others make no distributions at all. According to an IRS study, while some DAF sponsors have high overall distribution rates, nearly 22 percent of the DAF sponsors in 2012 made zero distributions.[9] Even for those DAF sponsors with higher payouts, the reported rates can be misleading because they include distributions to other donor-advised funds, which can be substantial.[10]

The fact that DAF sponsors and financial advisors benefit financially when assets remain in the DAF may cause them to subtly encourage donors to think of DAFs as accounts to hold rather than as funds to disburse.

There are many reasons why well-meaning donors may fail to make significant distributions from their DAFs, including the following:

1. Charitable decisions are difficult to make, and many donors have busy lives and therefore want to defer decision making. This common desire to defer decision making until absolutely necessary is evidenced by the number of charitable gifts that occur in the final days of the calendar year. By allowing donors to get the full tax benefits of giving without requiring outright (i.e., non-DAF) transfers of charitable assets, donors may never feel the need to disconnect from their DAF accounts.
2. Insofar as donors have a sense of ownership over DAF funds, behavioral economists suggest that the endowment effect may give donors a sense of loss when DAF accounts go down due to the distribution of DAF funds. The ability of donors to make financial management decisions about DAF assets may increase the feeling that DAF accounts belong to donors, thereby increasing the endowment effect.
3. The fact that DAF sponsors and financial advisors benefit financially when assets remain in the DAF may cause them to subtly encourage donors to think of DAFs as accounts to hold rather than as funds to disburse. One way that sponsors and financial advisors may do this is to encourage donors to think of DAF funds as a charitable legacy to be passed on to younger generations.

In order to counter these tendencies, Congress should adopt rules that either incentivize distributions from DAFs or require DAFs to be distributed within a reasonable period of time from contribution.

Incentivize distributions. Congress could incentivize distributions from DAFs by tying some of the charitable tax benefits to the release of DAF funds. For example, Congress could enact rules that would allow donors to avoid capital gains on transfers of property into DAFs, but would delay the charitable deduction until such time as funds are distributed from the DAF to non-DAF beneficiaries.

Set a Time Period for Payout. Alternatively, Congress could impose a maximum time period for DAF accounts to be distributed outright to charities. This could easily be accomplished by requiring donors, as a condition of the deduction, to name a non-DAF charity that would receive any undistributed funds at the end of the designated period.[11] For example, if Congress were to impose a maximum time period of ten years, then a donor who funds a DAF in 2018 would be required to name a charity that would receive any remaining funds in the 2018 DAF account by 2028.[12] DAFs would maintain their flexibility, because donors could change their charitable designations by simply making distributions from that account before the termination date. A maximum distribution period would not undermine the effectiveness of DAFs or their appeal to donors. It would simply establish a limit that would ensure that tax-benefited dollars are granted outright to nonprofits within a reasonable period of time.

Rule #2: Save Charities by Preventing DAFs from Being Used to Undermine Private Foundation Payout Rules

In 1969, Congress became concerned that private foundations were providing too many tax benefits to donors without any assurances that donated funds would benefit the public in a timely manner. In order to address this concern, Congress enacted a rule that required private foundations to distribute roughly 5 percent of their assets each year to public charities.[13] Sensibly, the payout rule could not be evaded by a private foundation making distributions to other private foundations, because then the funds would simply await further distribution by that foundation.

Since the rise of donor-advised funds, some private foundations have been meeting their payout requirements by making grants to DAFs.[14] The foundation can then advise distribution of the grant from the DAF to a charity at a later date. This can have multiple benefits for the foundation: one is that the transfer counts for purposes of the foundation's payout (because the DAF sponsor is a public charity); another is that the foundation can disguise the source of the funding by flowing the funds through a DAF.

Neither of these benefits is consistent with the spirit of the rules that have governed private foundation conduct since the enactment of the Tax Reform Act of 1969. The payout is intended to measure distributions to active charities, not to other investment funds. Further, because of the potential for abuse at foundations, they are held to higher standards of transparency. Allowing foundation-to-DAF transfers to count for payout purposes is inconsistent with the policies behind the private foundation payout and disclosure rules.

In order to address these concerns, Congress should provide that foundation-to-DAF transfers are not "qualifying distributions" for purposes of a private foundation's payout.

Rule #3: Save American Taxpayers by Ensuring that Donors' Tax Benefits Are Commensurate with the Public Benefit of the Donation

One of the reasons for the popularity of DAFs is their ability to give donors maximum tax benefits—indeed, the same benefits afforded outright donations to public charities—and ongoing control over donated property. Tax benefits for DAFs are particularly valuable with respect to donations of assets other than publicly traded stock. As a result, much of the growth of DAFs is attributable to these types of donations.

However, missing from the conversation regarding DAFs is how these donations may impose significantly greater costs—in terms of foregone tax revenue—than the public receives in terms of charitable benefits. This loss of revenue burdens all American taxpayers, who must pick up the slack.

The starting point is that donors get significantly more tax benefits by making contributions of appreciated property rather than cash to a charity. Where a contribution of cash can save the donor as much as $0.37 on each dollar donated, a contribution of appreciated property can save the donor as much as $0.57 for each dollar donated (taking into account both capital gains tax savings and income tax savings). Although donors can get this double tax benefit for contributions of publicly traded stock while still maintaining some control over donated property (by transferring the donation to a private foundation), if the property is not publicly traded stock, the donor's options are far more limited. In order to obtain the full double tax benefit for the contribution of property other than publicly traded stock (like real estate or closely held business interests), the donor must either make an outright donation to a public charity or must make a donation to a donor-advised fund. Since it is a natural human tendency to want to maintain rather than relinquish control, many donors choose DAFs.

As a result, a significant source of DAF assets is complex assets. The problem is that due to a variety of factors, it is quite likely that the tax benefits afforded to contributions of complex assets can outstrip the value to the public of

One of the reasons for the popularity of DAFs is their ability to give donors maximum tax benefits—indeed, the same benefits afforded outright donations to public charities—and ongoing control over donated property.

Donor-advised funds are here to stay. . . . By enacting appropriate regulation that takes into account the interests of charities and American taxpayers, we can ensure that DAFs act as seeds of growth to the charitable sector— and not seeds of destruction.

these contributions. The reason for this is that complex assets, by definition, are difficult to value and lack a ready market for their sale, often resulting in significant transaction costs when converting these properties to cash. Each of these poses problems from a tax policy point of view.

Complex assets have no easily identified market value. As such, taxing authorities must depend on donors' hired appraisers to determine the property's fair market value. Valuation is an art rather than a science, and there is often a considerable range of defensible valuations for property that does not have a ready market. Being dependent on donors for their fees, there is a natural pressure on appraisers to come up with higher values that will afford donors better tax savings. Due to the expense and difficulty of valuing property that has no ready market value, it is virtually impossible for the IRS to provide sufficient oversight for the amount of complex assets contributed to donor-advised funds.[15]

More troubling is the fact that the appraised value of property does not include the cost of converting that property to cash. What this means is that a donor's deduction is likely to be greater than the amount that ends up being available for distribution. Depending on the time that it takes to sell the property and the expenses associated with the sale, there can be a significant disconnect between these two numbers.

Consider the case of a donor that has a condominium in an area where the market is currently depressed. Assume the condominium has an appraised value of $500,000. After donation, the DAF sponsor may have to pay significant fees associated with the property (such as property taxes, utilities, and condominium fees), and the eventual sale of the property will require payment of transfer taxes and real estate brokerage fees. After all of these expenses are paid, only $400,000 is allocated to the donor's DAF, even though the donor was allowed to take a tax deduction based on a $500,000 appraised value.[16]

In order to ensure that the tax benefits afforded donations are commensurate with the value provided to the public, the charitable tax deduction for donations of complex assets should not be based on appraised value but instead should be based on the net value ultimately transferred to the donor's DAF account. This could be accomplished either by requiring the donor to wait to take the deduction until the property is sold or by providing for the recapture of tax benefits to the extent that the claimed deduction exceeded the value of the contribution.

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Donor-advised funds are here to stay—in large part due to the enormous benefits they afford to donors, DAF sponsors, and the financial services industry. By enacting appropriate regulation that takes into account the interests of charities and American taxpayers, we can ensure that DAFs act as seeds of growth to the charitable sector—and not seeds of destruction.

Notes

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2. Peter Olsen-Phillips and Brian O' Leary, "How much America's Biggest Charities Raise: 27 Years of Data," *The Chronicle of Philanthropy*, October 31, 2017, www.philanthropy.com/interactives/philanthropy-400?cid=cpw_featuredata#id=table_1992 and www.philanthropy.com/interactives/philanthropy-400?cid=cpw_featuredata#id=table_2017.
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4. "Charitable Giving Rose 4 Percent in 2011, 'Giving USA' Finds," *Philanthropy News Digest*, June 20, 2012, www.philanthropynewsdigest.org/news/charitable-giving-rose-4-percent-in-2011-giving-usa-finds.
5. *2012 Annual Report: Reporting on Fiscal Year Ending June 30, 2012* (Covington, KY: Fidelity Charitable, 2012).
6. *2017 Annual Report* (Covington, KY: Fidelity Charitable, 2017), 25.
7. The effect of this double benefit is significant. A donor making a contribution of cash can receive tax

benefits of thirty-seven cents for each dollar contributed, whereas a donor making a contribution of appreciated property can receive tax benefits of up to fifty-seven cents for each dollar contributed. The reason for this discrepancy is because the donor can avoid capital gains taxes on the appreciation of the property (which would otherwise be taxed up to 20 percent) and can also offset ordinary income, which would otherwise be taxed at up to 37 percent.

8. A donor's charitable deduction for the contribution of complex assets to a private foundation is not based on the property's fair market value but instead is limited to the property's basis (the amount the donor paid for the investment). Closely held businesses—particularly those that are based on technology—often have very low tax bases.

9. Paul Arnsberger, "Donor-Advised Funds: An Overview Using IRS Data" (paper presented at the conference "The Rise of Donor Advised Funds: Should Congress Respond?," Forum on Philanthropy and the Public Good, Washington, DC, October 23, 2015; revised November 20, 2016).

10. According to a recent article in *The Economist*, Fidelity Charitable was the top recipient of distributions from three of the largest commercially affiliated DAF sponsors—Fidelity, Schwab, and Vanguard. In addition, the third largest recipient was the American Endowment Foundation, another DAF sponsor. See "A philanthropic boom: 'donor-advised funds': The rise of DAFs may be as much about tax as charity," *The Economist* (March 23, 2017), www.economist.com/news/finance-and-economics/21719494-rise-dafs-may-be-much-about-tax-charity-philanthropic-boom.

11. A term limit is preferable to the annual 5 percent payout model applicable to private foundations. An annual payout rule would remove the flexibility of donor-advised funds without significantly increasing the flow of dollars to nonprofits. Experience with private foundations suggests that donors are susceptible to treating floors as ceilings; therefore, they may be more likely to think of their DAFs as perpetual accounts. In addition, since DAFs are sponsored by public charities, donors receive significantly greater tax advantages for their contributions to DAFs. As a result, it makes sense for DAFs to be subject to stricter payout terms that ensure that all DAF dollars are eventually made available for use by charities.

12. Multiple contributions could simply be grouped by year, so that all 2018 contributions would be allocated to the 2018 fund (with an outside distribution date of 2028), and 2019 contributions would be allocated to the 2019 fund (with an outside distribution date of 2029).

13. Qualifying distributions also include funds spent directly for charitable purposes.

14. *The Economist* found that some private foundations distribute 90 percent of their qualifying distributions to DAFs. See "A philanthropic boom: 'donor-advised funds'."

15. This has led some to question whether we should be allowing deductions for charitable contributions of property. See Roger Colinvaux, "Charitable Contributions of Property: A Broken System Reimagined," *Harvard Journal on Legislation* 50, no. 2 (June 2013): 263–329.

16. And theoretically, the reverse can happen. The charitable deduction is based on the value of the property at the time of transfer to the DAF and not at the time that the property is ultimately sold. Thus, a property could acquire higher value so that a higher amount than the original appraised value gets allocated to the donor's DAF, while the donor's tax break stays as it was originally. It is also possible that an appraiser could underestimate the value of the contributed property. In either case, it seems more appropriate to tie the deduction to the actual amount that is available for charity.

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DAF Reform—A Chance *to* Provide Real Benefit *to* Working Charities

by Dean Zerbe

Our nation's charities perform vital work—helping those in need, improving our communities, lifting up those suffering overseas. The public and policy-makers will support tax policies that they believe will get dollars into the hands of the charities actually doing the lift and pull. But there has been a growing cynicism from the perspectives of both the public and policy-makers that tax policies that are intended to encourage charitable donations and provide a meaningful difference in people's lives too often are not meeting expectations.

This is the real disconnect—the slip between cup and lip—that leaders in the charitable sector need to recognize. Every elected official is happy to give a speech extolling the importance of charities—similar to the first sentence of this article. The reality, though, is that policy-makers on both sides of the aisle have taken a hard eye to what is really being accomplished by charities and to the effectiveness of tax policies for charities and charitable giving.

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Where We Are: The Charitable Sector and Washington, D.C.

The recent tax reform bill is Exhibit A for this reality. A number of major voices in the charitable sector decried the efforts of the Republicans in Congress to expand the standard deduction, which the Republicans viewed as a means of providing tax relief and simplification to working families.

In meetings with leading charities, I and others strongly encouraged them to recognize that opposing Republican leadership on the issue of increasing the standard deduction was a losing hand. We suggested that a better tack would be to look for common ground on policies that would encourage charitable giving, particularly giving that would put more dollars in the hands of those charities actually helping the poor, improving the community, and the like: the "working charities." Reforms to donor-advised funds (DAFs) was put forward as a perfect example where reform could be realized that would provide significant meaningful benefit to working charities.

The charitable sector chose to fight. We all know the results: the tax reform bill doubled the standard deduction and expanded estate tax relief (viewed by some as harming charitable

"THE EMPEROR" (DETAIL; AND P. 56) BY ANCA STEFANESCU/WWW.ANCASTEFANESCU.COM

donations). Tax reform also included a number of other provisions that impacted charities: a new tax on university endowments; a new tax on high nonprofit salaries and benefits; UBIT (unrelated business income tax) expansion; limitations on donations vis-à-vis college athletics; bond reforms; and so on. The provisions encouraging charitable giving—Pease reform and an increase from 50 to 60 percent of adjusted gross income allowable as a deduction for cash donations made to public charities—are of some help, but perhaps more on the margins (and with Pease, were just a happy byproduct of a bigger reform goal).[1]

I fear that the Washington, D.C.–based charitable organizations are telling themselves (and the charities nationwide that they seek to represent) that the setbacks are just a partisan problem (ignoring that the previous Democratic administration had also proposed limiting charitable deductions—and there is hardly much in the way of successes in tax policy for charities to point to when Democrats ran the show). Alternatively, special pleading is put forth that the bad news is due to this staffer, that congressman, or a newspaper article. The charitable community needs to recognize that the old approach has failed—and that instead, it needs to engage and find common ground with, put forward positive solutions to, and champion best practices that will help working charities. It also needs to recognize that, for elected officials on both sides of the aisle, the door is wide open when it comes to constructive policy proposals from the working charities in their state or district: the corner soup kitchen, the local diaper bank, the clinic aiding communities stricken by abuse of opioids. If these organizations find their voices, they can be powerful in making DAF reform a reality.

Where We Can Be: Charitable Reform to Help Working Charities

The above overview is intended to set the stage for suggested policy reforms for DAFs. While I think there is a need for reform in many parts of the tax code regarding charities and charitable giving (not just DAFs), DAFs are now a major (and growing) recipient of charitable donations and are a good place to start. And reform of DAFs is doable and can have a major positive impact for working charities and the beneficiaries of these charities.

My comments here are broad and reflect my years of experience in Congress with charitable policy and DAFs, and what I believe are positive changes and reforms for the charitable community that can be accomplished. I have no dog in the fight except in seeing more charitable dollars get into the hands of working charities that are making a meaningful difference to the lives of millions of Americans.

Payout: Money to Working Charities Today

Payout is the cornerstone of DAF reform. The whole rationale for the generous tax treatment of charitable deductions is that the money ends up in the hands of a charity that is actually helping those in need—providing the blankets, feeding the hungry—what I call "a working charity." Having charitable donations go to banks (aka "warehouse charities"), with the wealthy getting their tax benefit today, the money managers getting their fees today, and the fiscal agent receiving fewer tax dollars today—while the poor see a benefit (maybe) tomorrow, or next year, or ten years from now—is nonsensical. We can do better.

The easy solution (also an anti-abuse measure) is to have a payout requirement for DAFs on an account-by-account basis. A starting point for discussion would be a payout from DAFs over five years (as proposed by former chair of the House Ways and Means Committee Rep. David Camp), or of 5 percent annually, similar to private foundations. But consideration should be given to a higher payout or to policies that encourage a higher payout (à la Camp). The argument that a floor for payout will become a ceiling doesn't hold water. One look at the embarrassingly low payout of college endowments (that grow every year with additional donations), as well as the hundreds of DAFs that have no payout currently according to IRS Statistics of Income, shows what happens when there is no requirement of payout.

We cannot be blind to the fact that there is a real tension with DAFs. With humans being humans, managers of some DAFs—especially those managed by for-profit financial institutions (FIDAFs)—will feel in many cases a strong pull to

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keep funds under management. Policy-makers and supporters of working charities cannot ignore the reality that having more funds under management is the golden rule for money managers and financial institutions, and charities running DAFs aren't immune to this pull, either. Further, as shown in a number of studies, donors themselves often feel a strong pull to keep funds in a DAF and not pay out, for a variety of behavioral reasons.[2] The laws and regulations requiring payout—with incentives for getting dollars into the hands of the working charities—are necessary to counter that pull on both investors and donors to keep dollars in a DAF.

While the reasons for payout on an individual account basis for DAFs are straightforward in getting dollars into the hands of working charities, another reason for payout on an individual DAF account basis is that it serves as an anti-abuse measure.

I encourage those who, in good faith, are concerned about the possible loss of donations to working charities from the increase of the standard deduction, to realize that at least a partial solution stretches before them—that being to encourage a greater proportion of the warehoused charity dollars at DAFs to go to working charities. Imagine if the energies and passion of the charitable community were focused on getting the billions of additional dollars out of warm banks and into the hands of working charities? The results would be astonishing.

Independence: DAFs That Put Working Charities First

The IRS and Congress must recognize and address the pretense that is the linchpin of the largest DAFs—the DAFs that are essentially arms of financial institutions, the FIDAFs mentioned earlier. We are all familiar with these financial institutions (they are some of the biggest charities out there) that set up charities to receive donations from their clients/customers in DAFs and then continue to extract fees managing the money.

The reality of these FIDAFs is that they are commonly part of the mother financial institution. Typically located at the same place, and (mostly) sharing the same board members/officers, FIDAFs are essentially indistinguishable from—and, most important, have no independence from—the mother financial institution. The proof? Every year, the board of each of these FIDAFs scours the world to determine who is best placed to manage the funds of the FIDAF, and—surprise—it is the mother financial institution. (I wonder what is the statistical probability that each FIDAF independently determines every year that its mother financial institution is the best one to manage the funds of the FIDAF.) Further, as discussed earlier, FIDAFs (as with all DAFs, but stronger with FIDAFs) have a strong pull toward keeping as many dollars under management as possible—which is counter to the policy of Congress and the public of getting dollars into the hands of working charities.

FIDAFs are playing by the current rules that they helped to write; we need to change those rules. For instance, a requirement that FIDAFs be operated and managed as independent charities—with the best interests of the charitable community in mind, and encouraging donors to make donations to working charities—would go far in cleaning up many of the problematic policies and practices regarding DAFs. A minimum starting point should be that the majority of the board members of these charities not be members of and have no relationship to the FIDAF, and that the independent board members be nominated and confirmed by independent board members.

And DAFs—especially DAFs managing billions of charitable dollars—must be housed at charities that enjoy broad public support, have independent boards, and are committed to the goal of getting dollars into the hands of working charities.

The results would be that some FIDAFs would adapt and carry on, but with a greater focus that puts working charities first. Over the long term, I would anticipate that we would see dollars moving to DAFs managed by community foundations, which would be able to provide better service to donors who have a focus on local charities.

End Estate and Tax Games—Cash and Tradeable Securities Only to DAFs

While the reasons for payout on an individual account basis for DAFs are straightforward in terms of getting dollars into the hands of working charities, another reason for payout on an individual DAF account basis is that it serves as an anti-abuse measure. The hard reality is that some very wealthy individuals use DAFs as a means of abusive tax planning.

In the field of estate planning, you will see the individual donate land, real estate, and shares in a closely held business (typically nonvoting) to a DAF (taking a significant charitable deduction, often with an optimistic fair-market value), and park the asset in the DAF. In short, the individual has reduced the overall value of the estate, benefited from the charitable deduction, and lost no substantive ownership interest.

On the tax planning side, there has been a huge increase in donations to DAFs of closely held stock, in-kind goods, and the like—all of which can allow the taxpayer to play fast and loose with inflated valuations.

These kinds of abusive transactions are difficult for the IRS to attack, with valuations always particularly difficult. It would be easier to limit charitable donations to DAFs to cash and tradeable securities (publicly traded stocks and bonds), similar to the limitations already in place for private foundations. Policy-makers should be aggressive in addressing the reality that DAFs are too often seen by tax planners as a work-around for the anti-abuse rules of private foundations.

Alternatively, policy-makers could look at requiring DAFs to sell the asset within a limited period of time or base its value with a set formula on the amount of income produced. Particularly intriguing is the idea that the donation would only be completed when the closely held stock, property, et cetera, is sold and the proceeds transferred to a working charity. This would end the valuation play and also get dollars into the hands of working charities. Washington, D.C., needs to provide a clearer message and guidance for DAF managers to say no to those who are making donations for their own interest and not in the interest of working charities.

Charitable Dollars to Working Charities, Not to New Warehouses

In the wilderness of mirrors that is sometimes charitable policy, one of the oddest is that dollars warehoused in private foundations can be transferred to DAFs—and thus circumvent the payout requirements of private foundations. Is it too much to ask that at some point a donation for charity—for which the taxpayer received a significant tax benefit—actually ends up in the hands of a charity that buys a blanket for a cold, homeless person? The simpler solution is to end this play and require that the private foundation distribute the dollars to a working charity or, alternatively, allow the transfer to a DAF with the requirement that the funds must be completely disbursed to working charities within a reasonable time period.

Charitable Donations—Eventually to the Working Charity

The Roman Empire ended after a thousand years or so. Milk goes bad in days. Should there be an expiration date on an individual DAF account? Perhaps not an issue with a robust payout requirement, but the idea of requiring end periods for DAFs (having them expire after a set period with distribution to designated charities by the donor, or having them expire at the death of the donor, designated successor, etc.) should be addressed. Some charities that manage DAFs have some of these requirements, but it is a best practice that deserves adoption across the board. Again, it goes to the point that these dollars need to get into the hands of working charities as well as seek to honor donor intent, and that recognizing the countertension—that the money managers are happy to keep on managing and getting their fees ad infinitum—is key to reforming DAF practices.

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Improved Reporting

The IRS itself should take steps now to improve reporting on DAFs. The IRS Statistics of Income (especially the work of IRS senior statistician Paul Arnsberger) highlights the limited nature of data currently available on DAFs, especially individual DAF accounts. The IRS has extensive reporting requirements on the Form 990 Schedule A for supporting organizations—and the need for enhanced reporting on DAFs is arguably greater. The IRS should establish reporting requirements for large sponsors (over $500 million) of DAFs and DAF accounts that will allow a heightened understanding of what is going on—on payout, acceptance/sale of nonpublicly traded property, and other issues of interest for public policy and compliance with the charitable laws. The enhanced reporting should also look at issues of board independence and management of funds, as well as provide an opportunity for the DAF sponsor to discuss the work it performs that provides substantive value to donors and working charities. Finally, DAF reporting should encourage best practices: addressing dormant/inactive funds, independent board members, control of investment decisions, and others identified by the charitable community.

I have no doubts, from my years working in Congress and seeing successful legislative efforts, that if the food banks, the homeless shelters, and the hosts of wonderful working charities tell Congress that DAF reform is a change that is needed . . . it will be quickly passed, with cooperation on both sides of the aisle.

Best Practices for DAF Managers

Many charities that manage DAFs provide important and valuable support—especially those located at a number of community foundations. These charities that embrace managing DAFs and providing value to donors will highlight specific charities doing important work, foster donations, and encourage donors to move dollars into the hands of working charities—and also send out warnings of possible bad charities. The IRS should consider steps it could take to encourage more robust and engaged management of DAFs by charities through reporting and other requirements. Even more effective would be for the charitable community itself to establish best practices for DAF management and to highlight and champion those charities that are the best at managing DAFs. Similarly, organizations that are watchdogs, such as CharityWatch and BBB Wise Giving, should consider focusing some attention on this underserved part of the charitable community that holds billions and billions of dollars and is often the biggest recipient of charitable donations.

Next Steps

I have no doubts, from my years working in Congress and seeing successful legislative efforts, that if the food banks, the homeless shelters, and the hosts of wonderful working charities tell Congress that DAF reform is a change that is needed and will make a real difference to their vital work, it will be quickly passed, with cooperation on both sides of the aisle. It would be enormously helpful to this effort if the private foundations, and especially the community foundations (who would also benefit from reform to DAFs), also pulled oars. The private foundations could change the discussion overnight by funding and supporting efforts to bring forward DAF reforms (as some have, already making a big change in the discussion) and support charity watchdogs in this field.

For those who disagree with DAF reform or have other priorities for encouraging charitable donations to working charities, a note of caution: proposals that cost the sun and the moon are simply unrealistic and not workable. One of the great benefits of DAF reform is that we can see significantly more dollars moving to working charities at very low cost to the public fisc. The score of a proposal by the Joint Committee on Taxation is everything in terms of realizing success in this political environment. A low score in terms of revenue lost to the public fisc (which is the case with DAF reform) translates into a high possibility of getting changes signed into law. I appreciate that people are captivated by high-flying proposals for credits, et cetera, to encourage charitable giving. Unfortunately, they will cost the sun and the moon—and will not pass. Working charities need real help that DAF reform can provide—not pie in the sky.

DAF reform would mean that dollars that are donated for charitable purpose—and receive huge subsidies from the public and are currently warehoused on and on and on—would provide the real, tangible benefit of billions of additional dollars going *today* to the working charities across this country.

Notes

1. I recognize that supporters of tax reform highlight the hoped-for economic growth that will translate into jobs, improved communities, greater charitable giving. My point is that, on its own terms, the tax reform bill did not embrace the priorities of many Washington, D.C.–based charitable organizations.
2. See, for example, James Andreoni, "Warm Glow and Donor-Advised Funds: Insights from Behavioral Economics" (Working Paper presented at the Forum on Philanthropy and the Public Good, Washington, DC, October 23, 2015; revised May 2016).

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You First: Leadership for a New World

"Tipping Points—Tipsy Times"

by Mark Light, MBA, PhD

In this installment of his new column, Light deftly weaves together boiling frogs, libations, and our natural resistance to change, to discuss evolutionary and revolutionary tipping points. As he concludes, when contemplating an organizational change effort, keep in mind that "context is everything, and adapt your leadership style accordingly."

With news that CO_2 levels in April 2018 hit the highest average ever recorded,[1] I couldn't help but think about the boiling frog video. It begins with a frog sitting in a pan of cold water. Suddenly, a scientist pours in boiling water. The frog jumps out. The scientist then repeats the experiment, only this time slowly heating the water up. The frog sits in the pan until the temperature reaches over two hundred degrees Fahrenheit. We don't see what finally happens, but we can guess.

It turns out that the legend of the frog is just that: a legend. And, it is scientifically false.[2] But of course, a metaphor doesn't have to be scientifically true to be useful, and authors of leadership articles and books regularly use the frog to explain effective organizational change.[3]

Now, no one declares, "Boil a frog!" to initiate a change effort; and change gurus like John Kotter use more politically correct phrases like *create a sense of urgency*. And this is important—in fact, Kotter makes it his first step in his eight-stage change model.[4] Kotter lists nine ways to invoke a sense of urgency, including: *create a crisis* (allow a financial loss, identify major weaknesses vis-à-vis competitors); *eliminate obvious examples of excess*; *insist that people talk regularly to unsatisfied customers*; and *bombard people with information on future opportunities*.[5]

Instead of urgency, the venerable Edgar Schein uses the term *unfreezing*, and offers three ways for creating the motivation to change. Using an example of a house on fire, here's how to unfreeze the status quo: show people that the house is on fire (*disconfirmation and disequilibrium*); convince them that they may die (*creation of survival anxiety or guilt*); and offer them a way out (*creation of psychological safety to overcome learning anxiety*).[6]

And then there is the notion of the *tipping point*, a term popularized by Malcom Gladwell, who defines it as the "moment of critical mass, the threshold, the boiling point."[7] The term carries a sense of immediacy, a definitive point in time. It is borrowed from epidemiologists, who use it to describe the point at which, for example, a run-of-the-mill cold outbreak in a classroom infects an entire school system and shuts it down. Think one domino causing fifteen thousand others to crash.[8] Some tipping points are manually constructed by creating a sense of urgency or unfreezing the status quo. A particularly powerful way to do this is to dismiss an executive following an organization's sustained decline in performance.[9]

Other accelerants include two types of innovations. *Sustaining technologies*, as noted by Clayton Christensen and Michael Overdorf in the *Harvard Business Review*, are "innovations that make a product or service perform better in ways that customers in the mainstream market already value."[10] *Disruptive innovations* "create an entirely new market through the introduction of a new kind of product or service."[11] Along these lines, whatever it is that makes the organization successful today will be the cause of its crisis tomorrow.[12]

Tipping points can also originate in the environment itself (hello, volcanoes), and are frequently out of the control of leaders. Sometimes very small things lead to tipping points. This is the essence of the butterfly effect—wherein, according to Kevin Kelly in *Out of Control: The Rise of Neo-Biological Civilization*, "a small alteration in the initial conditions can amplify into wide-ranging effects throughout the rest of the system. . . . [like] the flap of a butterfly's wings in Beijing triggering a hurricane in Florida."[13]

Tipping points can be either intended or unintended, which is in keeping with Margaret Wheatley's observation that there are "two sources of change: the traditional type that is initiated and managed; and external changes over which no one has control."[14]

Tipping points aren't alone in the wilderness; each one has a before and an after. There is the evolutionary variation, with its "prolonged periods of growth where no major upheaval occurs," and there is the revolutionary variation, with its shorter periods of "substantial turmoil in organizational life."[15] Put differently, evolutionary change is of the 10 percent variety that "almost any organization can tolerate"; revolutionary change is its antithesis—short, major, and all-encompassing.[16]

If you're thinking this is a brand-new change model, think again; it's as old as time itself. Indeed, paleontologists Niles Eldredge and Stephen Jay Gould call it the *punctuated equilibrium* model.[17] (See model illustrated below.)

Before you decide to enter the realm of tipping points, however, hear this loud and clear: *Most change efforts fail.* Kotter found, "A few of these corporate change efforts have been very successful. A few have been utter failures. Most fall somewhere in between with a distinct tilt toward the lower end of the scale."[18] Rosabeth Kanter acknowledges as much when she writes that "many companies are change-klutzes."[19] (Time for some rotgut.)

And hear this, too: Resisting change is hard-wired into our behavioral DNA. Research by Rolf Smith on the Myers-Briggs Type Indicator® finds that two out of three people broadly resist change, and half strongly resist; one out of six will be broadly receptive; and only 6 percent of people "will be *strongly receptive* to change and act as change agents."[20]

Here are six reasons why so many of us resist: the change is not necessary; it's not feasible; it's not cost effective; it would cause personal losses; it's inconsistent with values; and the leaders of the change effort are not trusted.[21] If you want to usher in revolutionary change, you had better have a darn good reason. (Sip a brandy and think it over.)

A few closing observations. First, if you're doing pretty well—balancing the budget, growing revenues every year, mostly hitting your marks—your agency is likely in a period of evolution. It's tempting to think that this would be the perfect time to go for a revolutionary change, but this will likely be an epic fail.[22] (Instead, sit back, chill out, and pour yourself a Bordeaux; a tipping point will come in due time.)

Second, if your predecessor was ousted because of your organization's sustained declining performance, odds are you're following a tipping point on your way to revolutionary change, where you're going to be tested. You'd better be willing to do the heavy lifting of leading change. (Don't pour a Chardonnay; uncork the vodka.)

Third, understand that context is everything, and adapt your leadership style accordingly. As suggested in *The Great Plan* of China (circa between 1121 and 2200 BCE), "In peace and tranquility, correctness and straightforwardness (must sway); in violence and disorder, strong rule; in harmony and order, mild rule."[23] (If you take this route, break out the brewskis and ask for a raise; you'll deserve it.)

Notes

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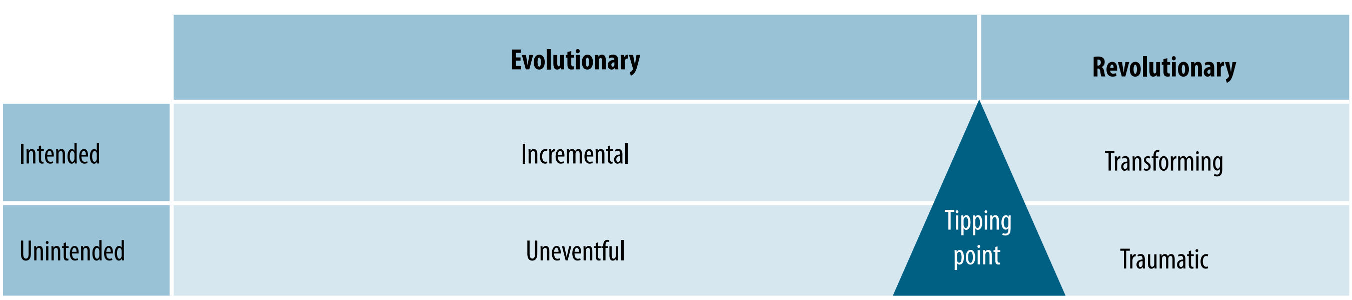
3. Ronald A. Heifetz, *Leadership Without Easy Answers* (Boston: Belknap Press, 1998); Peter M. Senge, *The Fifth Discipline: The Art & Practice of the Learning Organization*, 1st ed. (New York: Doubleday/Currency, 1990); and Noel M. Tichy and Eli B. Cohen, *The Leadership Engine: How Winning Companies Build Leaders at Every Level*, 1st ed. (New York: HarperBusiness, 1997).

4. John P. Kotter, *Leading Change*, rev. ed.



(Boston: Harvard Business Review Press, 2012), 23.

5. Ibid., 46.

6. Edgar H. Schein, *Organizational Culture and Leadership*, 4th ed. (San Francisco: Jossey-Bass, 2010), 300.

7. Malcolm Gladwell, *The Tipping Point: How Little Things Can Make a Big Difference*, 1st ed. (New York: Little, Brown and Company, 2000), 12–14.

8. Hevesh5, *The Amazing Triple Spiral (15,000 Dominoes)*, 2:27, September 10, 2016, www.youtube.com/watch?v=lo6x4eulY9g.

9. Michael L. Tushman and Elaine Romanelli, "Organizational Evolution: A Metamorphosis Model of Convergence and Reorientation," *Research in Organizational Behavior* 7 (1985): 180.

10. Clayton M. Christensen and Michael Overdorf, "Meeting the Challenge of Disruptive Change," *Harvard Business Review* 78, no. 2 (March-April, 2000): 72.

11. Ibid.

12. Larry E. Greiner, "Evolution and Revolution as Organizations Grow," *Harvard Business Review* 76, no. 3 (May-June, 1998): 58.

13. Kevin Kelly, *Out of Control: The Rise of Neo-Biological Civilization* (Reading, PA: Addison-Wesley, 1994), 140.

14. Margaret Wheatley, "When Change Is Out of Our Control," in *Human Resources in the 21st Century*, ed. Marc Effron, Robert Gandossy, and Marshall Goldsmith (Hoboken, NJ: John Wiley & Sons, 2003), 187.

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SPECIAL REPORT

How Many Nonprofits Are There?: What the IRS's Nonprofit Automatic Revocation and 1023-EZ Processes Left Behind

by Michael L. Wyland

With several years of data on IRS revocations covering almost 800,000 organizations now at our disposal, a few trends are emerging. For example, after an initial surge, automatic revocations are reaching an equilibrium of around 44,000 organizations annually; reinstatements of exemptions are decreasing each year; and 501(c)(3) groups are being revoked at a greater rate than other types of nonprofits.

From the middle of 2010 to the end of 2017, the IRS revoked the tax-exempt recognition of more than 760,000 nonprofit organizations for failing to file Form 990 returns.[1] More recently, it has implemented the 1023-EZ process, which makes applying for federal tax-exempt status easier. What effect have these changes had on the numbers of nonprofits in our sector? Are there marked differences in trends vis-à-vis 501(c)(3)s and 501(c)(4)s?

This first-of-its-kind analysis is informed by two key data sources. The first is the *Internal Revenue Service Data Book*, the annual compendium of IRS statistics published since 1863—specifically, the data contained in Tables 24, 24a, and 25 of the Data Books from 2007 through 2017.[2] The second data source is the IRS's automatic revocation data, downloaded from the IRS website.[3] A single ASCII file contains all automatic revocations made since 2010. The IRS updates the bulk file monthly. The version used for this analysis was downloaded in January 2018, and included data for the 2010–2017 fiscal years.

Before 2011, it was impossible to get a sense of the true numbers of federally tax-exempt nonprofits in the United States; this is because there were so many listed nonprofits that never reported to the IRS—either because they were legitimately too small to have to report, or they were defunct, or they were sloppy. No one really knew how many belonged in which category. The Pension Protection Act of 2006, however, changed the reporting requirements by including a provision that requires the IRS to revoke the tax-exempt recognition of any nonprofit that fails to file an annual Form 990 return with the IRS for three consecutive years.[4] The IRS was charged with organizing itself to send a written notice of revocation to the last-known address for each nonreporting nonprofit, with revocation happening after the 990 filing deadline passes for the third consecutive year of noncompliance.

The timeline set in place by the 2006 law provided that automatic revocations would begin on May 15, 2010. Using that timeline, almost 400,000 nonprofits—more than 60 percent of them 501(c)(3) charities—were slated to have their exemptions revoked.[5] However, the IRS delayed implementation of the revocations from October 15, 2010 (just after the start of the 2011 fiscal year), until the summer of 2011 (the last quarter of the 2011 fiscal year), to make sure that more nonprofits were aware of the law and of their requirement to file.

Many very small nonprofits that had not been required to file a Form 990 or Form 990-EZ in the past were particularly unaware of the new Form 990-N, known as the "postcard" return. The Form 990-N is an electronic form that requires a nonprofit not required to file a 990 or 990-EZ to provide annual updates to basic contact information for the organization. Thus, these smaller groups were at risk of being surprised by the action. To prevent that, the IRS, national infrastructure groups, and the media did broad outreach amplifying the new requirement.

The IRS's implementation delay gave many organizations the opportunity to bring their filings up to date, but a review of the IRS's automatic revocation database shows that the FY 2010 and 2011 revocations still affected more than 450,000 nonprofits,[6] including 275,000 501(c)(3) public charities and private foundations.[7]

The IRS posts a list of all automatic revocations to its website, both in a bulk download option and as part of its newly revised "Tax Exempt Organization Search" service, which provides access to basic information about all tax-exempt organizations.[8] (The file contains information on automatic revocations only; it does not include any organizations that had their exemption revoked as a result of a review of activities and either an administrative determination by IRS staff or determination by a court.)

The automatic revocation dataset is very simple, containing twelve fields, only four of which are required, as can be seen in the IRS table at top.[9]

IRS

Automatic Revocation Data Download Layout

The Automatic Revocation information will be listed in rows, with each field of data separated by a pipe ('|') symbol. The following table describes the format and order of each field in a row, representing one Automatic Revocation listing.

Order	Field	Notes
1	EIN	Required; Format: NNNNNNNNN
2	Legal Name	Optional
3	Doing Business As Name	Optional
4	Organization Address	Optional
5	City	Optional
6	State	Optional
7	ZIP Code	Optional
8	Country	Required; Format: 2 Letter Country Code
9	Exemption Type	Optional
10	Revocation Date	Required; Format: DD-MON-YYYY
11	Revocation Posting Date	Required; Format: DD-MON-YYYY
12	Exemption Reinstatement Date	Optional; Format: DD-MON-YYYY

Interestingly, the exemption type (for example, 501(c)(3), 501(c)(6), etc.) field is optional. Fortunately, only 28,300 out of 761,780 records, or about 3.7 percent, do not have an exemption type identified; they are carried in the database with a 0 value, despite there being no such thing as a 501(c)(0) organization.[10]

How the Action Affected 501(c)(3)s and 501(c)(4)s

Not surprisingly, 501(c)(3) organizations topped the list of revoked exemptions from 2010 to the end of 2017, representing just under 60 percent of the total. Following 501(c)(3) groups were 501(c)(4) social welfare groups, with almost 16 percent; 501(c)(7) recreation clubs, with about 5.3 percent;

Timeline of Events Related to Automatic Revocation and Streamlined Exempt Applications

August 17, 2006:
Passage of the Pension Protection Act of 2006 with mandate for automatic revocation

May 15, 2010:
Effective date for first wave of automatic revocations

October 15, 2010:
Original date for implementation (announcement) of automatic revocations

July 1, 2011:
Revised date for implementation (announcement) of automatic revocations

July 1, 2014:
IRS implements use of Form 1023-EZ application for 501(c)(3) tax exemption

501(c)(6) business leagues, with 4.8 percent; and 501(c)(19) veterans' organizations, with 2.4 percent.[11]

Chart 1 shows each year's total of all 501(c) organizations and the corresponding totals of 501(c)(3) and 501(c)(4) organizations that are included in the reported total.

- The total numbers of all 501(c)(3) and 501(c)(4) organizations were at or near their highest levels in FY 2010, the last year before automatic revocation was implemented.
- The 501(c)(3) numbers dropped significantly in FY 2011, and only recovered to the FY 2010 level in FY 2017.
- The 501(c)(4) numbers have dropped significantly and steadily since 2010, with the exception of a one-year spike in FY 2014.
- The 501(c)(3) and 501(c)(4) organizations comprise an average of about 67 percent of the total for all 501(c) organizations.

One key finding in reviewing the database is that 501(c)(3) organizations have had their tax exemptions automatically revoked at a lower rate than would be expected, given their premier place among 501(c) tax-exempt groups.

The 501(c)(3)s represented 68.5 percent of all 501(c) organizations in 2010; by 2017, that percentage had increased to 78 percent, based on figures available in the annual Data Book published by the IRS.[12]

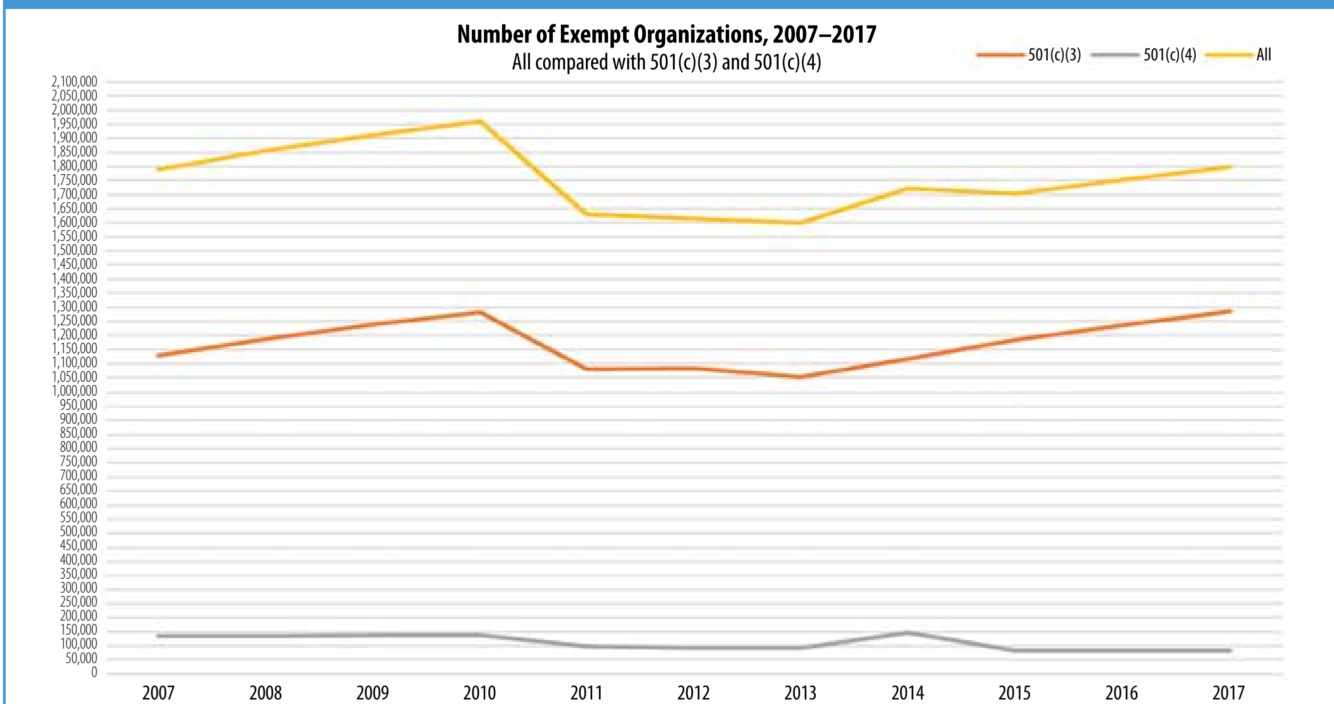
In that seven-year period, as mentioned above, automatic revocations of 501(c)(3)s averaged just under 60 percent of the total, and only approached 70 percent in one year (2015). Automatic revocations made prior to July 2011 (beginning in May 2010) were first publicly posted by the IRS in June 2011. Fiscal year 2011 announcements included 390,168 revocations, including almost 250,000 501(c)(3) private foundations and public charities. This was to be expected, as many long-dormant groups were identified in the first wave of automatic revocations.[13]

In the following years, the number of nonprofits processed through automatic revocation varied, both in total and for 501(c)(3) groups specifically. Total annual automatic revocations for 2012–2017 reached a low of 36,185 in 2015 and a high of 84,478 in 2017. Automatic revocations during the same period affecting 501(c)(3) groups varied from almost 25,000 in 2015 to 36,180 in 2013.[14]

Significantly, the total number of nonprofits—and the number of 501(c)(3) groups—has essentially remained stable since 2010. Looking at Table 25 of the Data Book is intriguing, because it shows a drop of 200,000 501(c)(3) groups from 2010 to 2011, when the first automatic revocations were announced.[15] The 2017 Data Book (latest available) records show there were only 5,442 more 501(c)(3) organizations in that year than there were in 2010. Overall, there were 175,000 fewer 501(c) groups of all tax-exempt classifications in FY 2017 than there were in 2010.[16]

The use of the short Form 1023-EZ for tax exemption as a 501(c)(3), which began in July 2014 (the final quarter of

Chart 1



the 2014 federal fiscal year), may be responsible for reversing the downward trend in the number of 501(c)(3) groups seen in 2010 through 2013. The short form was introduced by the IRS in reaction to bad publicity over a growing backlog of Form 1023 long form applications that had reached more than 66,000 during 2013.[17] The number of 501(c)(3) applications approved annually by the IRS grew from a low of 37,000 in 2013 to 94,000 in 2014, and remained near or above 80,000 in the 2014–2017 period (see Chart 2). The IRS reports that the Form 1023-EZ was used for 65 percent of all applications for 501(c)(3) tax exemption during FY 2017.[18]

Chart 2 shows annual applications for 501(c)(3) tax exemption received by the IRS and how they were processed, based on Table 24a of the IRS Data Books.

- The overwhelming majority of applications are approved each year.
- Very few applications are disapproved.
- "Other" usually means that the IRS has held the application pending further information from the applicant.
- The trend of new applications declined annually from 2007–2013, spiked in 2014, and retreated from that high in 2015–2017, though the numbers received and approved have remained at high levels since the advent of the 1023-EZ short form application in 2014.
- The numbers of other applications and disapproved applications have remained fairly constant since 2011.

Reinstatements

Nonprofits that have had their tax exemption automatically revoked have the opportunity to apply for reinstatement. For the years 2010 through 2017, 13 percent of all automatically revoked nonprofits have been reinstated by the IRS, totaling just over 98,000 organizations. Typically, the IRS has restored these organizations' exemptions from the dates they were revoked, so that there is no gap in their record of exemption. However, about one-third of the reinstated organizations have a reported gap during which time they were not tax exempt. The reported gap between revocation date and reinstatement date varies from a couple of months to more than three years.[19]

The number of reinstatements for 501(c) organizations has dropped each year from 2010 to 2017, beginning with about 33,000 reinstated in 2010 and only about 2,000 organizations reinstated in 2017.[20] This may reflect the low number of truly dormant nonprofit organizations of all exemption types, as well as a growing understanding of the need for annual Form 990 reporting using one of the options available to filers.

Chart 3 adds to the previous chart depicting handling of new applications for 501(c)(3) tax exemption by including automatic revocation and reinstatement data for 2010–2017.[21]

- Automatic revocations for 501(c)(3) organizations started out high in 2010

Chart 2

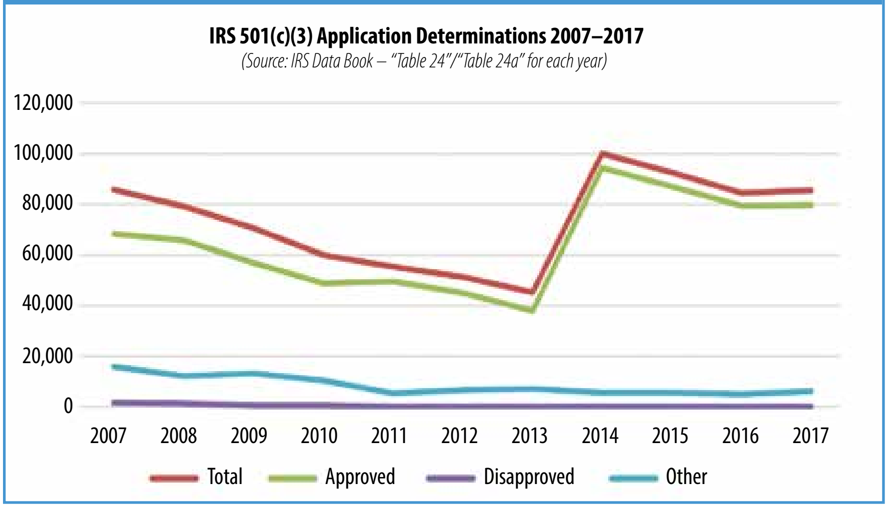
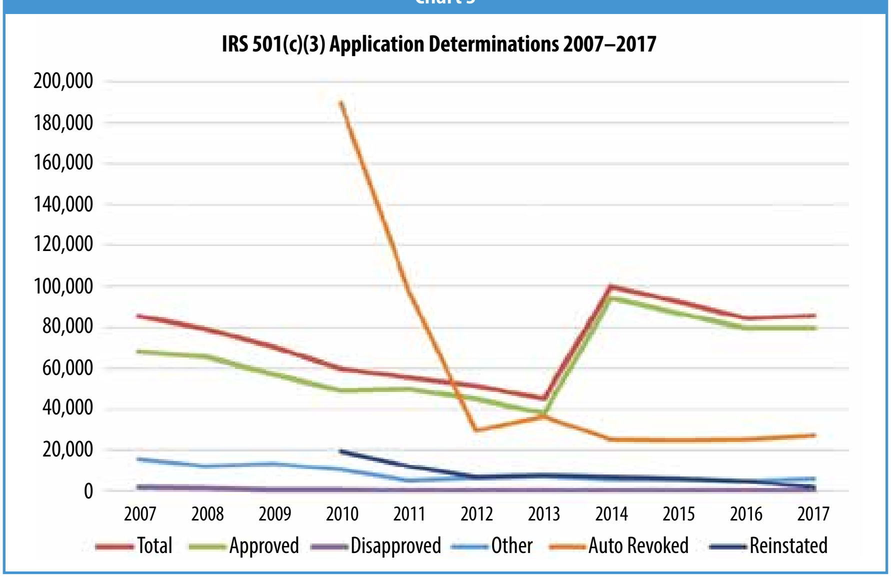


Chart 3



and 2011, with more organizations being automatically revoked than new applications for exemption were received by the IRS.

- Revocations of 501(c)(3) organizations have remained stable since 2014, with automatic revocations occurring at a level approximately 30 to 35 percent of new 501(c)(3) tax exemption applications received.[22]
- The number of 501(c)(3) groups having their tax exemption reinstated after having been automatically revoked is a small percentage of the total revoked—and, of course, a much smaller number than for new applications approved.
- Annual reinstatements of exemption for 501(c)(3) organizations have declined since automatic revocation started in 2010, from a high of 19,379 in that year to a low of 1,821 in 2017.[23]

501(c)(4) Mysteries

Two findings without an explanation are: (1) the changes in the number of 501(c)(4) organizations between 2010 and 2017; and (2) the extraordinary number of 501(c)(4) groups that were automatically revoked in 2017. There were almost 140,000 501(c)(4) organizations in 2010; by 2017, that number had dropped to just under 82,000—a reduction of more than 40 percent that is not explained by the automatic revocation data for those years.[24] In 2017, 58 percent of all automatic revocations made by the IRS were to 501(c)(4) groups (47,315 out of 77,077), a significant departure from the annual average of 15 percent.[25] This may be due to an extraordinary number of 501(c)(4) groups being active during the 2012 and/or 2014 election cycles and subsequently failing to file 990s beginning in 2014, resulting in automatic revocation in 2017. This theory may be supported by the jump in 501(c)(4)s from 91,000 in 2013 to more than 148,000 in 2014, followed by a drop to 84,000 in 2015.[26] However, if the automatic revocation of 501(c)(4) organizations was due primarily or solely to the 2014 spike in 501(c)(4) groups, that spike should have continued through 2016 and even into 2017.

Chart 4 shows new tax exemption application determination activity and automatic revocation and reinstatements for 501(c)(4) groups between 2010 and 2017.[27]

- New applications, approvals, disapprovals, and other activity (typically applications held by the IRS awaiting additional information from the applicant) closely follow trends seen in 501(c)(3) applications and for all nonprofits generally.
- In general, 501(c)(4) applications account for less than ten percent of all exemption applications for a given year.
- There was a spike in applications and approvals in 2014, with a steady decrease in annual 501(c)(4) applications in 2015–2017.
- Automatic revocation of 501(c)(4) organizations was a relatively small percentage of all revocations for each year until 2017, when 49,426 501(c)(4) revocations accounted for almost 60 percent of the total of 84,478 automatic revocations for the year.

It should also be noted that, until recently, new 501(c)(4) groups were not required to apply for tax exemption or otherwise notify the IRS of their formation until their first Form 990 was due to be filed. However, beginning in 2016, new 501(c)(4) groups are now required to file Form 8976—a "Notice of Intent to Operate"—with the IRS within sixty days of formation.[28] In 2017, the IRS acknowledged 1,908 forms and rejected 474 for purely technical reasons unrelated to a judgment about their proposed activities.[29]

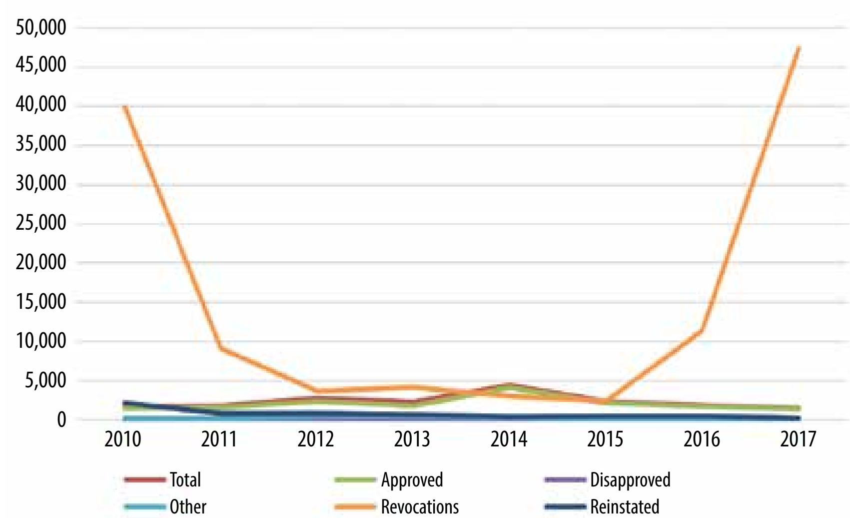
• • •

We now have several years of data on IRS automatic revocations covering almost 800,000 organizations. A few trends can be identified:

- After the initial wave of automatic revocations in 2010–2011, the trend is that automatic revocations for all types of nonprofits are reaching an equilibrium in the vicinity of 44,000 organizations annually—with the exception of the 501(c)(4) revocations in 2017 as a significant outlier.

Chart 4

IRS 501(c)(4) Application Determinations 2010–2017



Types and Numbers of Tax-Exempt Organizations, FY 2017[30]

Type of organization, Internal Revenue Code section	Number of organizations
Tax-exempt organizations, nonexempt charitable trusts, and nonexempt split-interest trusts, total	**1,799,401**
Recognized section 501(c) by subsection, total [1]	**1,646,650**
(1) Corporations organized under an act of Congress	651
(2) Title-holding corporations	4,477
(3) Religious, charitable, and similar organizations [2]	1,286,181
(4) Social welfare organizations	81,935
(5) Labor and agriculture organizations	46,660
(6) Business leagues	63,621
(7) Social and recreation clubs	49,175
(8) Fraternal beneficiary societies	44,060
(9) Voluntary employees' beneficiary associations	6,330
(10) Domestic fraternal beneficiary societies	16,390
(12) Benevolent life insurance associations	5,334
(13) Cemetery companies	9,243
(14) State-chartered credit unions	1,808
(15) Mutual insurance companies	690
(17) Supplemental unemployment compensation trusts	94
(19) Veterans' organizations	29,167
(25) Holding companies for pensions and other entities	763
Other 501(c) subsections [3]	71
Recognized section 501(d) Religious and apostolic associations	**220**
Section 527 Political organizations	**34,748**
Nonexempt charitable trusts and split-interest trusts	**117,783**

[1] The number of organizations, by 501(c) subsections, includes organizations that applied for and received recognition of tax-exempt status, or that are exempt by virtue of a tax treaty.

[2] Includes private foundations. Not all organizations described in section 501(c)(3) must apply for recognition of tax-exempt status, including churches, interchurch organizations of local units of a church, integrated auxiliaries of a church, conventions or associations of churches, and organizations (other than private foundations as described in section 509(a)) that have normal gross receipts in each taxable year of not more than $5,000. In addition, organizations may be recognized as tax exempt under section 501(c)(3) without filing an application if they are included in a group exemption letter given to an affiliated parent organization. Section 501(c)(3) organizations that have not applied for recognition of tax-exempt status are not included in this number.

[3] Includes teachers' retirement funds (section 501(c)(11)); corporations organized to finance crop operations (section 501(c)(16)); employee-funded pension trusts (section 501(c)(18)); black lung benefits trusts (section 501(c)(21)); veterans' associations founded prior to 1880 (section 501(c)(23)); trusts described in section 4049 of the Employee Retirement Income Security Act of 1974 (ERISA) (section 501(c)(24)); state-sponsored high-risk health insurance organizations (section 501(c)(26)); state-sponsored workers' compensation reinsurance organizations (section 501(c)(27)); and qualified nonprofit health insurance issuers (section 501(c)(29)). Tax-exempt status for legal services organizations (section 501(c)(20)) was revoked effective June 20, 1992.

NOTE: Information from tax-exempt organization returns is available to the public; therefore, data in this table are not subject to IRS disclosure regulations. However, information on closures of applications for tax-exempt status (reported in Table 24a) is subject to disclosure regulations.

SOURCE: *Tax Exempt and Government Entities: FY 2017 Accomplishments*, Internal Revenue Service, March 19, 2018.

- Reinstatement of tax exemption once automatically revoked is decreasing each year, accounting for less than 10 percent of all revoked organizations.
- The 501(c)(3) groups are not only automatically revoked at a greater rate than other types of nonprofits but also are revoked at a higher percentage rate than the percentage of 501(c)(3)s relative to all 501(c) organizations.
- Automatic revocations reported in 2011 affected approximately 20 percent of 501(c)(3) organizations recognized by the IRS in 2010, and the total number of 501(c)(3) organizations took until 2017 to recover to 2010 levels.
- The number of 501(c)(4) organizations has declined significantly since 2010, with the exception of a spike in 2014 and a 40 percent drop the following year—a drop not reflected in the automatic revocation database at the time.

In future years, the *Internal Revenue Service Data Book* may be redesigned in such a way as to allow for inclusion of automatic revocation information as a distinct dataset of interest. In the meantime, the bulk download of the Excel spreadsheet and searching the IRS website provide the opportunity for researchers and others to examine and interpret information about tens of thousands of nonprofits each year that lose tax exemption without human interaction or determination.

Notes

1. Author's own analysis, using "Tax Exempt Organization Search Bulk Data Downloads," Internal Revenue Service, accessed January 12, 2018, www.irs.gov/charities-non-profits/tax-exempt-organization-search-bulk-data-downloads. (Note: This hyperlink leads to the current version of the file accessed in January 12, 2018 via a different link that no longer functions. The IRS changed the location of the data from the time of the author's access. All references in this article to the "Tax Exempt Organization Search Bulk Data Downloads" are from January 12, 2018 access date.)

2. *The Internal Revenue Service Data Book*, Department of the Treasury (Washington, DC: Internal Revenue Service); and "Tax Exempt Organization Search Bulk Data Downloads." Note: each IRS Data Book covers one fiscal year. Charts in this article that address multiple years and cite the IRS Data Book tables ("Table 24," "Table 24a," and "Table 25") reflect the same table or tables from multiple Data Books covering those years. "Table 24" is titled "Table 24. Closures of Applications for Tax-Exempt Status, by Organization Type and Internal Revenue Code Section, Fiscal Year [2010, 2011, 2012, 2013, 2014, 2015—the years referenced in this article]"; "Table 24a" is titled "Table 24a. Closures of Applications for Tax-Exempt Status, by Organization Type and Internal Revenue Code Section, Fiscal Year [2016, 2017—the years referenced in this article]"; "Table 25" is titled "Table 25. Tax-Exempt Organizations and Nonexempt Charitable Trusts, Fiscal Years [2007–2010, 2010 and 2011, 2011 and 2012]" and "Table 25. Tax-Exempt Organizations, Nonexempt Charitable Trusts, and Nonexempt Split-Interest Trusts, Fiscal Year [2013, 2014, 2015, 2016, 2017—the years referenced in this article]." Following notes that reference these IRS Data Books and tables are abbreviated, unless the Data Book from a specific year was used, in which case the full source is cited.

3. "Tax Exempt Organization Search Bulk Data Downloads."

4. Pension Protection Act of 2006, Public Law 109–280—Aug. 17, 2006, 109th Cong. (2006), www.gpo.gov/fdsys/pkg/PLAW-109publ280/pdf/PLAW-109publ280.pdf.

5. Stephanie Strom, "One-Fourth of Nonprofits Are to Lose Tax Breaks," April 22, 2010, www.nytimes.com/2010/04/23/us/23exempt.html; and "Automatic Revocation of Exemption List," material from the IRS website archived by "Wayback Machine," accessed May 29, 2018, web.archive.org/web/20110610234250/http://www.irs.gov/charities/article/0,,id=240099,00.html.

6. "Tax Exempt Organization Search Bulk Data Downloads."

7. Amy S. Blackwood and Katie L. Roeger, *Revoked: A Snapshot of Organizations That Lost Their Tax-Exempt Status* (Washington, DC: Center on Nonprofits and Philanthropy, The Urban Institute, August 2011), 1.

8. "Tax Exempt Organization Search Bulk Data Downloads"; and "Tax Exempt Organization Search," Internal Revenue Service, accessed January 12, 2018, apps.irs.gov/app/eos/.

9. "Automatic Revocation Download Layout," from "Tax Exempt Organization Search Bulk Data Downloads," apps.irs.gov/app/eos/forwardToRevokeDownloadLayout.do.

10. "Tax Exempt Organization Search Bulk Data Downloads."

11. Ibid. Note: Author used the IRS automatic revocation database data to calculate the presence of each exemption type as a percentage of the total number of records in the database file.
12. "Tax Exempt Organization Search Bulk Data Downloads"; and *The Internal Revenue Service Data Book 2017: October 21, 2016 to September 30, 2017*, Publication 55B, Department of the Treasury (Washington, DC: Internal Revenue Service). Note: Author made calculations based on information from both sources for the applicable years.
13. All calculations were made using data from "Tax Exempt Organization Search Bulk Data Downloads."
14. "Tax Exempt Organization Search Bulk Data Downloads."
15. "Table 25. Tax-Exempt Organizations, Nonexempt Charitable Trusts, and Nonexempt Split-Interest Trusts, Fiscal Year 2017," *The Internal Revenue Service Data Book 2017*, 57. Note: Data Book figures from multiple years are obtained from each year's IRS Data Book.
16. *The Internal Revenue Service Data Book 2017*. Note: Author made calculations based on information for the applicable years.
17. Michael Wyland, "Widespread Form 1023-EZ Abuse Reported by IRS," *Nonprofit Quarterly*, January 8, 2016, nonprofitquarterly.org/2016/01/08/form-1023-ez-abuse-irs-reports/.
18. *Tax Exempt and Government Entities: FY 2017 Accomplishments* (Washington, DC: Internal Revenue Service, March 19, 2018), 6.
19. Calculations were made using data from "Tax Exempt Organization Search Bulk Data Downloads."
20. Data is from "Tax Exempt Organization Search Bulk Data Downloads."
21. Calculations were made using data from "Tax Exempt Organization Search Bulk Data Downloads;" and "Table 24"/"Table 24a" (for referenced year/s). Note: This chart reflects around 20,000 reinstatements in 2010, to give a sense of the overall picture. The relative scale of the numbers makes it difficult to represent the reinstatements fully on a single chart.
22. "Table 24"/"Table 24a." Note: Calculations were performed based on data from these tables for the referenced years.
23. "Tax Exempt Organization Search Bulk Data Downloads."
24. All calculations were made using data from "Tax Exempt Organization Search Bulk Data Downloads"; and "Table 25" (for referenced year/s).
25. "Tax Exempt Organization Search Bulk Data Downloads."
26. "Table 25" (for referenced year/s).
27. Data for the referenced years taken from "Tax Exempt Organization Search Bulk Data Downloads"; and "Table 24"/ "Table 24a."
28. "Electronically Submit Your Form 8976, Notice of Intent to Operate Under Section 501(c)(4)," Internal Revenue Service, May 4, 2018, www.irs.gov/charities-non-profits/electronically-submit-your-form-8976-notice-of-intent-to-operate-under-section-501c4.
29. "Table 24b. Receipts of Forms 8976, Notices of Intent To Operate Under Section 501(c)(4), Fiscal Year 2017," *The Internal Revenue Service Data Book 2017*, 56.
30. "Table 25," *The Internal Revenue Service Data Book 2017*, 57.

Michael L. Wyland currently serves as an editorial advisory board member and consulting editor to the *Nonprofit Quarterly*, with more than 400 articles and features published since 2012. A partner in the consulting firm of Sumption & Wyland, Wyland has more than thirty years of experience in corporate and government public policy, management, and administration.

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Community Influences:
Understanding Nonprofit Markets

by Steve Zimmerman

"As communities change, so do the markets in which nonprofits operate," explains the author. "Shifting demographics, political and social pressures, and competition and resources require leadership to be continually ready to adapt. To do so, leaders must understand not only how their own programs deliver impact and financial viability but also how the market is influencing their ability to do so." Undertaking a market analysis can get you there.

Nonprofit organizations operate in dynamic and lively communities with shifting political landscapes, funder priorities, constituent needs, and demographics. For many for-profit businesses, the direct relationship with their customers creates a feedback system allowing them to understand the impact these changes will have on their business model. But for many nonprofits, those providing the financial capital are different from those using their services—leading to at best a lag in information and at worst misinformation or unaligned forces. John Carver calls this a "muted market" because of the lack of direct voice from those using services.[1] The result is additional complexity for leadership in understanding and analyzing the influences the community has on an organization's business model.

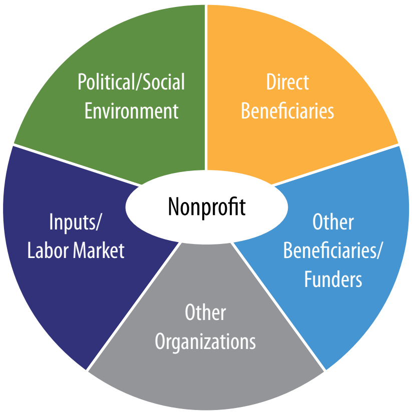
This complexity often leads boards and staff to focus solely on funders when assessing their market in search of sustainable funding. This approach may answer the questions "Where can we sell our idea?" or "What do funders want us to do?" but leaves out the crucial voice of those directly receiving services or benefiting from the organization's programs. It also doesn't build the support and engagement necessary for success. Rather, nonprofits need a structured way of understanding the market in their community to inform a different, more important question: "What does our community need us to do?"

Answering this question requires engaging and listening to the broader community. A deeper understanding of the needs and values of different segments of a community strengthens program design, leading to greater impact; and greater impact, together with knowing the values and motivations of current and potential funders, may open up new revenue strategies to increase sustainability.

At Spectrum Nonprofit Services, our previous work has focused on helping organizations visualize their business model using a tool called the matrix map, which showcases how mission-specific and fund-development programs work together to achieve exceptional impact in a financially viable manner.[2] This snapshot of an organization's portfolio of programs allows leaders to make strategic decisions to strengthen the business model. However, just as a boat moving through water is affected by the current, tides, and wind, an organization's business model is buffeted by external forces that must be taken into consideration for a sustainable strategy.

A holistic view of a nonprofit's market recognizes those who receive services or who benefit directly from an organization's efforts as well as those who fund the efforts or benefit from the improvement to the community and society. Beyond these two, a nonprofit's market also consists of other for-profit, nonprofit, and public organizations working side by side, including those whose approaches differ and who compete with the organization for resources, talent, and impact. Likewise, an organization's mix of programs, effectiveness, and sustainability can be influenced by the availability of skilled labor and by the political and social environment. A true market analysis needs to explore all of

Market Wheel



these influences at some level. To capture the influences, we segregate the nonprofit market into five components (as depicted in the "market wheel," above).

1. **Direct Beneficiaries.** The primary pool of people using the organization's services or directly benefiting from the organization's efforts.
2. **Other Beneficiaries/Funders.** Beyond their direct beneficiaries, nonprofit organizations benefit multiple other groups by furthering their ideals, values, or shared beliefs, supporting their businesses and complementing efforts in a systemic way. Drawing on Dennis Young's work on benefits theory,[3] this component looks beyond the traditional beneficiaries to include any group of the population that may benefit from an organization's efforts.
3. **Other Organizations.** No organization operates alone in a community. This component of the market examines other organizations, both for-profit and nonprofit, that share the community. Other organizations may be competitors, or potential collaborators, or—depending on the programs offered—both.
4. **Inputs/Labor Market.** Providing effective services or benefits for the community requires a pool of qualified, talented, and compassionate individuals. Nonprofits compete for human capital every day in the form of staff, volunteers, and board members. Understanding the trends of talent and other resources is essential to having a complete picture of the nonprofit market.
5. **Political/Social Environment.** Nonprofit organizations and those that fund their missions don't operate in a vacuum. Philanthropic and public funding are both subject to social and political trends that can dramatically influence an organization's ability to accomplish its mission. Therefore, understanding and working to shape the environment is essential to knowing how to craft an organization's strategy.

Each of these market components influences aspects of an organization and its business model differently, with some at times being more important than others. From the perspective of delivering exceptional impact, however, no voice is

Determining Your Market

Understanding markets is challenging for organizations, in part because they intersect and influence so many different aspects of their community, turning a straightforward task into a multifaceted challenge. Milwaukee Youth Symphony Orchestra (MYSO), for example, often speaks of itself as an arts and culture organization. However, with a mission to "empower young people from diverse backgrounds to joyfully pursue musical excellence while building crucial life skills," MYSO is easily seen as a youth development organization, placing it in a different market. Defining an organization's market may seem like a matter of semantics, but it plays an important role when articulating the value of the organization and pursuing funders.

Different programs within an organization may have different markets, but for purposes of understanding the overall context in which the organization operates, it is helpful to agree on one primary market. A statement of intended impact is a useful first step in providing this overarching context. The statement articulates the organization's purpose by defining the primary audience the organization serves, the desired outcomes it seeks, and the process by which it demonstrates and monitors progress toward its goal. It offers a long-term beacon for what the organization aims to accomplish, and thereby helps to define the organization's primary market by staking out its identity in relation to other organizations seeking the same goals.

Finding the right definition of the marketplace is more art than science, and the connected nature of issues nonprofit organizations seek to address means that they may serve more than one market. The Milwaukee Youth Symphony Orchestra, for example, could claim three markets:

- Performing arts organization
- Youth performing arts organization
- Youth development organization

Each description entails its own list of potential constituents, collaborators, and competitors. Focusing on one market description allows the organization to spend the time necessary to deeply understand it, as opposed to having a shallow understanding of multiple spaces. Along with the statement of intended impact, leadership should consider how constituents—including funders—view the organization's market. For example, many funders of MYSO debate between funding their efforts or funding those of the Boys and Girls Clubs. Likewise, the youth that participate are choosing among music, sports, and academic interests. With these considerations in mind, leadership of MYSO will find it most beneficial to view the organization as a youth development organization and claim the corresponding market. This market definition will allow leadership to better understand all the influences on their ability to accomplish their mission.

more important than that of the direct beneficiary. Understanding deeply the needs and options of an organization's direct beneficiaries allows leadership to design both an impact strategy (theory of change) and programs to meet those needs. It also allows the board and staff to understand how the other market components interact with those needs and influence the organization's business model as it strives to meet them.

The following pages explore each aspect of the market in more detail, and offer a framework for conducting a market analysis that considers each component by asking questions and gathering information to better understand how it is changing. And, recognizing that the depth of understanding of each market component is endless and can be all consuming, they introduce a tool to help leaders prioritize which market forces require immediate strategic attention. Through this analysis, nonprofit leaders, board, and staff together will be able to assess the elements collectively and paint a complete picture of their nonprofit's market. Then, using the internal assessment, they can engage in discussion and decision making about strategic priorities and how best to structure the operations of the organization to achieve impact and strengthen sustainability.

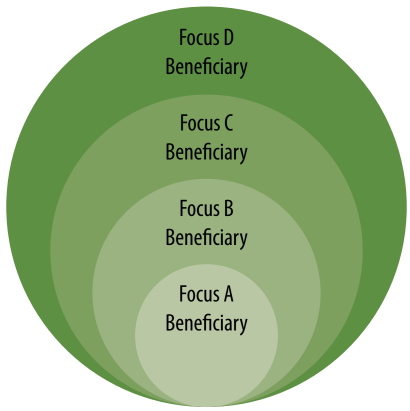
Direct Beneficiaries

To understand an organization's market, leadership must start by engaging with (and understanding better) those constituents who benefit directly from the organization's efforts. For social service organizations, these may be clients; for arts organizations, they may be audience members; for advocacy organizations, they may be those they advocate for; and for some organizations, they may be all three.

While the efforts of nonprofits often benefit many segments of the community, narrowing down those that benefit most directly from the organization's activities gives leadership increased clarity on and power to navigate their market. Direct beneficiaries can be defined by:

- Age or demographics;
- Socioeconomic status;
- Geography;
- Specific needs; or
- Other distinguishing characteristics.

Concentric Circles for Identifying Direct Beneficiaries



Many organizations struggle with identifying just one group on which to focus. The statement of intended impact—a specific statement identifying the change the organization seeks to create, who the organization serves, and how progress is demonstrated—may be useful here, since that process typically defines a target beneficiary of the organization's desired impact. Another way to consider direct beneficiaries is to think of groups in concentric circles, with a specific group in the middle (see graphic, above). The innermost circle reflects constituents who are core to the organization—individuals who would either benefit most from the organization's services or those whom the organization most wishes to serve. Answering the question "Who must the organization serve to accomplish its mission?" helps identify the core direct beneficiary in the center circle.

Moving outward, the other circles reflect groups also benefiting from the organization's efforts, but less directly. Identifying distinct subgroups of the market in this manner acknowledges that different groups that benefit from the organization may have different needs, and that, at times, trying to reach and satisfy the entire range of different needs is difficult. Concentric circles enable prioritization, which proves useful in setting strategy after the completion of the market analysis.

Some organizations find the concentric circle prioritization challenging, as they have multiple subgroups of direct beneficiaries that are equally served by the organization's efforts. In these cases, a table of two to four subgroups with equal weight can be created. Larger organizations with multiple programs, for example, may find that their programs have distinct core beneficiaries. To truly understand the influence of this market component, all direct beneficiaries need to be understood.

A market analysis of direct beneficiary subgroups helps leadership better understand how relevant the organization is to each group. Once the focused subgroups have been identified, a table can be set up to lay out and answer the relevant questions, as shown in Table 1.

Market forces may affect beneficiaries differently. For example, beneficiaries who receive services funded by a third party may be impacted differently than those who pay directly. For this reason, it is important to understand the different segments and how changes within them may affect the organization's ability to accomplish its mission.

Additionally, for organizations where board, staff, and constituents come from different parts of the community, it is important to make sure that there is a shared understanding of the needs and perceptions of direct beneficiaries.

Table 1: Direct Beneficiaries

		Focus A Beneficiary	Focus B Beneficiary
Description:	How do we describe this group?		
Demographics:	What are the demographics of this group? Average age, gender, socioeconomic status? What is the employment status? What is the level of education? Where do members of this group live?		
Demographic Changes:	What is happening with the demographics of this group? Is the group growing or shrinking? Is the group moving? Is its income increasing or decreasing? [Much of this information can be found on the US Census website.]		
Needs:	What common needs does the group have?		
Interests:	Are there common interests beyond the mission of the organization that the group shares?		
Changes:	Have the needs and interests been consistent over time, or have they changed over the last five years—and if so, how?		
Access:	As a whole, does the group have access to institutions (public, private, or nonprofit) to meet its needs and interests? What are the barriers to access, if any?		
Other Organizations:	Are there other organizations (for-profit or nonprofit) the group turns to for its needs or interests?		
Gaps:	Are there gaps in services to meet the needs of the group?		
Level of Involvement:	As an estimation, what percent of this beneficiary is engaged with the organization?		
Traits or Characteristics of Organization:	What traits or characteristics of the organization does the group value most?		
Satisfaction with Services:	How satisfied is this group with the organization's efforts? What does the group like? How could the efforts be improved?		
Length of Tenure:	How long have members of this group been involved with the organization?		
Overall Perception:	Overall, how do members of this group perceive the organization, and how has this changed over time?		

This empowers constituents to be a true part of the organization, having a say in the future direction and building of an organization that maximizes impact by meeting their needs accurately. It also sets up leadership to understand how the remaining segments of the market will influence the organization's ability to deliver impact and build sustainability.

How to Get the Info.

Census information found online and additional research can provide a lot of data, but the easiest and best way to get this information is by talking with constituents. Conduct a survey—paper or online—to determine if they're satisfied with services. Hold a series of focus groups to ask the question and get people talking. Invite constituents into the process by providing a place for them to give input, and take the time to truly listen to their needs, what is working, and where there are gaps.

Other Beneficiaries/Funders

Beyond direct beneficiaries, there are many other groups that benefit from the efforts of nonprofit organizations. These may include public agencies, such as school districts or police or housing authorities. Another example might be businesses that benefit when an organization provides opportunities for employee–community engagement; or homeowners in a particular neighborhood that might benefit from the nonprofit's presence. Other beneficiaries include foundations and funders who further their missions and interests by supporting nonprofit organizations. We consider all these groups to be "other beneficiaries" and, similar to direct beneficiaries, seek to understand their demographics, needs, and motivations for supporting the organization.

This is an opportunity for leaders to think broadly about the benefits the organization's work brings to segments of the community it may not normally consider. Understanding this segment of the market helps organizations not only in honing their impact but also in strengthening their revenue strategy and remaining relevant to funders.

Dennis Young's normative theory of finance offers four different types of benefits organizations may provide to various segments of their community:

1. **Group Benefits.** Subgroups of communities with shared values may be interested in supporting an organization's mission that aligns with their values. For example, people who like animals may be supportive of a dog rescue organization, and those who were in New York on 9/11 may support an organization that assists 9/11 victims. Identifying common values that align with an organization's mission can help identify groups that might support the organization.
2. **Public Benefits.** When a large segment of the community is supported or strengthened as a result of an organization's efforts, the organization is said to have "public benefits." Types of organizations that may benefit the public in this way include, for example, health and wellness programs, juvenile mental health programs, and employment-based programs. When an organization can demonstrate specific public benefits resulting from its work, this presents an opportunity to pursue public funding.
3. **Private Benefits.** Individual consumers may also benefit from an organization's efforts. By identifying through market analysis individuals who benefit from an organization's efforts, the organization may discover some willing and able to pay for the services and benefits they receive, presenting another revenue opportunity.
4. **Trade Benefits.** Institutions and businesses can benefit from associating with a nonprofit and its mission. For example, cause-related marketing—when a business publicly displays its support of a nonprofit—benefits the business by associating it with the positive brand of the nonprofit organization.[4]

Once an organization's leadership understand which segments of the community are benefiting from their efforts, there may be an opportunity to explore different sources of revenue—for instance, by asking those who benefit to contribute to the organization through program fees or philanthropic support.

To identify other beneficiaries, leadership should think expansively about the following questions:

- Who benefits from the results of our work?
- Who else's missions are more successful because of our work?
- Do corporations or small businesses gain by being associated with us, and if so, how?
- In what ways are homeowners or property owners better off because we are in their neighborhood?
- Are there other initiatives that are less costly because of our work?

For an example of other beneficiaries, consider an organization that provides environmental education for schoolchildren in a public park. The direct beneficiaries are the schoolkids. However, by hosting programs in neglected parks, local crime drops and property values rise. Additionally, by providing experiential learning opportunities, educational outcomes improve—a favorite cause of the local business community. Lastly, by engaging volunteers from corporations in park cleanup and other events, the organization provides a way of involving its employees in the community, one of many factors contributing to employee satisfaction.

In this story, we've identified several beneficiaries, including:

- Local property owners
- School districts
- People interested in educational outcomes
- The police department
- Local businesses
- Larger corporations
- People interested in environmental science for youth
- The general public

Each of these beneficiaries can be examined in more detail, not only to maximize impact but also to discover possible revenue sources. The analysis should answer:

- What is the motivation or goal of the beneficiary in supporting your organization?
- How aware are the beneficiaries of the organization's efforts?
- How much do they care about the organization's efforts?
- Is their awareness of the organization and concern about the issues growing or declining?
- What else is this particular group interested in?

A table like the one below may be helpful for capturing answers to these questions.

Table 2: Other Beneficiaries/Funders

	How Does the Group Benefit?	Is the Group Aware of the Organization?	Other Interests?	Emerging or Declining Concern?
Property Owners				
Other Organizations				
Foundations/ Community-Involved Organizations				
Government Agencies				

There's a direct link between other beneficiaries and an organization's revenue strategy. Understanding this market component, the motivations of other beneficiaries, and how they're changing will help leadership stay close to those funding the organization's impact, explore potential new sources, and build organizational sustainability.

How to Get the Info.
Board members, as representatives of the community, are well positioned to engage in the discussion around beneficiaries. Again, having identified beneficiary groups, in order to inform your analysis it is helpful to host discussions with representatives of each group to learn firsthand their knowledge of and interest in the organization's mission.

Other Organizations

The competition and cooperation that nonprofits encounter from surrounding organizations is one of the more dynamic and confusing components of market analysis. On the one hand, there is intense pressure from funders and other beneficiaries for nonprofits to cooperate or collaborate with other organizations and form strategic alliances. On the other hand, fierce competition for funding presents a challenge—whether for philanthropic or earned revenue. These realities of the nonprofit landscape make it difficult to determine which organizations are competitors and which are complementary and thus ripe for cooperation or potential collaboration.

Nonprofit executives shouldn't spend too much time worrying about this, as it is often a false distinction: an organization may both pose competition as well as present an opportunity for collaboration. Similarly, in the private sector, companies frequently both compete and cooperate. For example, restaurants compete with one another for diners, but they also gain business by locating near one another and collaboratively providing parking and other amenities. Likewise, Internet providers compete for subscribers but might work together to fight the NSA.

Blurry boundaries between the nonprofit and private sectors are another consideration when thinking through other organizations in the market. It is important to consider both other nonprofit organizations and for-profit businesses when analyzing the competitive landscape. In some cases, it may also be wise to include government agencies or quasi-governmental service providers.

Leadership also need to consider substitutes for an organization's services. For example, while other restaurants may be direct competition for a dining establishment, a bicycle delivery service is a substitute. For an art museum, a direct competitor might be the science and technology museum across the street or an art gallery located across town. However, thinking even more expansively, a movie theater or bowling alley might also be a substitute. To fully understand how other organizations affect a nonprofit's business model, leadership need to think broadly about how they define competition.

A laundry list of other organizations can be daunting to analyze. Listing the organizations and then prioritizing based on a task force's perceptions makes the analysis more manageable. Once prioritized, briefly understanding demographics and geography served, services provided, and revenue streams will be helpful. Table 3 captures the foundational understanding.

While this table will provide leadership with a list and some attributes to compare characteristics of organizations, there are other methods that can be used. Peter Frumkin and Suzi Sosa, in their *Nonprofit Quarterly* article "Competitive Positioning," offer one such model that creates a matrix of characteristics of similar organizations, allowing leadership to compare and contrast.[5]

Putting the organization in context, and understanding how it interacts—or could interact—with other nonprofit organizations in the community,

Table 3: Other Organizations

Organization Type	Constituents Served: Number/Demographics	Geography Served	Services Offered	Revenue Streams
Similar Service Providers (perceived competitors)				
Complementary Service Providers				
Substitutes (if any)				

provides an opportunity for greater collaboration as well as a way to surface the distinct advantages an organization brings to its beneficiaries and mission.

How to Get the Info.

One of the best ways to identify competitive and complementary organizations is to ask your constituents directly: "Which other organizations do you think offer similar services?" and "Which other organizations do you turn to for services?" This can be done through surveys or focus groups, for example, at the same time you learn about their needs and perspectives as direct beneficiaries.

Board members and funders are also great resources for identifying similar or complementary organizations in a community. You can ask, "Who else are you talking to?," "Which organizations do you see as offering similar services?," and "Which organizations do you see as offering services that are complementary or go hand-in-hand with our services?"

Furthermore, staff can provide a unique perspective on which organizations they see providing competitive and complementary services. Staff who are engaged in the community are particularly qualified to provide information about who else participates in communitywide discussions relating to your mission.

Revenue streams can be determined by looking at the organization's IRS Form 990 using GuideStar (www.guidestar.org) or by reviewing the organization's annual report or website. Alternatively, for a fee, GuideStar and Nonprofit Finance Fund's Financial SCAN product allows for comparison and benchmarking of revenue streams and financial health using 990s.

Inputs/Labor Market

There is no question that, with his brilliant idea for the Apple computer, Steve Jobs intuitively understood what people really craved. But, without the engineering expertise of Steve Wozniak, the Apple might have remained simply a dream. Understanding customers is not enough; leadership also need to be mindful of the resources and skills necessary to meet customers' needs. For nonprofit organizations, this means not only understanding how those who benefit from their services or programs are changing but also being mindful of the inputs necessary to generate impact. The biggest input for nonprofits is people. To have a sense of the market, leadership need to understand an organization's competitive position in attracting and retaining quality talent. This is especially true if an organization's mission requires specialized skills.

In his excellent monograph *Good to Great and the Social Sectors*, Jim Collins talks about having the "right people on the bus" as a critical first step to achieving greatness.[6] Unfortunately, in the spirit of trying to serve as many constituents as possible, most nonprofits shortchange their staff with low compensation or poor benefit packages. This mentality is one of the reasons why the nonprofit sector has a higher turnover rate than the for-profit sector, leading to shortsighted budget decisions in which the cost of recruiting and training employees is often uncalculated.

The accessibility and objectivity of salary surveys turn the focus of many discussions on staffing and satisfaction to compensation. However, today's employees want more than just monetary compensation: they want a meaningful work environment that engages and develops them over time, valuing their opinions and professional perspectives. Therefore, when assessing the state of the labor market, leadership need to look beyond compensation to the overall work environment and ability to attract, develop, and retain key talent.

Just as leadership conduct surveys, interviews, and focus groups with constituents and stakeholders, an employee satisfaction survey is a useful tool to assess this part of the market. Questions focused on whether employees feel they have the tools necessary to perform their jobs, are provided opportunities for development, and feel they are valued can be helpful in determining how significantly job satisfaction may influence the organization.

Additionally, a vibrant discussion around some key questions will help to surface concerns in this area:

- What is our turnover rate, and why are people leaving?
- How long does it take to fill open positions, and are there particular positions that are harder to fill?
- What is the ratio of our lowest to highest salary?
- How much do we invest in or provide professional development?
- Do we partner with and empower our staff to lead, valuing their experience and input in guiding the organization?

How to Get the info.

The answers to many of these questions are data points that can be tracked through payroll. Many of these indicators trend over time and collectively will reveal how challenging it is to find the necessary skill sets. These metrics may also be included as part of an organizational dashboard. Additionally, conducting exit interviews when employees leave will provide a good indication as to why the organization is having turnover and surface the perception employees have of the organization's culture.

Too often, nonprofit staff are taken for granted, but compensation is typically the largest expense for an organization, and employee skills are among the biggest drivers of impact. Beyond the cliché of saying "people are our most important asset," leadership need to understand the market for attracting, developing, and retaining talented employees and the effect that may have on the organization's ability to continuously deliver deep impact and generate financial resources.

Political/Social Environment

The last element of the nonprofit market that can affect an organization's ability to accomplish its mission while remaining financially viable is the political and social environment in which the organization operates. Public policy affects every nonprofit organization. For example, organizations that rely on government contracts are affected by the debate over the role of public funding in our country. The debate may happen in Congress but the ramifications are local, and the social and political environment in each organization's community helps to inform the discussion. Similarly, on the impact side, public policy is an important tool for environmental organizations to achieve their mission-related goals, such as protecting wetlands or improving air and water quality. Regardless of the organization, the level of political and social support for an organization's values and mission affects its business model.

Nonprofit leadership and staff often deeply understand this aspect of the market; however, they may not take the time to articulate their knowledge or educate the board. Holding space for discussion of key questions and reviewing research interviews or survey data can bring this aspect of the market to light and provide context for strategic decision making. Key questions for discussion and research include:

- Is there public awareness of and support for the importance of the organization's mission?
- Has that awareness increased or decreased over the last five years?
- Is the issue controversial in the public's mind? How and why?
- Is there support for the organization's strategies or theory of change to achieve impact? (While many people may want the same outcome, the "devil is in the details," and people may not support the organization's strategies. Having clarity on specifically what about the organization the public supports is important.)
- Who are key voices with respect to the organization's issue in the local, state, and federal government, and does the organization have a contact in or direct connection to these people?
- Is there an association or network that provides lobbying or information on the organization's issue, and is the organization connected with it?

It is important to note that I am not proposing that there needs to be universal support for an organization's mission or theory of change. However, knowing the importance and level of public support and how it is evolving will provide guidance to leadership in setting organizational strategy. For example, if the organization relies significantly on public funding, it is imperative that it engage in an appropriate level of advocacy and perhaps lobbying of elected officials, either on its own or through an association. BoardSource has an excellent resource, "Stand for Your Mission," which advises boards on how to engage in advocacy.[7] This market analysis discussion will help the board understand the importance of this role.

Tying It All Together

Organizational sustainability is an orientation, not a destination, because organizations must continually evolve to be sustainable. When making strategic decisions to strengthen sustainability, leadership must understand how the market affects their business model. Tactics for sustainability must constantly evolve as constituent needs, programmatic best practices, revenue and talent availability, the landscape of competitors and collaborators, and community perceptions change. Market analysis enhances sustainability by giving leadership a clearer understanding of how all components of the market are changing and how their evolution might influence the organization's business model.

The amount of influence each aspect of the market has on a nonprofit's business model varies. For example, changing constituent needs or labor markets may drastically affect an organization's ability to achieve its intended impact, whereas a change to other beneficiaries or increased competition may affect an organization's financial viability somewhat less drastically.

Analyzing the market won't, on its own, dictate a foolproof strategy for an organization to cope with its changing market. However, understanding how the changing market is influencing the organization will give leadership an idea of how their mission-specific and fund-development activities could be altered to be more responsive to market trends. Some programs may be well positioned to seize partnership opportunities or meet the changing needs of constituents, while others may need to be redesigned or even phased out.

Exploring each aspect of the market individually can be insightful, but putting the segments of the market together to obtain a comprehensive look at the forces influencing an organization yields the most useful information.

After analyzing each market segment individually, leadership can ask the following questions to prioritize which market aspects are currently impacting their organization's business model most (and see Table 4):

- How quickly is each market component changing relative to the others?
- In relative terms, how significantly would a change impact the organization's sustainability (impact and financial viability)?

Table 4: Market Forces

	How Quickly Is the Market Changing?	How Significantly Would Change Impact the Organization's Sustainability?	Total
Direct Beneficiaries			
Other Beneficiaries/ Funders			
Other Organizations			
Inputs/ Labor Market			
Political/ Social Environment			

One way to prioritize the relevance of different market forces for an organization is to rate the speed at which each is changing and the significance with which each impacts the organization on a scale of 1 to 5. Leadership can then compare the results to determine which market aspects need immediate, strategic attention.

To help depict how strongly each market aspect is influencing an organization's business model, the market wheel graphic can be color-coded in the following way:

- **Red: Score 8 to 10, "High Priority."** These aspects of the organization's market are either changing rapidly or having a significant effect on the organization's business model. They must be addressed when setting strategy.
- **Yellow: Score 5 to 7, "Bears Watching."** These aspects are on the edge, perhaps not as high a priority as other aspects of the market but they should be watched to understand better how they may influence the organization's business model.
- **Green: Score 2 to 4, "Stable Influence."** These aspects are relatively stable and not in need of in-depth monitoring.

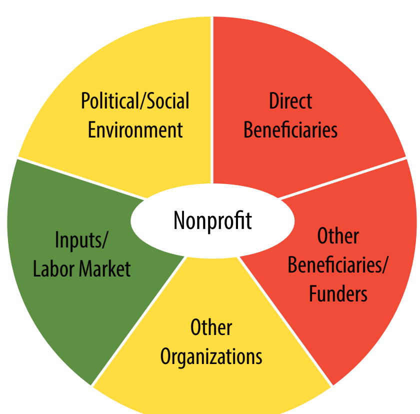
An example follows:

Table 5: Market Forces

	How Quickly Is the Market Changing?	How Significantly Would Change Impact the Organization's Sustainability?	Total
Direct Beneficiaries	3	5	8
Other Beneficiaries/ Funders	4	5	9
Other Organizations	2	4	6
Inputs/ Labor Market	1	1	2
Political/ Social Environment	2	3	5

For this example, the market wheel would be color-coded to reflect the urgency of strategically addressing different market influences:

Market Wheel



Conclusion

Nonprofit organizations are vehicles for community engagement—groups of individuals coming together to make their community a better place. However, when it comes to setting strategy, leaders often don't consider all the aspects of the community that influence their ability to achieve the mission but instead focus solely on the desires of those who are funding their mission.

To ensure relevance of the organization to its community, however, the board's first priority needs to be those whom the organization directly serves. With an understanding of the changing needs of this group, the board is better positioned to then explore how all the elements of the market influence its ability to impact the group.

As communities change, so do the markets in which nonprofits operate. Shifting demographics, political and social pressures, and competition and resources require leadership to be continually ready to adapt. To do so, leaders must understand not only how their own programs deliver impact and financial viability but also how the market is influencing their ability to do so.

This framework provides a holistic method for executives and boards to explore their market and prioritize which aspects need strategic attention. Additionally, it sets up a conversation about how ready an organization is to change, and whether it truly has the capacity to respond to market influences. Having an engaged and committed board and staff that reflect and represent the organization's core constituents can dramatically expedite this process. While it may seem intense, by undertaking a market analysis an organization will become both more aware of its position in the community and more empowered to help build a stronger one.

A Faster Way—Starting at the End

We warned you—nonprofit markets are complex; and when leadership look holistically at all five segments, it is easy to feel overwhelmed. So where to start? A faster approach might be to start at the end.

Boards and staff tend to have pretty good instincts from a high-level perspective about what is happening in their market. Boards gain understanding through their role as community ambassador, while staff gain insight from their day-to-day work with constituents and partners. To simplify the process, start with the survey on how quickly the market components are changing and how that change would impact the organization's sustainability. A board and staff task force can take the survey and discuss the results. Discussion of how individuals scored on the two questions will yield new information and unknown areas for exploration. Lastly, based on perceptions that the survey uncovers, the task force can efficiently prioritize which aspect of the market needs exploring first.

Market Analysis and the Matrix Map

The matrix map is a visual depiction of how an organization's programs work in concert to deliver exceptional impact in a financially viable manner.[8] By plotting the performance of both mission-specific and fund-development programs on the dual bottom line of impact and profitability, leadership can make strategic decisions in a holistic manner to strengthen the organization's business model and sustainability.

The map reflects a snapshot at a moment in time, but the impact and profitability of programs are constantly moving in response to organizational strategy and execution as well as market influences. The market wheel, showcased in this article, highlights the five segments of the market influencing the map.

The market analysis allows for a deeper understanding of the messages from the matrix map. The shifting of programs over time affects the organization's sustainability, and the market analysis helps to dissect the external versus internal causes of the programs' movement, enabling leadership to make strategic decisions and adjustments to strengthen the business model. For example, a high-impact job training program may have shifted lower on impact and profitability over the past two years. Using the market wheel framework to examine relevant influences, leadership may realize that both movements are related to increased competition from the largest employer in the city starting its own job training program, and therefore a significant portion of the organization's constituency no longer has this need. However, the need may still exist with a different population, which means that a refinement of the program could increase impact and secure additional funding. Similarly, healthcare-related nonprofits are facing increased pressure from the labor market. By exploring the market wheel and focusing on the labor market, leadership may realize the importance of continuing to invest in retention and development of their nurses as an important strategy for delivering high-impact programs.

This exploration can be done first by examining and understanding the market segments and then seeing how those might affect the programs on the matrix map—or, if you have already done the map in the past, revising the map and then exploring which programs are most likely to be influenced by market forces. The latter is particularly useful if the programs serve different markets.

The market wheel does not seek to provide a strategic answer but instead offers a systematic method of exploring the external forces shifting key programs. Such analysis allows leadership to ascertain the severity of those pressures and to identify strategic priorities to strengthen the organization.

Market Analysis and Starting a New Program

Similar to starting a new organization, every potential new program has its own market. When considering whether an organization should begin a new program, the market wheel can be used to explore whether there is truly interest and need in the community. The answers to the questions offered in each segment begin to build the case for support: What are the needs of the target beneficiary? Who else is providing these or similar services with whom the organization will compete or collaborate? Does the organization have the skill set to deliver the program, or will it be able to hire new staff with those skills? How does this align with the funders' needs? Answering these questions will help to refine the idea, increasing the likelihood of success for programs that move forward.

Notes

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Courageous and Ethical Leadership in a Polarized World

by Grant Oliphant

The genius of movements like #MeToo, #TimesUp, and #BlackLivesMatter is that while each had its creators and drivers, who spark and tend the flame, no one has really been in charge of making it all happen. That makes such movements messy and unpredictable. But it also gives them their power to change culture.

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An art museum near Pittsburgh recently lost a major funder over a photography exhibit on immigration. In another era, the show's sympathetic images would have seemed poignant yet unremarkable, a typically American invitation to remember our shared otherness. But in today's context, humanizing immigrants and refugees was, for the museum, an act of courage with material consequences.

In this period when even an effort to summon our better angels can invite retribution, what does it mean for America's nonprofit sector to lead bravely and ethically? Like many of us, I have struggled with that question in a time that has felt catastrophic for so much of what we care about—a more just world, air and water we can safely breathe and drink, communities designed for everyone, civility and decency, caring across differences, human and civil rights, a free press, respect for science and art, and perhaps most of all, the sense of collective responsibility that is the core of every healthy, functioning human society. But I actually don't think the answer is all that mysterious. We are simply being called to live our values.

Centuries ago, a Sufi mystic named Hafiz wrote a poem that I think beautifully captures the noblest mission of our sector:

The small man builds cages
for everyone he knows,
while the sage, who has
to duck his head
when the moon is low,
keeps dropping keys
all night long
for the beautiful, rowdy
prisoners.[1]

What struck me when I read that poem afresh earlier this year is that we live in a disturbing era of small men. But it also struck me that we live in an era of hopeful liberators, and that, in an increasingly divided world, the task of courageous leaders in our sector is to be the providers of keys, to help free others and ourselves from the cages being built around us.

They are prisons of small-mindedness, meanness, and fear. They are the impulse to wall off reality and lock us all inside the hellish confines of a warming, polluted, xenophobic, strife-torn planet. They manifest in the desire to curry favor with white supremacists, mock the suffering of those considered "different," flirt with despotism, and sow intolerance, divisiveness, and mistrust. They appear in the facile disavowal of responsibility, even as bullying, racism, and hate crimes increase; as the climate changes, droughts and disease spread, and sea levels rise; as yet another group of innocents is gunned down with military-grade weapons; as faith in democracy and in each other withers.

It is tempting, at a time when partisanship is infecting everything, to think of these cages in purely political terms. But many are broadly cultural and deeply familiar. We see this in the small men who mistake dominance for strength and employ their power to harass, control, and abuse. We see it in the urge to believe we are only one thing—one identity, one tribe, one tiny sliver of the human experience, lonely islands of experience without common ground—rather than connected and beautifully interwoven.

We find it in the fierce defense of a deeply unjust status quo, the refusal to consider what we ourselves do not experience—the police stops, poverty, harassment, and violence that tear away at hope. We find it in the naked greed that pontificates about what society can no longer afford—teachers, parks, libraries, health care, pensions, safety nets—while gobbling up ever greater shares of the world's riches. We find it in technology that preaches disruption and community but lines its pockets with the price of our disconnection and the cheap gift of our distraction.

And, if we are wise, we find it in the mirror, in our own anger and righteousness, indifference and arrogance, our own failure to see what is in front of us. One of the wisest and most thoughtful questions I have heard in the past two years was, "How am I this?"

It is such an important question for anyone who aspires to truly meaningful leadership in bitterly divided times. What we inevitably learn in our work is that we are all the prisoners we seek to free, and all the oppressors from whom we wish to be freed. The work of the courageous leader starts there, with a hard look at what we bring to the dance.

Hafiz wrote his poem some seven centuries ago, which tells us something about the constancy of oppression. In some ways, all of human history is the story of people striving to free themselves from the cages of inequity, of mindless conformity, of phony nostalgia for times that never were, of hatred for the different, of shrinking our dreams into a diminished reality defined by bars erected precisely to keep us from ever realizing our own true potential.

It is an old story. What makes today different is that the stakes are so much higher. We can neither afford nor tolerate this any longer. We are destroying the planetary ecosystems that sustain us, undermining our economic future, dismantling the trust in self-government that protects and empowers us, undoing the sense of shared interests that allows us to see and speak and work with each other, and unraveling the threads of community that nurture us.

All of that sounds terribly daunting, and it is. This is a profoundly serious time. But it is emphatically not a time for despair. The role of the courageous leader is never to *find* hope in good times; it is, rather, to *give* hope in difficult times. So what does that look like? I want to offer three suggestions that I think are especially relevant for us in this polarized world.

First, it means we are willing to act in support of the people we serve and the values we cherish. When a crisis comes, we do something—rarely the perfect thing, but something. As the author Natalie Goldberg has observed, "The only difference between neurosis and wisdom is struggle."[2] Courageous leaders in our field understand that the world does not need our neurotic hand-wringing. It needs our voice, and our authority; it needs us to struggle alongside it.

We may often feel like the wrong messenger. When Pittsburgh's local daily paper ran an editorial on Martin Luther King Day excusing the President's use of the phrase "s-hole countries,"[3] Pittsburgh Foundation President Max King joined me in responding with an unequivocal rebuke.[4] We were blasted by white conservatives who said two white men had no right to our perspectives, as if they would have found our views more legitimate had our skin been darker. In a case like that, it is especially important for people in positions of power and privilege to step up, to be the unlikely voice in the room.

What I have learned in the past year is that polarization is a powerful tool for silencing and intimidating the voices of civil society. I have heard from so many leaders who have felt pressure not to speak out even though values they consider core to their missions were under attack, because the mere act of defending those values has suddenly been made political. The only advice I could give them was to speak anyway, and many have. They understood that, for our sector, silence is damning.

That's why I so profoundly disagree with those in our field who dismiss courageous speech from us as unnecessary. Equal Justice Initiative's Bryan Stevenson rightly says that truth telling must come first—including for us.[5] It is neither self-indulgent nor tribal nor partisan to call out racism and sexism, to fight an entrenched cultural belief that the freedom of some depends on the diminishment of others, to publicly stand with the victims of oppression, or to defend science, journalism, and truth itself.

When we learn not to make our actions purely about us, about our own comfort and preservation, we make room for what the activist and writer Rebecca Solnit meant when she commented last year, "We know what we do. . . . But we don't know what we do, does."[6] We may not ever know the ultimate value of the actions we take when we move from bystanders to contributors. But we can be certain that all change comes from that shift.

Second, more than ever before, to be a courageous and ethical leader in our field means that we do *with*, not *for*. Hafiz's sage doesn't open the prison doors himself—he merely provides the tools. It is up to the prisoners to pick them up and liberate themselves.

Leaders who arrive as saviors strip the people they would help of power and agency. They offer a self-aggrandizing lie of external salvation, of rescue, when what all of us locked in our cages of doubt and limitation most need is to see our own capacity to find the way out.

We never learn what doors we can open when we let others define our sense of the possible. In a recent interview for our podcast *We Can Be*, Carnegie Mellon roboticist Illah Nourbakhsh told of working in a village in Uganda where the streets were littered with unused stoves provided by a well-meaning philanthropy. Asked why the foundation had gotten the stove's design so wrong, he answered, "Because we're bigots."[7]

This, at heart, is a failure not just of philanthropy but of our culture. We think we know each other, when in fact we have stopped listening. Our sector has to be the bridge between worlds, between what we think we know and what other people really need and want. Bryan Stevenson describes this as "getting proximate."[8] If our goal is to help or change someone, he says, we need to know them first; it is the only way we will ever open their hearts, or our own.

As it happens, this is also the first and most important rule of effective social change: we have to start by getting closer and listening and learning. This is the only way we can model moving past the dualism—the divided, us-versus-them view of humanity—that most narrows our minds and shrivels our hearts and perpetuates our pain.

Third, to be a courageous and ethical leader in an era of mind-boggling complexity means that we have to get better at sharing power. Jeremy Heimans and Henry Timms describe a phenomenon they call "new power" in their book by that name.[9] New power is the social change that comes through broad, self-organizing movements. It can be terrifying and unethical. But it can also be a powerful force for good.

The students at Parkland exemplified new power, spreading their message in every medium available and, through networks of networks, persuading thousands of students and adults to carry their message of sane gun measures forward. Where others had felt impotent in the face of intransigent policymakers who offered only thoughts and prayers, they tapped directly into Martin Luther King's "fierce urgency of now."

The genius of their nascent movement, and of movements like #MeToo, #TimesUp, and #BlackLivesMatter, is that while each had its creators and drivers who spark and tend the flame, no one has really been in charge of making it all happen. That makes them messy and unpredictable, but it also gives them their power to change culture.

Our sector likes to believe we can control outcomes. We still live in a world of projects and logic models. But maybe we need less control and more enabling. In a changing world where we expect others to grow and evolve, that seems like an area where *we* need to do some evolving—by becoming more willing to fund those who do outreach, push for change, bravely speak truth to power, and engage people we never will.

Heinz Award–winner Angela Blanchard, who dedicated her career to social change in Houston, told me recently, "We actually do need everyone." In an era that seems intent on forgetting that and intent on dividing us, our role in the social sector—and, I believe, our sacred responsibility—is not to let it. We are called to be liberators, sages sowing a different kind of populism, one that at its heart remembers that we are all, truly and forever, in this together.

Notes

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