NONPROFIT & PHILANTHROPIC SECTOR SCAN

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Abstract

Three major themes emerged from this scan: intersecting concerns about federal, state, and global economies, especially growing gaps between wealth and poverty; "sector blurring," e.g. US domestic policies that shift responsibility for human services to the nonprofit sector; and foundation and nonprofit accountability. Many foundations and nonprofits are seen by respondents as unwilling or unable to grapple with the impact of sweeping changes, missing opportunities for crucial rethinking about doing better work. Cultures of foundations and nonprofits, both prone to "silos," are seen as lacking opportunities for straight talk and feedback. Academic centers, training programs, and research also come in for criticism. Although some centers are considered innovative, there is wide-spread concern about "professionalization" at a time when few agree on what the sector really needs. In such a climate, however, there are opportunities: new vision; foundations and nonprofits working together; theoretically sound and practitioner-based collaborative research; and new or reinvented strategies for planning, education, and collaboration.

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1. Introduction

In January 2004, the emerging Center for Nonprofit and Philanthropic Leadership based at Rutgers University Business School, Newark and New Brunswick, commissioned a "sector scan" as background research for its strategic plan and new programs. Prudential Foundation and Victoria Foundation provided early seed money for the research which was designed to explore a range of sector issues: perceptions of current nonprofit and philanthropic leadership and leadership training, existing academic centers focused on the nonprofit and philanthropic sector, a scan of trends and issues in the sector, and suggestions for new research and services. This research has been used in the Center's startup strategic planning, and the Center is now publishing the results of the scan together with an accompanying article on leadership by the Center's founders in order to contribute to current sector-wide conversations on issues identified in this research.

Three major themes emerged from the scan: intersecting concerns about federal, state, and global economies, especially the growing gap between wealth and poverty in the US and internationally; "sector blurring," including current US domestic policies that shift responsibility for human services and other services from the government to the nonprofit sector; and foundation and nonprofit accountability. Most of the scan respondents think the sector itself—both foundations and nonprofits—must draft tougher executive and governance accountability standards, create and monitor strategies for self-policing, and devise some version of a self-regulatory commission anointed by the IRS.

Respondents spoke of the breadth, complexity, and often unheralded but important work of both foundations and nonprofits. But there was also consensus that too many foundations and nonprofits are unwilling or unable to grapple with the sector-wide impact of sweeping changes—what one respondent described as a "tsunami" of economic and demographic changes about to hit foundations and nonprofits alike, especially in the US. Respondents saw both foundations and nonprofits missing opportunities for crucial rethinking about how to do their best work. Many describe the culture of both foundations and nonprofits as prone to "silos" (working in isolation) and lacking candor and opportunities for straight talk and feedback.

Assessments of academic centers, professional training programs, and existing research on the sector are not much rosier. A few academic centers are seen as innovative, offering in-depth training for nonprofit managers and useable, collaborative research produced with practitioners in mind. But many respondents in this scan expressed concerns about the so-called "professionalization" of the sector at a time when few practitioners, policy makers, educators, or researchers are able to delineate what the sector really needs. Existing degree programs, nonprofit training strategies, and research on the sector are widely seen as ineffective and disconnected from day-to-day realities of nonprofit organizations in the current climate of economic downturns, shifting sector boundaries, and demands for accountability.

In such a climate, however, many respondents see opportunities: new vision; new ways foundations and nonprofits can work together "across the giving desk"; theoretically sound and practitioner-based collaborative research; and new (or at least reinvented) strategies for planning, education, and collaboration across nonprofit, philanthropy, government, and corporate sectors.

2. Methodology

The scan aimed to capture perspectives of sector "thought leaders"—researchers, nonprofit and foundation CEOs, and consultants—a diverse group of people who are considered by their peers to think in interesting ways about the sector. Respondents were asked to think large about their experiences and their observations and, where relevant, their research on the sector.

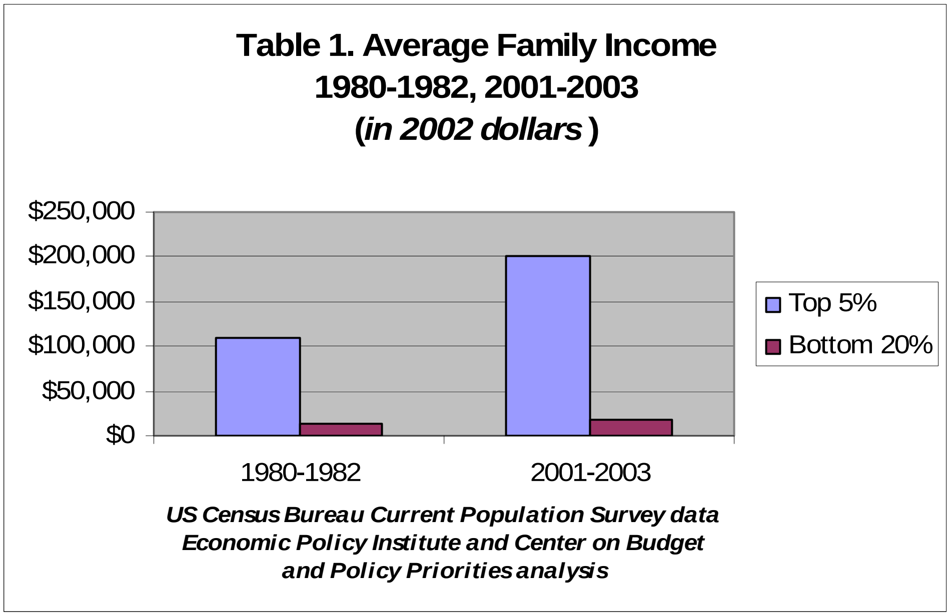
The scan grew in three phases. First, beginning with a core list of diverse researchers and practitioners, the research team solicited names of people considered by their peers to be innovative thinkers about the nonprofit and philanthropic sector. Forty of those nominated completed and returned open-ended email questionnaires. Second, the research team conducted 15 telephone interviews with people representing a broad range of expertise in the sector: research, national and grassroots nonprofit leadership, policy think tanks, nonprofit technical support centers, large and small private foundations and corporate foundations; national and regional philanthropic infrastructure organizations; nonprofit and philanthropic academic research centers; and consulting firms.

Third, to test assumptions, a smaller group of the peer-nominated list (those most-often nominated by others) was asked to rank results from the first and second phase assessments: key issues and trends in the sector, strategies for quality control and accountability, and perceptions of what works most effectively to train leaders for the sector. Seventy-nine respondents (50 percent) returned the second email scan and corroborated the trends and weight given to the trends that emerged in the first and second phases.[1]

3. Economic Pressure, Shifting Safety Net, and Demands for Accountability

Three major themes emerged from this scan that weave through many of the other issues respondents raised: intersecting concerns about federal, state, and global economies, especially the growing gap between wealth and poverty in the US and internationally; "sector blurring," including current US domestic policies that shift responsibility for human services and other services from the government to the nonprofit sector; and foundation and nonprofit accountability.

Virtually everyone interviewed or responding to the email questionnaires echoed some version of these three concerns. Widening gaps in both income and wealth are spiraling—with the "underclass"/working poor/middle-class on one side of the divide and a small segment of well-to-do and very wealthy citizens on the other. Between the early 1980s and 2001-2003 in 38 states, for example, the incomes of the richest families grew by an average of $45,800 (62 percent), while the incomes of the poorest grew by only $3,000 (21 percent).[2] Even excluding capital gains, in 2004, the richest one percent of Americans gained almost 12.5 percent while average real income of the bottom 99 percent gained only 1.5 percent. This wealth acquisition is concentrated in the most affluent tier of American families. As Princeton University economist Paul Krugman concludes, "growth didn't just bypass the poor and the lower middle class, it bypassed the upper middle class too. Even people at the 95th percentile of the income distribution—that is, people richer than 19 out of 20 Americans—gained only modestly. The big increases went only to people who were already in the economic stratosphere."[3]

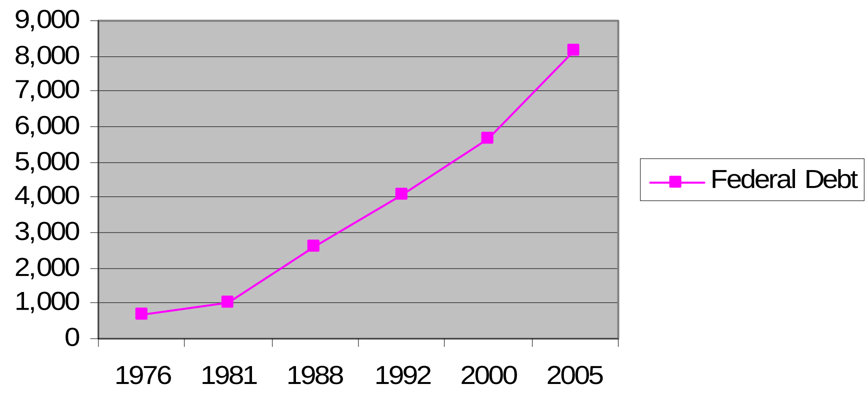


Responding to this widening gap, nonprofits are increasingly pressed to do more with less, and foundations are pressed to fund emergency interventions and services instead of advocacy, community development, or other issues not deemed essential for basic human needs. As one nonprofit executive notes, “We’re always playing catch-up, and our mission gets lost in the stress of meeting still one more emergency.” The US economy has also shifted from a domestic, service-based economy to a global economy driven by information and technology—all of which, according to one nonprofit executive, “have profoundly changed the complexity and face of issues that communities have to deal with.”

The official poverty rate in the US increased from a 26-year low of 11.3 percent in 2000 to 12.7 percent in 2004, putting 37 million people below official poverty thresholds in 2004 ($19,307 for a family of four), 5.4 million more people living in poverty than in 2000.[4] Over 12 million children live in poverty in the US: for children under 18 years old, the poverty rate increased from 16.2 percent to 17.8 percent from 2000 to 2004, the highest level in ten years.[5] Over 11 percent of American households were food insecure in 2002, up from 10.7 percent in 2001, and the prevalence of food insecurity with hunger rose from 3.3 percent of the population to 3.5 percent in 2002 and is still rising, at the same time that the Bush administration cut spending for social service programs like Medicare and Medicaid in February 2006 by $6 billion and $5 billion respectively[6]—adding to $28 billion in Medicaid cuts over the last 10 years, cuts that force beneficiaries to pay for services and reduce benefits. Beyond Medicare and Medicaid, federal budget proposals from 2007-2011 would reduce federal spending on programs of interest to nonprofits by a cumulative total of $78.6 billion below FY 2006 levels, after adjusting for inflation.[7]

And not just human service organizations are feeling the stress. Educational institutions, community development organizations, museums, performing arts centers, other cultural institutions, and environmental organizations—all are caught in the triple vise of rising costs, flat revenues, and less available support from both private and public sources because of declines in foundation endowments, corporate mergers, and federal and state budget crises.

Table 2. Federal Debt, 1976 - 2006
(in millions)



from: http://www.publicdebt.treas.gov/opd/opdpenny.htm

Compounding these concerns is the ominous sense several respondents expressed about the economic tsunami that will hit when, for the first time in the history of social security, retirees in the US outnumber workers, with the attendant impacts on already stressed entitlement programs like Social Security and Medicare. In December 2005, there were 3.3 workers for each Social Security beneficiary. By 2031, there will be 2.1 workers for each beneficiary.[8] Exacerbated by the federal debt (8.38 trillion in June 2006), along with tax cuts (implemented and proposed), and spiraling government spending on Iraq and the "war on terrorism," respondents predict a federal fiscal crisis with ripple effects to state and local government of monumental proportions—far worse than anything we have seen to date. One respondent notes, "This is doomsday for philanthropy and nonprofits." Another respondent notes, "The entire sector, while watching, is not aware what it really means. Foundations don't realize what will be thrown on their backs."

4. Sector Blurring

In addition to this litany of concerns, a number of respondents spoke of "sector blurring." One nonprofit executive noted that we "lack a clear, common vision for the sector that people can get behind." This respondent expressed fear that the lack will result in people questioning why we even need the sector: "What's the sector doing that's different?"

With the push for more nonprofits to earn income, some perceive competition between nonprofits and businesses. There are also problems in how nonprofits go about this work: "There's a bunch of nonprofits trying to generate earned income, and they're not good at it; it takes them away from their mission." Another respondent asks, "Under what circumstances do you try to develop commercial revenues? This has become an important issue because the press has made it important." But a number of respondents agree that if nonprofits do venture into earned income strategies, most need help to maximize efficiency and income without sacrificing their missions and nonprofit status.

Biotech organizations are another "blur": "We don't know or understand medical research organizations. Little has been done to profile what these organizations are and how they differ from the for-profit sector. Campus-based groups included in this group, 'private' academic organizations, are also nonprofit."

The Internal Revenue Service has sent detailed questionnaires to more than 550 tax-exempt nonprofit hospitals, kicking off a rigorous investigation of their billing practices, treatment of uninsured patients, as well as scrutiny of whether they are meeting the standards for charity status, reports the New York *Times* (June 18, 2006).

Still another "blur" is the current government emphasis on privatizing that increases pressure on nonprofits to do social service delivery work under government contracts (or without contracts, relying on grants or United Way funding), which has resulted in nonprofits having to refocus missions to accommodate available funding. One respondent notes, "We have political leadership that, instead of relying on a social contract, expects everyone to survive by themselves…. These are systemic economic and employment problems that aren't going to be solved by foundations saying 'go earn income'." This trend also pulls at foundations: as one respondent noted, "The pressure's on us to respond to need in the community, and I worry it will pull us away from our mission."

5. Waves of Negative Publicity Undermine Public Trust

Added to these concerns are waves of negative publicity about nonprofit and foundation excesses that have swept through the media in the last several years. Even though "bad apples" constitute a fraction of the sector, these exposés have created what many label a crisis of public opinion and threatened additional governmental oversight at both state and federal levels. And some feel the problems are deeper: "The number of really bad foundations is small, and they drag down the good ones, but some of the practices that underlie the problems are wide-spread…. When you start ticking off all the things you want to see in philanthropy, although the excesses are few, smaller collections of these behaviors (self-indulgence, legal self-dealing, conflicts of interest, lack of democratic structures) are evident in many foundations." A former foundation executive asks, "Will foundations be positive forces for change and strengthening the sector or will they have to be dragged? I see a lot of philanthropy out of touch with reality, perpetuating policy and practice that's bad for the whole sector."

A FEW BAD APPLES…

GETTY VILLA…GRAND REOPENING COMES AMID ANTIQUITIES SCANDAL
Sacramento Bee, January 29,2006

HEMORRHAGING: CASCADING SCANDALS AT UMDNJ, *New York Times*, July 3, 2005

PUBLIC CONFIDENCE IN NONPROFIT GROUPS IS LOW, SURVEY FINDS, Chronicle of Philanthropy, October 13, 2005

EX-UNITED WAY CEO GETS JAIL SENTENCE, *Chronicle of Philanthropy*, April 27, 2004

TRUSTEES TRAVELING IN STYLE, *Boston Globe*, April 18, 2004

WEALTHY CHARITIES ARE MOST GENEROUS TO THEMSELVES, *USA Today*, May 28, 2003

CHARITY AT HOME; UNDERFUNDED IRS UNABLE TO MONITOR TRUSTS, *Boston Globe*, October 9, 2003

CONGRESS SCRUTINIZING FOUNDATIONS; EXECUTIVE PERKS, OTHER SPENDING ATTRACT ATTENTION, *Pittsburgh Post-Gazette*, May 4, 2003

Although not all agree, some of those interviewed claim the negative press has been pushed along by conservative monitors intent on refocusing nonprofits and foundations on service delivery, pushing them out of the business of social change advocacy altogether.

6. Monitoring Mechanisms for Accountability

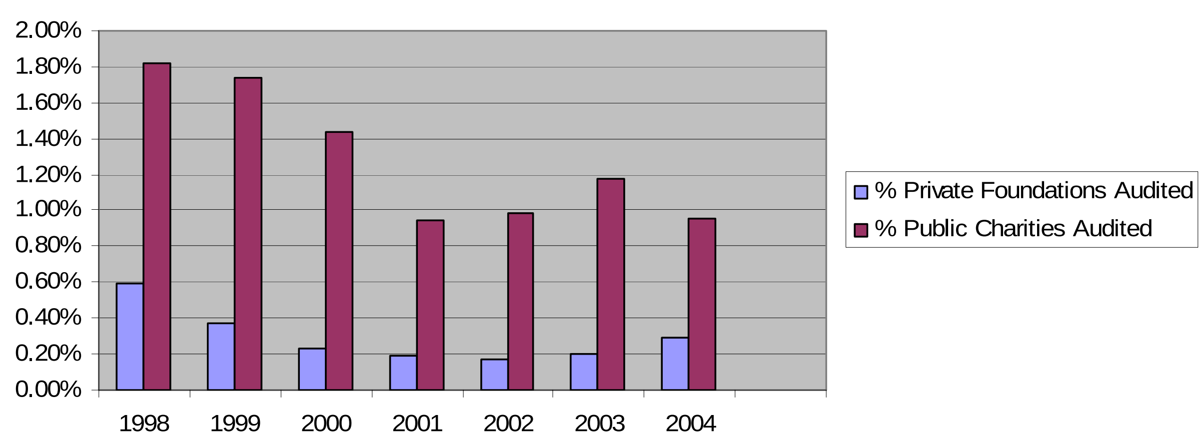
So what works to assure accountability? Most think the sector itself—both foundations and nonprofits—has to come up with tougher standards, self-policing, some version of a self-regulatory commission working collaboratively with the IRS. Respondents in the followup email scan ranked internal board and staff evaluations and assessments, increased IRS audits, and expanding the scope of organizations' own financial audits at the top of the list of appropriate, effective strategies that need to be put into place for monitoring and assuring accountability in both foundations and nonprofits.

-Foundations

Regarding foundations, a majority of respondents ranked a possible monitoring initiative sponsored by the Council on Foundations (COF) at the bottom of this list. An interview respondent notes the complications involved in having the Council on Foundations serve a monitoring role: "If COF does it, that leaves out all those foundations and donor-advised funds that aren't members of COF, and they lose members who don't want to comply. If they turn it over to government, they also lose members."

But others feel that COF, in cooperation with government agencies, is the appropriate place to focus on building strong, ethical foundations: "COF needs to work with the IRS and state-level regulators to shape up the field, to get the folks who deserve to be gotten. In 2002, federal regulators audited only 119 private foundations. There's ample legislation there, but it hasn't been enforced, and regulators haven't regulated. As a membership association, COF needs to do a whole lot of education: some of the abuses stem from lack of knowledge, but there are others who darn well know what they're doing."

Table 3. IRS AUDITS 1998-2004



Another respondent concurs, "The 1969 tax law is one of the best on the books, and it should be left alone. Abuses should be prosecuted. Attorneys General should be the ones doing their jobs. Regional associations of grantmakers and the state Attorneys General should work more closely together. That's how we work in our state: we promote a much closer relationship between foundations and state government. As a sector, we'd all get less bad press if we developed a set of standards."

But another respondent asks, "How do we reinforce and extend and shore up public trust at the same time we're getting folks to work differently? Efforts to focus on the scoundrels have cost us the high ground."

Still another respondent expands the framework for monitoring and accountability: "Grantees and grantors have larger responsibilities to society, not just to each other. They both have responsibilities for the public good. We need practices that level the playing field between grantmakers and grantseekers, but at the end of the day, all our work should flow to the public good. Some of these relationships are accidents of history. The 1969 Tax Act set the sides, and here we are 35 years later still operating on a paradigm that ceases to capture the nuances of the field. We need to find ways to equalize power relationships, find nonprofit intermediary leaders, learn better how grantors can be more responsive. But at the end of the day, we all share a more profound responsibility to ensure a better world. I don't use the words 'accountability' or 'transparency' any more: public trust is a better way of framing these concerns than accountability and transparency."

The bottom line is that foundations "have to insure that our practices and institutions are above the bar in every aspect of our work, and that extends beyond grantmaking. We have to perform at the highest legal and professional levels."

-Nonprofits

Regarding nonprofit accountability, a foundation CEO talks about "bean-counting" as a first step, necessary but not necessarily sufficient: "How many people are you serving? As you serve them, what are you accomplishing? That's the next leap. Too many nonprofits can't even tell us how many people they're serving, but they will just have to gear up to meet that demand."

Another respondent suggests combining public education about nonprofit effectiveness and accountability standards with expanded public access to reports (e.g., GuideStar, Charity Navigator and others): "These are the Zagat's of the nonprofit world and…should be promoted more extensively, along with guides to interpreting the information. It is a free-market approach, I admit, but if it works for restaurants (a pre-eminent example of a service business), why not for other services?

Another respondent opts for a national "Seal of Approval" that reaches smaller nonprofits. (Better Business Bureau does only those that conduct national campaigns.) Perhaps most important of all, nonprofits need to be better equipped for functioning in an increasingly complex climate of competition and accountability. Fund-raising is more competitive, requiring increasingly more sophisticated skills, and both board and staff assessments have to answer the "so what?" and impact questions increasingly asked by both donors and regulators. A consultant who responded to the survey says, "99.99% of nonprofits are accountable, and their stories need to be told." But in an increasingly competitive and critical climate, many nonprofits need help evaluating and publicizing their work.

7. <u>How Accountability Affects Funding</u>

According to many respondents, the funding picture for nonprofits has shifted significantly in the last several years, in part because of concerns about accountability. Under pressure from peers as well as from increasing governmental scrutiny and oversight, foundations are making larger grants to safer, mostly larger nonprofits. Many foundations acknowledge feeling under pressure to document effectiveness and accountability, but their accountability measures, by most assessments, extend to their grantees, not to serious reviews of their own grantmaking.

Under pressure to serve more clients in an increasingly hard-hit economy, nonprofits find themselves pushed by funders to document effectiveness with little sector-wide consensus about what constitutes success or how to measure difficult-to-measure outcomes. Advocacy nonprofits, historically underfunded, are limited by fewer dollars for their work and increasing pressure to "prove" harder-to-prove effectiveness of their work to bring about long-term social change. And even during a period of significant philanthropic growth, between 1998 and 2002, social justice grant making grew more slowly than overall foundation giving: 53.4 percent growth compared to 64 percent overall growth. Within categories of social justice grantmaking, the fastest growing areas were grant dollars that could be construed as picking up the tab for declining government funding: housing and shelter, educational reform and access, health care access and affordability, and economic and community development.[9] Looking at all foundation funding patterns in 2004, the largest share of all grants awarded in 2004 went to Human Services: 25.5 percent of all grants The Foundation Center tracks.[10]

8. <u>Sector Leadership</u>

When queried about qualities they look for in effective nonprofit and philanthropic leaders, respondents differentiated between nonprofit and foundation leadership. The top ten characteristics for each are listed below in Table 4. Most respondents graded nonprofit leadership higher than foundation leadership (on a scale of 1-10, with ten being the most effective, an average of 6.3 for nonprofit leaders compared to 4.8 for foundation leaders).[11] Across the board, researchers as well as foundation and nonprofit executives spoke of the inability of most funders and grantees to work together effectively—even where there are similar agendas in their funding priorities and nonprofit missions. And there is even less visible agreement or collaboration among foundations and nonprofits about how to promote the sector: how to enhance public education as well as develop needed, new strategies for accountability on both sides of the "giving desk."

Table 4. Top 10 Leadership Characteristics, Foundation and Nonprofit Executives

	FOUNDATION LEADERS		*NONPROFIT LEADERS*
1.	Knowledgeable/Willingness to Learn	1.	Vision
2.	Egalitarian Relationships with Grantees	2.	Strong Management Skills
3.	Vision	3.	Articulate/Strong Communication Skills
4.	Articulate/Strong Communication Skills	4.	Commitment, Focus, and Passion
5.	Collaborative/Team Player/Motivator	5.	Able to Work with Other Organizations, Work Sector-Wide
6.	Able to Work with Other Organizations, Work Sector-Wide	6.	Decisive, Risk-taking, and Innovative
7.	Accountability/Results-Oriented	7.	Collaborative/Team Player/Motivator
8.	Decisive, Risk-taking, and Innovative	8.	Accountability/Results-Oriented
9.	Strong Management Skills	9.	Honest and Personal Integrity
10.	Honesty and Personal Integrity	10.	Strong Fundraising Skills

9. Critical Perceptions of Foundations

In spite of the recognition that many funders work long hours to do thoughtful, strategic funding, too many funders are perceived, even by some foundation executives and trustees, to be arrogant—what one respondent labeled “suffering from philanthropitis”—unwilling to acknowledge the power dynamics inherent in their work, unwilling to work with grantees as partners, unwilling to assess the impact and effectiveness of their own grantmaking, and unwilling to address what many point to as a crisis of accountability and ethics—all of which pose threats to the sector at large.

One respondent asks, “Why do foundations tend to focus on projects without paying for operating costs? Why will foundations give nonprofits money for a couple of years, then on to the next *program du jour*?” Another respondent notes, “I’m prepared to experiment with grantee CEOs sitting as a grant committee. They won’t do any worse than program officers. Here’s a pot of $750,000, here are some proposals. I want to close the loop between nonprofits and funding sources, break down that ‘private line’ so carefully crafted between the foundation/proposal/review and distribution process.”

A foundation executive writes, “Philanthropy as an organized entity in society has to improve its practice, activity, attitudes, and behaviors that are counterproductive to its stewardship role. Its people, not organizations, who overreach in their leadership, over prescribe in their investments, become arrogant, act as if it’s their money. Money carries so much weight. And they don’t know when to shut up, stay out of the room: this is a professional practice issue. It’s human nature at work here, but it’s a big issue.”

An educator is more explicit: some foundations are perceived as “people hording money.” Too few foundations or nonprofits raise the payout issue and its wider implications: “As a funder, are you better off giving out your money now or later?” When a foundation accumulates a vast amount of wealth, should you horde that money or set up a different payout ratio? Why isn’t there more reward for entrepreneurship or taking chances? A bank has to be conservative because their money is out-of-pocket. But foundations can seed ‘if-y’ projects and push the envelope. Do foundations understand the need for new ideas and make progress on those definitions over time, or are they stagnant?” In fact, wide variations exist in payout rates:

foundations paying out more than five percent in grants and overhead are more likely to be smaller, presumably newer, foundations whose assets are growing faster. A 2005 study concludes that about half the 3,800 foundations surveyed stuck closely to the five percent minimum distribution requirement, and those foundations tended to be larger grant makers with little new money coming in.[12]

Another major issue several respondents identified is the importance of more available information on setting up new foundations: what's worked over time to set up foundations? How can more foundations, especially startups, be helped to think through spending out endowment in 10 or 20 years instead of endowing still one more organizational structure in perpetuity? These all pose questions that are seldom framed for the sector at large, and little research exists to inform alternative choices. Especially given the projected multi-billion dollar transfer of wealth in the next several decades, there is a growing group of financial advisors, community foundations, and donors wanting to start foundations who have a hard time finding this information. What they do find is not based on much history. The sector at large is also seen as increasingly fragmented, with little available funding for infrastructure. Regional associations of grantmakers are not set up to deal with people in the early stages of philanthropic development. Most of the resource materials out there are seen as too advanced or too simple.

10. Critical Perceptions of Nonprofits

In spite of the recognition that many nonprofits have managed stability against enormous odds in the current political and economic climate, nonprofits are widely perceived to be struggling. Fundraising is seen to be increasingly more difficult (with many more professional skills required to do the job adequately). A consultant to emerging foundations, however, asks what skills are really needed, especially in light of the "professionalization" of the field: "A funder asked for a 'marginal cost analysis' for our organization's expansion plan. Didn't even know what that was. Where did he learn to ask that? In business school? Is this really what we want funders to be asking? Wouldn't it be more appropriate to ask us about our theory of change, whether or not we have one?"

And because of the swing from advocacy support to the pressure of meeting increased demands for human services, nonprofits are seen as less effective in articulating comprehensive strategies for what are seen as crucial social change agendas. "Even with the stock market coming back, there are tons of small organizations really precarious. The groups that are weak are community-based organizations representing constituencies without other large voices. These are the niche voices that get lost in the big nonprofits. You can't even imagine how they function. You would not believe how many stories I'm getting about groups dying on the vine. Advocacy, social change groups, are very weak. Harvard's doing fine, university endowments are increasing, but community-based, advocacy groups are up against the wall. I've got close to 40 years in the sector, and I've never seen it so bad."

As a think tank leader notes, the challenge is "how we talk about the limits of service, get more leadership to talk about systemic problems. Where are the models? How can human service programs be modified so folks begin to develop their own sense of agency? We need to make that mandate part of service programs: people need to take better care of themselves, learn better to name systemic problems. They're stuck over and over again applying band-aids instead of helping to find cures for the disease. How do we create incentive and reward structures for human service providers in frameworks of more accurate systemic analysis? What works in terms of accountability? How do we create the public will that's supportive of change-based work? How do we engage volunteers, churches?"

An arts organization executive talks about how the current economy hits sources of revenues: "Our revenues are from fundraising and earned income. Something's gotta give. The question is what gives: the arts or the staff?" Funders' endowments are down, state grants to support capital building projects or special initiatives have dried up, and according to the executive, museum and concertgoers have less disposable income to spend.

These are all macro concerns nonprofits have little control over. Other perceptions, however, have to do with nonprofits' own choices. A nonprofit executive speaks of the importance of both relevance and sustainability. Relevance means "learning what the community needs and fitting the organization to those needs. How can we be socially, environmentally responsible? We have too many issues for us to look internally all the time. Sustainability will follow from the true pursuit of relevance because people are drawn to organizations that are inherently useful and popular. There's nothing more important."

Finally, there's the issue of competition: nonprofits have traditionally thought of themselves as not part of a market, existing outside the markets: "Nonprofits have grown in the last decades without developing tools to look over their shoulders at the competition. A lot of nonprofits compete for dollars from donors. Some nonprofits have innate appeal for donors: I'll endow a chair in cancer if I have cancer, for example. But a lot of nonprofits aren't that well-delineated and face major competition: social service agencies vs. Big Brothers, for example, or one theater instead of another. As these grow, competition grows as well, and you need the tools to manage and differentiate."

11. Leadership and Staff Turnover

Another concern that ranks almost as high as funding is leadership and staff turnover in the sector. With so many nonprofits established in the seventies and eighties, we will soon be reaching a time when they transition from founders to the next generation of leaders. Nearly three-quarters of all nonprofit leaders will reach retirement age over the next two decades. The 2004 Nonprofit Executive Leadership and Transitions Survey sponsored by The Annie E. Casey Foundation concluded that 65 percent of nonprofit leaders will go through a transition by 2009 (compared to 57 percent of the 2,200 organizations surveyed that had gone through an executive transition between 1994 and 2004). The survey also concluded that these retirements would hit in two waves, with the balance of the Baby Boomer generation retiring in another wave by 2020, and that nonprofits have relatively limited experience with transition planning and assistance.[13] This demographic trend compounds what one of our scan respondents observed: "All of us have a big leadership talent problem, not attracting and retaining enough top notch people, especially young people."

There is also an opportunity here. A corporate foundation CEO talks about the first wave of corporate executives retiring who are "too young to retire." "How do we capture the best of the corporate sector for the benefit of the nonprofit sector? Nonprofits need transparency and accountability, and business has a longer tradition and more experience addressing these issues: how do we capitalize on this experience without losing the passion of nonprofits?"

12. Code of Silence

Still another problem some respondents see is a collective code of silence: "We don't call each other out, challenge each other; we shuffle and say thank you. We aren't willing to speak, with courage. How many nonprofits speak out on the philanthropy payout issue, on abuses? How many foundations criticize each other? Where are the voices? Where's the leader?" Another respondent, head of a large national nonprofit, notes, "We spend too much energy in the sector preserving the sector: we're too institutionally-driven and not value-driven. How do we redefine value in concrete terms, keep up with a global market place, and attract and keep new leadership? The world has changed around us, and we haven't kept up."

Another respondent asks for "a moral leader that says, 'this is good, we must do all of this together' not because it's penance but because it's the right thing to do." This same respondent says, "Even among our younger generation of entrepreneurs, one doesn't find a whole lot of soul-satisfying people." Another respondent says, "The major feedback foundations get is 'thank you'." So the fault lies not just with foundations. Another respondent notes, "Nonprofits have internalized behavior based on fear rather than testing it…. Many foundations would appreciate more honest dialogue, would look at critiques as a breath of fresh air."
Another issue respondents mentioned is the need to have the "death" conversation. An executive of a large nonprofit asks, "Do we need a 'base-closing' initiative? We started to focus on accountability, but that's not it. Accountability is just the threshold—yes, you have to be transparent, you have to have your 990 on your website—but you also have to measure results against mission. As a sector, we ought to be tough-minded about this, agree on the metrics as a sector, and build the political consensus to do something about it. Some organizations or chapters just need to die. There are leaders who think this way and can move, but there's a lot of risk. We need political air cover. There has to be an informal alliance of purpose to address these hard-to-talk about topics."

Another less drastic version of the "base closing" conversation involves discussions of nonprofit mergers and joint ventures: how and when should nonprofits think about duplication of services and merging to share office space and other resources with organizations with similar missions? When should organizations begin to explore mergers between two or more nonprofits that have significantly overlapping missions and services? As with foundation startups, here too little reliable research exists to inform alternative choices.

13. Academic Centers and Research on the Sector

Assessments of both academic centers and existing research on the sector are not much rosier. On the one hand, even highly-regarded academic centers face issues of sustainability in a competitive funding environment, and at least several define their responsibilities to integrate and connect the centers' work with mainstream disciplines on campus. Even so, major funders have backed off funding research on the sector, and many of the centers are facing hard challenges of sustainability.

But many respondents also express concerns about the so-called "professionalization" of the sector at the same time that few educators or researchers are able to delineate what the sector really needs. Degree programs and training seen as effective usually focus on pragmatic strategies like how to build/assess a budget, how to do direct mail, how to train and revitalize board members, how to work with volunteers. Most respondents feel leadership training is most successfully accomplished through mentorship programs, apprenticeships, coaching, internships. Many assess existing training and degree programs as out-of-touch, not connecting to or providing what the sector actually needs and failing to produce theoretically sophisticated research that is grounded in the realities of the sector. "There's a huge culture gap: the research community just doesn't speak to the issues public policy most cares about."

14. Challenges and Opportunities

Taken together, the issues and concerns described by respondents in this scan add up to significant challenges:

Macro trends

- federal and state economic crises, federal budget deficits shifted to the states
- downturn in the economy resulting in less disposable income for both donors and purchasers/users of nonprofit services and resources[14]
- current government policies that shift responsibility for human services from the government to the nonprofit sector and away from advocacy
- demographic changes and the shift from a domestic service-based economy to a global economy based on information and technology
- shifting sector boundaries

Problematic sector behavior

- need for more accountability
- negative media and lack of public confidence in the sector
- working in "silos"
- disconnects between academia (centers, programs, and research) and practitioners' realities
- stereotyping on both sides of the "giving desk"
- lack of candor and feedback

In such a climate, however, many respondents see opportunities: opportunities for new vision; opportunities for new ways foundations and nonprofits can work together "across the giving desk"; opportunities for theoretically-sound and practitioner-based collaborative research; and opportunities for new (or at least reinvented) strategies for planning, education, and collaboration across nonprofit, philanthropy, government, and corporate sectors.

15. Acknowledgements and Research Team Biographies

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Mary Ellen S. Capek is a Principal with Capek & Associates, a philanthropy and nonprofit research and consulting group based in Corrales NM. A founding officer and former executive director of the National Council for Research on Women, she served as a founding board member of Aspen Institute's Nonprofit Sector Research Fund, a member of Independent Sector's Research Committee, Conference Board's Work/Life Leadership Council (formerly Work/Family Council), Women & Philanthropy's Action/Research Committee. She currently serves as board chair of Equality New Mexico Foundation and is a research scholar affiliated with the Anderson Schools of Management at the University of New Mexico.

Alex J. Plinio previously served in many executive roles at Prudential Financial where he led the start up and served as President of the Prudential Foundation. A native of Newark, Alex has founded and served on the boards of many organizations devoted to community development, youth education, and the arts. He was Chairman of the Newark Collaboration Group and a founding board member of the Governor's Schools of New Jersey, Gifts in Kind Inc. and the Independent Sector. He has served as President of AFS USA, a leader in international and intercultural education and student and teacher exchange. He serves on the Boards of the Association of International Practical Training and The Alliance for International Educational and Cultural Exchange. His publications include *Resource Raising: The Role of Non Cash Contributions in Corporate Philanthropy*, and he is a recipient of the Private Sector Initiatives Award from the President of the United States.

16. Endnotes

[1] EMAIL SCAN 2 RESPONSES (ranked by mean)	Mean	Mode	StDev
1. Critical issues and trends			
Growing gap between rich and poor	4.6	5	0.8
Shifting safety net	4.3	5	0.9
Devolution/government shifting safety net	4.3	5	1.0
Federal economic policies/federal deficit	4.2	5	1.0
Protecting nonprofit advocacy/free speech rights	4.1	5	1.1
Disparities based on race and ethnicity	4.0	4	1.0
State and local economies	4.0	4	1.0
Fundamentalism and right-wing assaults	3.8	5	1.1
Immigration	3.8	4	1.0
Foundation-grantee relationships	3.7	5	1.1
Foundation accountability	3.7	5	1.1
Globalization	3.7	4	1.1
Pressure on families (more work for less pay)	3.7	4	1.1
Demographic changes	3.6	4	1.0
Nonprofit effectiveness	3.6	4	1.0
Foundation effectiveness	3.6	4	1.0
Threat of terrorism: government responses	3.6	4	1.3
Loss of public trust.	3.5	3	1.0
Nonprofit accountability.	3.5	3	1.1
Ethics	3.5	4	1.1
Threat of terrorism: shifting resources	3.5	4	1.2

Privatization	3.4	4	1.2
Foundation governance	3.4	3	1.1
Negative press/media coverage of sector	3.3	3	1.1
Educating public about nonprofit sector	3.3	4	1.2
Threat of terrorism: restrictions on intl grants	3.3	3	1.1
Lack of creativity and courage	3.3	3	1.3
Disparities based on gender	3.3	3	1.1
Pressure on nonprofits to earn income	3.3	3	1.0
Growing gap between foundations and nonprofits	3.2	3	1.1
Foundation innovation	3.2	3	1.1
Digital divide	2.9	3	1.1
Deregulation	2.8	4	1.2
Foundation board ties to corporate sector	2.7	3	0.9
Proliferation of nonprofits	2.7	2	1.1
Volunteering issues	2.4	3	0.9

2. Quality control

Staff leadership	4.3	5	1.0
Board leadership	4.1	4	0.9
Mission clarity and transparency	4.1	5	1.1
Stakeholder involvement	3.8	4	1.1
Staff evaluation and assessment	3.5	4	1.0
Board evaluation and assessment	3.5	4	1.1
Planning and training	3.4	3	1.0
Media	3.0	3	1.2
Regulation, required reporting, and enforcement	3.0	3	1.2

3. Monitoring and assuring accountability?

Internal staff evaluations and assessments	3.8	4	1.0
Internal board evaluations and assessments	3.8	3	1.0
Increased IRS audits	3.4	3	1.2
Expanded scope of organizations' financial audits	3.1	3	1.0
RAGs or state-wide monitoring initiatives	3.1	3	1.3
Revised laws at federal level	2.8	2	1.3
Revised laws at state level	2.8	2	1.2
Council on Foundations' monitoring initiative	2.7	3	1.1

4. Training nonprofit and foundation leaders?

On-the-job experience	4.3	5	1.0
On-the-job training	4.0	5	1.1

Peer groups and networks	3.9	4	1.0
Mentoring	3.6	4	1.0
Role models	3.5	4	1.3
Apprenticeships	3.4	4	1.1
Coaches	3.3	4	1.1
One-on-one sessions with expert consultants	3.3	3	1.1
Seminars	3.0	3	0.8
Advanced degree: MPA	3.0	4	1.2
Advanced degree: MBA	2.9	3	1.1
Workshops	2.8	3	0.8
Undergraduate training in nonprofit management	2.4	2	1.1

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[2] Press Release. Jared Bernstein, Elizabeth McNichol, and Karen Lyons. *Pulling Apart: A State-by-State Analysis of Income Trends*. Washington DC: Center on Budget and Policy Priorities and Economic Policy Institute, 2006.

[3] Paul Krugman, "Left Behind Economics," *New York Times*, July 14, 2006, A19.

[4] http://en.wikipedia.org/wiki/Poverty_in_the United_States

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[6] Jeffrey Young, "Bush Eyes Entitlement, Tax reforms in 2007," *The Hill*, July 13, 2006: http://www.thehill.com/thehill/export/TheHill/News/Frontpage/071206/budget.html

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[8] *Social Security Basic Facts – December 2005*: http://www.socialsecurity.gov/pressoffice/basicfact.htm

[9] *Highlights of Social Justice Grantmaking: A Report on Foundation Trends*. Washington DC: Independent Sector and The Foundation Center, 2005, 1, 3.

[10] Highlights of *Foundation Giving Trends*, 2006 Edition.

[11] The second email scan confirmed a similar issue concerning accountability, with respondents ranking foundation accountability slightly more of a concern than nonprofit accountability, 3.7 out of 5 with a mode of 5 compared to 3.5 out of 5 with a mode of 3.

[12] Cited in Thomas J. Billitteri, "A New Way to Look at Foundation Giving," *The Chronicle of Philanthropy* Opinion, August 18, 2005.

[13] Paige Hull Teegarden, *Nonprofit Executive Leadership and Transitions Survey 2004*. Baltimore MD: Annie E. Casey Foundation, 2004.

[14] From 1999 to 2004, median household income (adjusted for inflation) fell four percent, from $46,129 to $44,389 and debt of US households rose 42 percent in the same period. Mortgage and consumer debt is now 120 percent of after-tax income, more than twice the level of 30 years ago. Lawrence Mishel and Ross Eisenbrey, "What's Wrong with the Economy?" Washington DC: Economic Policy Institute, June 12, 2006.