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# The Nonprofit Sector and the Will to Change

*Pablo Eisenberg*

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*A greater portion of our nonprofit activities in the future will have to be devoted to policies and actions that can produce constructive change. The extraordinary problems of our society as we enter the twenty-first century — poverty, racism, environmental degradation, lack of health protection, declining trust in governments — can only be tackled by strong policy work, advocacy, and citizen mobilization. The author outlines seven challenges that nonprofits need to address including promoting democracy, strengthening government, assuring public accountability, redefining the nonprofit sector, reforming philanthropy, developing new leadership, and engaging institutions of higher learning in promoting democracies and communities. Providing services is not enough. We need to develop new nonprofit leadership with the vision, competence, and courage.*

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**T**he beginning of the twenty-first century is an important time for the nonprofit sector. The challenges and opportunities we face call for a more thoughtful, creative, and courageous approach than that which we have taken in the past. So it is particularly opportune for us to discuss what needs to be done to make our nonprofit world more visionary, vibrant, and effective.

I do not want to minimize the critical need of nonprofit management capacity builders to increase their technical skills, the quality of their work, or their professionalism. This is an important agenda for all of us, but it is overshadowed by what I believe are larger and even more significant issues. Too often, in our concern for professionalism and technical competence, we tend to do a poor job of listening to the needs, issues, and wishes of the people and organizations we are supposed to serve. Consumed by our day-to-day work, we often lose sight of the sector as a whole and the challenges that go beyond the narrow interests of one organization or the needs of some practitioners. It is on this set of broader issues that I want to focus my attention.

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If there is one characteristic of our civil society that has distinguished it from all others, it is the vitality and extensive influence of its public policy, advocacy, and constituency mobilization functions. Other civil societies have provided social, fraternal, and other services, but have in general neglected that advocacy activity that is at the heart of democracy. That is the genius of our independent sector: it is at once the protector and enforcer of democracy. To the extent that our civil society fails to exercise its advocacy functions, our democracy is likely to be endangered.

Too many of us, practitioners and observers alike, have tended to view the nonprofit sector largely as a vast network of services, programs, and projects. We have downplayed, as have foundations, the increasingly significant role of public policy and advocacy. The extraordinary problems that are tearing at the fabric of our society as we enter the twenty-first century — poverty, racism, environmental degradation, lack of health protection, declining trust in government, and many others — can only be tackled by strong policy work, advocacy, and citizen mobilization. They will not be resolved by better services and programs, although these are important. A much greater portion of our nonprofit activities in the future will have to be devoted to policies and actions that can produce constructive change.

We need to keep this in mind as we look at the challenges to the future development of the nonprofit sector, as well as to the strategies needed to confront them.

The nonprofit sector suffers from serious problems of public accountability; its first amendment rights are under attack; its structure as a sector needs to be rethought and redefined; its fragmentation is an obstacle to unified action on major issues; its philanthropic institutions have become bureaucratic warehouses of wealth and have not kept up with either the times or the needs of public and nonprofit organizations; and its leadership cadres are thin and in need of revitalization. These issues are the ones that should command priority attention. The following are seven of the major challenges we need to address.

### *Promoting Democracy*

The first, and possibly most urgent, challenge is simply to preserve and promote democracy. Historically, the independent sector has pursued this goal by providing checks and balances to government, giving expression to minority voices, contributing to the public policy debates, developing an engaged citizenry, and leveling the playing field for all citizens. It must continue to do so, but much more effectively.

Extensive poverty still haunts and undermines our nation's commitment to social and economic justice. The poor are getting poorer. One of every five children is growing up poor. By any reasonable definition of poverty, some 60 million Americans or almost 20 percent of our population doesn't enjoy the opportunities and benefits of first-class citizens. The "invisible poor" described

so starkly by Michael Harrington in 1962 are still “invisible.” Poverty has fallen off the radar screen of the current administration. Cutbacks in federal funds, organizational survival, increased dependence on fees for service, and the lack of political leadership have all contributed to this diminished concern about poverty by nonprofits in general. This attitude needs to change if we are going to do more than just give lip service to the notion that persistent poverty is not consistent with the goals of our democracy. Fighting poverty must become a part of every nonprofit’s agenda.

Attempts to curtail the advocacy voice and first amendment rights of nonprofits also threaten our democracy. That role must be jealously guarded. The Istook amendment and sons of Istook, though repulsive, did raise an important issue about our lobbying laws . . . that they are complex, involve a good deal of paperwork and are not understood by most citizens and nonprofits. At minimum, they need to be updated. The dollar limits on nonprofit lobbying should be increased to reflect the cost of inflation over the past twenty-three years. So should the limits on grassroots lobbying. But in the interest of first amendment rights and better policy-making, all lobbying restrictions on nonprofit organizations, except those prohibiting the use of federal funds, should be eliminated. The result would be a much cleaner and less confusing system. And think of all the paperwork and money it would save! We need to think seriously about implementing such a change.

Devolution and the federal cutback in domestic social programs are teaching an important lesson to most local and state nonprofit institutions: services alone can no longer satisfy the needs of their Georgetown public constituencies and clients. Nonprofits must therefore reserve a portion of their agendas for public policy, organizing, and advocacy activities. But they need “new” money to do this. Most foundations, except the conservative institutions, are still reluctant to support public policy and advocacy. They have not changed their priorities to accommodate the need for a more level playing field at the local and state levels. Their resistance to change is a major obstacle to the local democratic process.

### ***Strengthening Government***

A second major challenge to the independent sector is to strengthen government. For years, government-bashing has been a popular public sport, fueled by irresponsible politicians of both parties, and not infrequently, by the actions of nonprofits themselves. Combined with the destructive impact of big money on our electoral system, these activities have resulted in an alienated citizenry and political leadership beholden to special interests. What can the nonprofit sector do to help restore public confidence in government and convince our citizenry that the problem is not big government but good government?

Nonprofits should close ranks to develop sufficient public and political influence to pass comprehensive campaign finance reform measures, without which we will continue to be saddled with mediocre politicians tied to big money.

Civic, community, and other nonprofit organizations must also do a better job of monitoring the performance of state and local governments to make certain they are accountable and effective. They will need additional money to perform this task, funds that philanthropy to date has been unwilling to supply.

Devolution is demonstrating the vulnerability of state and local governments. Many are unaccountable, poorly staffed, undermined by ineffectual state legislatures, and incapable of forging productive partnerships with other sectors. They are in need of structural and procedural reform, as well as capacity-building efforts. Here again, foundations have been unwilling to invest in such initiatives. Some are wary of working with government. Others lack the understanding and know-how to do so. It is time for philanthropy to make these efforts a priority.

Ensuring strong, good government is the business of the independent sector. Without it, our own capacity will diminish. Our work and programs will suffer, and so will the quality of our democracy.

### *Assuring Public Accountability*

Assuring public accountability and the integrity of the nonprofit world is the third major challenge to the nonprofit sector and one on which the future of charitable funding will heavily depend. In recent years, the sector has been shaken by financial scandals, questionable practices, ethical lapses, huge compensation packages, and poor public reporting. The sector's staunchest defenders have attributed these problems to a small number of organizations that have allegedly tainted the entire field. This is neither true nor a good defense. Too many nonprofits have violated the public trust for us to be nonchalant about public accountability. We need to be more vigilant. The media could be enormously helpful in this respect. Unfortunately, many of us view the media with fear and are unwilling to work cooperatively with them. Because sometimes they bring us bad news, we often want to kill the messenger rather than listen to the message.

Better reporting is a key to greater accountability. The current "990 reports" that all nonprofits with a budget of \$25,000 or more are required to submit annually to the Internal Revenue Service are an inadequate public accountability mechanism. These reports need to be both simplified and modified to include much more information about the programs and activities of nonprofit organizations. Nonprofits that don't submit 990s or fail to complete them should be penalized. Annual public reports could be a good supplementary tool. I believe all nonprofits with a budget over \$125,000 should also be required to issue an annual report with full financial and programmatic disclosure.

By themselves, nonprofits cannot ensure adequate public accountability. Self-reform has serious limitations. Without adequate rules of the game and a strong referee, we will not achieve the level of accountability required to maintain the public trust. The Internal Revenue Service has the responsibility for policing the sector and enforcing the rules. For a variety of reasons — inadequate resources and staff, low priority assigned to nonprofit activity and political pressures — it is doing a poor job. New 501 (c)(3) organizations are approved almost automatically. These tax exempt groups are not required to be recertified periodically, no matter what changes they may have undergone. The IRS simply does not have the resources to identify potential scandals in a timely fashion.

Either the IRS should be given a new mandate and the resources it needs to do the job or it should be replaced by a new oversight mechanism. A quasi-governmental commission such as the British Charities Commission, might be a suitable substitute. Whatever the alternative, nonprofits should actively press the government for an oversight mechanism that has teeth and works.

### ***Redefining the Sector***

The fourth challenge to our sector is the need to rethink its structure, rules, functions, practices, and limits. The nonprofit world has been in the throes of substantial change for most of the past decade. As a growing number of nonprofits have initiated for-profit businesses, either as subsidiaries or part of their own operations, the line between nonprofits and for-profits has become blurred. There is some confusion about which of these enterprises are considered non-related and thus subject to federal taxes.

The differences between private for-profit hospitals and many nonprofit hospitals have all but disappeared. Universities and hospitals have become so large that it is difficult to find similarities between them and smaller social service and community organizations. Fees for service now constitute the largest source of income for nonprofit organizations, with government funds a close second. Philanthropy provides a much smaller amount now than twenty years ago. How has this factor changed the mission and operation of nonprofit institutions? Private for-profit businesses now compete successfully for the delivery of services in areas which previously were almost exclusively the domain of nonprofit organizations. We can now anticipate the formation of \$50 or \$100 billion foundations, larger than the budgets of many countries. Will we eventually need to apply anti-trust measures to philanthropy? Do we need to reassess the legislation and regulations that govern nonprofit practices? These and many other issues need to be addressed, and soon.

Though a few umbrella organizations and some academics have considered these concerns, there has been no organized attempt to tackle these problems as a whole. A few select conferences have commissioned papers, held meetings, and issued reports. But the matter ended there. What we need is a comprehensive assessment of the sector with recommendations for change. The Filer

Commission effectively completed such a task twenty-five years ago. It is time to update its study by appointing a national commission composed of representatives from all segments of the nonprofit sector as well as from government, business, and the media, to conduct a two-year inquiry with sufficient funds to undertake a thorough examination. We can't afford to wait much longer for such an initiative.

### *Reforming Philanthropy*

While philanthropy is no longer a dominant source of income for most independent sector organizations, the \$20 billion that foundations currently dispense remains the lifeblood of tens of thousands of nonprofits that cannot subsist on fees and public funding alone. With the anticipated enormous transfer of wealth to foundations and charities over the next thirty years, foundations will play an even more important financial role in the future. How to make philanthropy more effective is the fifth significant challenge to our sector.

Too many foundations continue the priorities established many years ago. Many have become entrenched bureaucracies, unable or unwilling to respond to new demands and changing public needs, to targets of opportunity, and to the requirements of their grantees. They often act as though they are the end of the philanthropic process and not the means by which to serve communities and the sector. Their commitment to the poor and disadvantaged remains minimal, as does their willingness to underwrite activist activities, public policy work, government reform, and long-term capacity-building.

But their most egregious failing is their persistent reluctance to provide general operating support, the kind of funding that all nonprofit organizations, regardless of size, type, or mission claim is their most urgent need. In 1997 only 13.1 percent of all grant dollars distributed by foundations went to general operating support, a decrease from 1994 when such funds constituted 18 percent of all grant dollars. At a time when foundations and nonprofits argue that capacity-building is crucial to nonprofit development, philanthropy is denying organizations the very kind of support that makes capacity-building possible. It is truly an intolerable situation, against which nonprofit organizations should organize a vehement protest. As a general rule, at least 50 percent of all foundation money should be targeted to general operating support.

One of the reasons foundations have frequently failed to meet the needs of nonprofits is the accommodating attitude of grantees. Acting like beggars in the philanthropic process, grantees have been unwilling to assert their views and challenge foundation assumptions and practices. They have been cowed by the "mystique of philanthropy." Unless they are willing to change their approach, both individually and collectively, grantees will continue to be the handmaidens, not the partners, of philanthropic institutions.

As a result of the enormous increase in their assets over the last ten years, foundations have become vast warehouses of wealth. Their annual payout in

grants to nonprofits has lagged far behind their increase in assets and their mounting administrative costs. By law, foundations are required to distribute annually at least 5 percent of their net assets; most of the large foundations have kept their distribution rates close to this minimum requirement. Since foundations are permitted to include all staff expenses, trustee fees, public related investments, rental costs and other administrative expenses as part of this payout, many of the large foundations are in fact giving much less than 5 percent of their assets in grants.

It is time to raise the minimum payout rate. The cutback in federal funds, the huge increase in foundation assets, the promise of trillions of new dollars to foundation coffers and the scarcity of resources for nonprofits all call for such a measure. A payout requirement of 6 percent in grants would probably add \$6 to \$7 billion annually to the national income of nonprofit organizations. All nonprofits should support this initiative. And for the first time, a number of foundations and individual major donors have joined this movement.

### ***Developing New Leadership***

The absence of leadership is perhaps the most serious threat to the future of the independent sector. This is our sector's sixth major challenge.

Many of our most talented and visionary leaders have left the nonprofit field over the past few years for a variety of reasons, most notably the increasingly time-consuming demands of fundraising. In general, they have not been replaced by commensurate leadership. The narrow agendas of so many organizations, spurred on by the categorical pattern of foundation giving, have not encouraged the development of leaders with broad agendas and vision. There has also been a loss of people with ideals and passion committed to making a difference. For too many people, working in nonprofits has become just another job. We need to develop a new cadre of leadership with the vision, competence, and courage to lead our sector in the twenty-first century.

What is surprising is how little nonprofit organizations are doing to develop new leadership. Many lack young and energetic staff and frequently don't consider that a problem. Often, for budgetary reasons, they do not make decently paid entry-level jobs available to promising interns and young recruits. And many are reluctant to anticipate future leadership transitions in their own organizations.

While more and more people are beginning to talk about leadership development, few foundations sponsor such programs. Several, in fact, have stopped these initiatives. Those leadership programs that do exist tend to be devoted more to recognition than development, and are aimed at mid to top level executives. With the exception of internships, relatively few are targeted to young people. This is where we need to invest our resources.

There are currently few bridges between intern programs and decent entry-level jobs in the nonprofit world. This is the weak link in our efforts to recruit

future leadership. While many nonprofits have no interest in hiring young people, those who are interested often lack the money. These organizations should be subsidized by foundation-sponsored leadership development programs so they may hire young people for at least two years. Such initiatives at the national, state and local levels would enable thousands of young people over the next decade to establish roots in the nonprofit sector while receiving a decent salary and full benefits. The cost to sponsoring foundations would be relatively small. The billions of dollars foundations spend every year won't make much of a difference unless they invest now in strengthening nonprofits by developing future leadership.

### *Higher Education: Going Beyond Service Learning*

Institutions of higher education have enormous potential to help build our communities, especially those with severe economic and social problems, by promoting active citizenship and developing as well as providing leadership for democratic change. Yet in our public discussions about civic renewal, community leadership or sectoral partnerships, colleges and universities are rarely mentioned. Our seventh challenge, then, is to galvanize the resources and talents of these institutions on behalf of communities and the public interest.

In recent years, many colleges and universities have embraced service learning programs that enable students to expand their knowledge and skills through volunteering and what Harry Boyte from the University of Minnesota calls "public work." While they are willing to volunteer students, however, they are reluctant to volunteer the paid time of their faculty. Until faculty involvement in "public work" is made a criterion for academic promotion, the contribution of academics to community improvement will be limited.

Nor are these institutions of higher education willing to invest their own money in the surrounding cities and towns that sustain them, even though this would be in their own self interest. Many of these institutions have large endowments, some well over one billion dollars. A portion of these funds should be set aside for civic revitalization. Their lack of investment, even regarding scholarships to local poor students, raises the question of whether there should be a minimum payout requirement for all college endowments similar to that for foundations. This failure to invest in community building is accompanied by an unwillingness to adopt institutional positions on issues critical to communities, such as the Community Reinvestment Act, local school reform, or low-income housing. Full time practitioners in residence could not only provide colleges and universities with a useful community sounding board, but also serve as advisers to administrators in search of new approaches.

There are, of course, some notable exceptions. Trinity College in Hartford, Connecticut College in New London, Clark University in Worcester, and the University of Pennsylvania have all demonstrated what responsibly led institutions of higher education can do to forge meaningful partnerships with their

communities. But such institutions are few in number. Recently, more than 240 presidents of colleges and universities signed a Declaration on the Civic Responsibility of Higher Education calling for institutions of higher education to renew their role as agents of democracy by adopting policies that go beyond service learning. This is a hopeful sign, because it recognizes the importance of institutional leadership in higher education.

A declaration, however, is only worth the paper it is written on. If meaningful changes are to take place in our colleges and universities, public pressure will need to be exerted to make the document a living legacy. Students need to press their college presidents, administrators, and faculties for action. Non-profit organizations, especially community and civic groups, will need to persuade college officials that there is more to building democracy and communities than service learning.

### *The Will to Change*

Meeting the seven challenges I have outlined will take all of our sector's resources and determination. We have the capacity, but do we have the courage and the will? One of the major impediments to the sector's progress has been its lack of intellectual vigor, introspection, and critical analysis. In few other sectors has there been so little concern for standards, innovation, reflection, institutional change, and serious discussion about the field. There has been minimal debate among philanthropic and nonprofit colleagues and a reluctance to criticize peer institutions. Collegiality on both sides has become a highly developed art form. Is it surprising that there is so little vision among our current leadership?

For both foundation and nonprofit practitioners, their history is oral. With few notable exceptions, they have not documented their experiences, perspectives, or policy ideas. As they have left the field, we have not benefited from the lessons they could have taught us. Nor have we encouraged them to reflect and write. Few nonprofits and foundations give their employees sabbaticals, and little money has been available for this purpose. Academics, especially those rooted in practice, have been able to cover some of this lost ground, but they are not a substitute for good and thoughtful practitioners.

This situation must change if we are to tackle the challenges ahead. It will take all the reflection, ideas, and suggestions our sector can muster. Collectively we must place much greater emphasis on encouraging practitioners to reflect, write and debate. Discussions about the development of the sector must be widespread and not limited to the few so-called "infrastructure" organizations. They must be broad and visionary, extending beyond professional and technical concerns to those greater issues that are crucial to both our democracy and our sector.

A second impediment to the sector's progress is the lack of courage on the part of leadership and institutions. This is reflected in the unwillingness of

practitioners to speak out on potentially controversial issues and is mirrored in the reluctance of grantees to criticize foundations or other donors. It is inherent in the fear of many nonprofits to engage in legal lobbying on tough public policy issues, or to reach beyond their narrow organizational priorities to embrace broader agendas. And, finally, it is manifested in the avoidance of risk-taking by philanthropy in general.

We need to inject a dose of courage into our individual and collective spines. We require a growing number of organizations and leaders who will show us that candor and courage, as well as thoughtful approaches, are the avenues to change. It's not inappropriate today to recall the old western refrain, "if you ain't got brains, and you ain't got guts, then you ain't got nothing." We desperately need both brains and guts. ❁