

CHAPTER HIGHLIGHTS

# THE STATE OF NONPROFIT AMERICA

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LESTER M. SALAMON *editor*

## **Chapter 15 Highlights** **ACCOUNTABILITY AND** **PUBLIC TRUST**

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# ACCOUNTABILITY AND PUBLIC TRUST \*

By Evelyn Brody

The aftermath of September 11 threw a spotlight on the charitable sector, and while nonprofits performed admirably on the whole, some notable exceptions made headlines: The American Red Cross became the subject of Congressional hearings amid allegations of deceptive solicitation practices; and the public watched in frustration as more than 200 newly formed nonprofits tripped all over each other in an unsuccessful effort to fairly and expeditiously distribute \$1.5 billion in public contributions.

In “Accountability and Public Trust,” Evelyn Brody speculates that the problems brought to light by September 11 could step up efforts to hold charities more accountable not only for the way they solicit and handle donations, but also for how they are governed and operate. However, as she demonstrates, regulating nonprofits is a complex matter that involves walking a fine line between accountability and interference. Moreover, the range of stakeholders to which nonprofit organizations are expected to be “accountable” are numerous, and each of these often has its own idea of what nonprofits should be accountable for—e.g. financial probity, democratic governance, adherence to donor direction, or programmatic effectiveness.

This analysis is part of a broader assessment of *The State of Nonprofit America* coordinated by Dr. Lester M. Salamon of the Johns Hopkins University and published by the Brookings Institution in collaboration with the Aspen Institute.

At the heart of the concern about nonprofit accountability is a growing conviction that the classical model of nonprofit accountability—relying on a disinterested board and the prohibition on distribution of profits—can no longer be counted on to achieve any but the most narrow version of accountability, and even then only imperfectly. As nonprofit operations have grown more complex, volunteer boards have become increasingly unable to provide the oversight that is needed.

At the same time, the public’s expectations of nonprofits are increasingly out of touch with the realities of the field. Thus many people believe that nonprofits should not charge more than cost for a service or good, pay a market wage for employees, compete, or be run like businesses. As an example of how far out of synch the public is with nonprofit standards, Brody cites a survey that showed the public finds fundraising costs higher than 15 percent of receipts unacceptable, while a leading charity watchdog proposes a standard cap of 35 percent.

Nor are some of the other accountability mechanisms working well. Government regulators exercise surprisingly little oversight of the nonprofit sector as such, according to Brody, restricting themselves to public disclosure requirements that they can rarely scrutinize or follow up on. A number of private standard-setting boards have been created to fill the void and some nonprofit associations have created accountability codes and standards of practice. To skeptics, however, the idea of “self regulation” is an oxymoron and the proliferation of private accrediting bodies may create its own conflicting pressures on organizations.

In an effort to demonstrate accountability, some nonprofits have initiated efforts to measure the outcome, or the positive social returns, of the programs in which they invest. But while attempts to introduce qualitative assessments into the evaluation process are appealing, measuring outcomes is often too subjective to be reliable. A recent study concluded that self-evaluations are of questionable value and difficult to compare. It also found that while most grantmakers use the results of self-evaluations to improve their operations, almost none consider shifting funding away from an unsuccessful program. Brody concludes that performance measurement is not the panacea it was meant to be.

Nonprofits today operate in a society that demands accountability of all powerful players. “To a large degree,” Brody finds, “nonprofits are now paying the price of their success,” and the “sector’s claims to exist for the public good are no longer taken on faith.” She concludes that no single approach will satisfy all the accountability problems the sector faces, but greater disclosure is a good starting point for many of them. “All involved will better appreciate the challenges faced by a charity that reveals rather than hides its costs of fundraising and administration; explains why its executives merit their pay and why its reserves are necessary; and describes its limits as well as its potential in delivering services and addressing social needs.”

\* Adapted from “Accountability and Public Trust” by Evelyn Brody in Lester M. Salamon, editor. *The State of Nonprofit America*. Washington: The Brookings Institutions Press, 2002. Published in cooperation with the Aspen Institute.

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“The State of Nonprofit America is an indispensable resource for those who seek to understand America’s nonprofit sector and the forces that are shaping it. So good, so complete, it is both immediately relevant and bound to stand the test of time.”

– Peter B. Goldberg, President and CEO, Alliance for Children and Families

Chapter highlights are from “Accountability and Public Trust” by Evelyn Brody, a chapter in *The State of Nonprofit America*, edited by Lester M. Salamon and published by the Brookings Institution Press in collaboration with the Aspen Institute.

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