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The Public Loses Out When Charities Become Too Businesslike

By Pablo Eisenberg

The business culture that began sweeping the nonprofit world two decades ago has sunk its roots dangerously deep. Fueled by cuts in government funds, a desperation for money, the pressure of donors, and the myth of corporate-management efficiency, the idea that charitable organizations should operate more like businesses threatens the mission, integrity, and advocacy role of nonprofit groups.

At a recent forum on nonprofit groups at Georgetown University, the head of a local after-school program declared: "I want to be considered a business, not a charity. I want respect from my donors and the public." This notion that nonprofit groups must become more "businesslike" was promoted by several others in the audience, reflecting a view that business principles and management are the key to greater efficiency and resources, plus public respect.

The comedian Rodney Dangerfield got laughs when he complained "I get no respect." But as the nonprofit Rodney Dangerfields multiply, it is no laughing matter. For a growing number of nonprofit officials, the word "charity" is not only losing its appeal but is being disparaged.

This change began to happen in the early 1980s when the Reagan administration made drastic cuts in domestic social programs, which reduced money to many nonprofit groups that deliver social services.

Government officials and private donors called on social-service groups to cope with the decline in government money by strengthening their management practices. The implication was that better management was a substitute for operating dollars. Corporate or business practices were offered as the management model that nonprofit groups should adopt, regardless of their productivity or suitability. The word "businesslike" became synonymous with efficiency, effectiveness, and successfulness.

Business language continues to invade the way nonprofit groups talk about their operations. Increasingly donors, especially corporations and venture philanthropists, have begun to call grants and contributions "investments" and the recipients of such largess "customers and venture partners." Nonprofit groups are expected to meet the "bottom line," delivering products or services to justify the investments they received. And they are now asked to submit business plans rather than strategic plans to potential donors.

As the availability of government funds remained static or diminished in the past two decades and foundation dollars became harder to come by because of increased competition, nonprofit groups were forced or urged to become more entrepreneurial. Over time, fees for service have become a large part of nonprofit income, especially at health organizations, amounting to slightly more than 50 percent of total revenue for all nonprofit organizations in the United States. But some of this revenue from fees came at the expense of services that had previously been made available free or at low cost to the poor. Many services provided by nonprofit groups are now geared more to the middle class than to the poor.

Successful social entrepreneurs have become celebrities in the nonprofit world.

Among them: Bill Shore, who founded Share Our Strength, in Washington, to develop products, events, and services that would generate revenue for antihunger groups so they would no longer have to rely so much on money from governments, foundations, and others; Mimi Silbert, co-founder of the Delancey Street Foundation, in San Francisco, which has started 20 businesses, such as a restaurant and a moving service, to provide job skills to former prison inmates and other needy people as well as to produce income for the organization's programs; and Bill Strickland, the founder of Manchester Craftsmen's Guild, in Pittsburgh, whose jazz label, which supports its arts programs, was featured in [The Chronicle](#) last month (May 27).

But it is hardly the norm for nonprofit businesses to be so successful. Instead, commercialism has often led to practices that damage the credibility of nonprofit groups.

Colleges sell advertising space in their sports arenas, which end up looking just like professional sports fields, and nonprofit groups of all kinds license their logos to help companies sell products that are of questionable value. And some nonprofit groups are besmirching their reputations, and possibly getting into legal hot water, by not paying taxes on the profits from business enterprises, even though charities must pay levies on earnings generated from activities not directly related to their businesses.

As nonprofit groups continue to search for ways to deal with tight finances, they need to understand that starting a business is a risky enterprise. Almost 90 percent of all small-business ventures fail. The expertise, support systems, entrepreneurial skills, and technology that make it more likely that a business will succeed are hard to

come by and costly. Raising the money, supervising staff, and dealing with the other aspects of a business are time-consuming and can divert the leadership of the nonprofit group from its fundamental mission.

What's more, being "businesslike" shouldn't necessarily mean following the management practices of corporations and businesses. Their management record is hardly reassuring.

The numerous examples of corporate mismanagement in recent years, the excessive compensation of corporate executives, the irresponsibility of many corporate boards, and the lack of ethics in corporate performance are not the model on which nonprofit groups want to base their management approaches. As Robert Egger, president of D.C.'s Central Kitchen and author of *Begging for Change*, says, "Business needs to adopt good nonprofit management practices, not the other way around."

Well-managed nonprofit groups have always relied on solid planning, financial accountability, responsible boards, smart fund raising, well-designed evaluation efforts, systematic attempts to elicit feedback from the people they serve, and a desire to treat employees well and to promote collegiality rather than create bureaucracies.

The reason that governments grant nonprofit organizations and their donors tax subsidies is that they expect charities to provide services to the public. Americans don't want nonprofit groups to act the same as businesses. They do not want them to be businesses, nor do they want any commercial ventures to detract from their basic purpose of providing services or advocacy. To the extent that they become more of a business than a nonprofit organization, they will lose public support. If some nonprofit executives want their nonprofit groups to become a business operation, let them start or run a real business.

The devotion to service and the educational, research, and advocacy activities that nonprofit groups conduct are what set them apart from businesses -- and are the qualities that make up what Paul Light, a Brookings Institution scholar, calls "nonprofitness."

Nonprofit groups' efforts to influence policy and serve as advocates have been responsible for most of the social and institutional changes in our history. They continue to serve as a bulwark against intrusive and irresponsible government activities and the excesses of free-market institutions. A greater tilt toward commercialization could jeopardize this activist component of the nonprofit world that has served the United States so well for so many years.

The drive by nonprofit groups for sustainability, especially in difficult economic times, is understandable. But neither charities nor foundations and other donors should harbor the illusion that more than a miniscule number of nonprofit groups can ever become self-sufficient by running businesses or charging fees for their services. Their

missions do not lend themselves to self-sufficiency.

Nonprofit organizations will have to continue to depend on governments, foundations, corporations, and individuals for their income. Governments at all levels must be pressured to increase, not reduce, the amount they provide to nonprofit groups, while foundations must substantially increase their giving. That is the only way to maintain a vibrant and productive nonprofit world.

Charitable organizations should be a source of pride to all Americans. Nobody should feel sorry about working for a charity. We respect the Washington executive who runs after-school programs for the work that she performs as head of a nonprofit organization, not as a business chief executive.

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