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**“Building the Capacity of the Nonprofit Sector in Whatcom County ”**

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There are a lot of parallels between Whatcom County and Minnesota, where I live and work. We also have large university, a lumber and paper industry, refineries and many nonprofit organizations. Probably the most obvious parallel that runs through our two areas is the 49<sup>th</sup> parallel – we are about the same distance from the North Pole.

These middle latitudes attract very reasonable people, but as you may know, Minnesota’s winter temperatures are quite cold. The median temperature in Minnesota during the month of January is 14 degrees, making for a colder winter than the one experienced by 2/3 of the people in Canada and 96% of the people of the world. And the point is? The point is a caveat for my remarks this morning: local conditions vary. What is true for the nonprofits of one community may not fit the climate of another.

I’m going to cover a lot of territory about what nonprofits are confronting and how they are working together in other places, but what fits for Whatcom County nonprofits is up to you.

I’m going to cover this subject in four parts:

- Part One is History and trends, where the nonprofit sector came from and where its headed.
- Part Two is The Six Challenges, threats and pitfalls facing nonprofit organizations throughout the US.
- Part Three is Joint Action, responses, examples of successful strategic alliances and coalition activities from around the country, and finally
- Part Four is Answers to two of life’s greatest mysteries, what does God want for people on Earth, and why did the chicken cross the road? My conclusion will reveal why these two questions have the same answer, and what it means for nonprofits in Whatcom County and your work today.

## Part One History and trends of the nonprofit sector

The concept of the nonprofit sector as a distinct set of organizations is actually a recent conception. This is the idea that arts, human services, health care, civic, and other kinds of organizations that incorporate as nonprofit corporations and obtain exemptions from taxes, should be considered as a larger group. It wasn't until the 1980's that any substantial amount of research or meetings occurred that brought together nonprofits as nonprofits, regardless of subject area.

The actual first documented nonprofit is usually traced to 5, 423 BC, when Moses climbed Mount Sinai in Egypt and received two stone tablets on which were written the Ten Commandments. As I'm sure many of you can sympathize, one of the classic cartoons commemorating this event shows Moses holding the tablets with the new mission statement for the organization and looked up at the sky and asked, "What about funding?"

The US now has the largest nonprofit sector in the world, as measured by number of organizations, number of volunteers, employees and assets. The American predilection for starting and working through voluntary organizations was recognized by Alexis de Tocqueville in his book Democracy in America, which is still considered one of the best works by the citizen of one country about another country.

Tocqueville came to the US as a French aristocrat in 1830 to study the prison system, and to make a report and recommendations to the French government. He did that report, but more importantly he spent nine months travelling around the young democracy, trying to understand what made it work. That journey, the closest of which to Bellingham was Green Bay, Wisconsin, resulted in Democracy in America.

Tocqueville was incredibly prescient. He predicted the civil War, the women's movement, and that the US and Russia would become the two dominant powers in the world. (He also predicted that the French language would die out in Canada by 1880, so he wasn't infallible.)

What is most interesting to us today was his observations about how quick and skilled the people of America were at creating associations. Tocqueville saw that:

Americans of all ages, all stations of life, and all types of disposition are forever forming associations. There are not only commercial and industrial associations in which all take part, but others of a thousand different types--religious, moral, serious, futile, very general and very limited, immensely large and very minute.

Tocqueville also saw quite clearly that the freedom of democracy would come at a price. The people, freed from the strictures of the old regimes, able to use their new freedoms to

change their economic and social position, would also be freed from a sense of obligation and solidarity with their neighbors. Tocqueville coined the word “individualism” to describe this placement of the desires of self above the community. In a passage hauntingly predictive, Tocqueville described his fear for the future:

*"I am trying to imagine under what novel features despotism may appear in the world. In the first place, I see an innumerable multitude of men, alike and equal, constantly circling around in pursuit of the petty and banal pleasures with which they glut their souls. Each one of them, withdrawn into himself, is almost unaware of the fate of the rest. Mankind, for him, consists in his children and his personal friends. As for the rest of his fellow citizens, they are near enough, but he does not notice them. He touches them but feels nothing. He exists in and for himself, and though he may have a family, one can at least say that he does not have a [community]."*

Alexis de Tocqueville on "What sort of despotism democratic nations have to fear," in *Democracy in America*<sup>1</sup>

Tocqueville had two hopes for what could overcome this tendency toward individualism: local government, and voluntary associations, because they are both close to peoples direct experience, and can get people in the same room together.

The modern nonprofit sector has now developed into a major industry that reached into every community in the country and is assuming a growing percentage of the national economy, with 1.2 million organizations, 9.7 million employees, 30 million volunteers, and annual expenditures of more than \$600 billion. As the nonprofit sector has matured as an industry it has seen the coming of age of a nonprofit management. Along with this increased capacity of managing nonprofits at the individual organization level, this sector must learn how to take the initiative in more complete relationships with business and government, and must learn how to behave as a collective economic force.

Critical to this maturation is recognition of the dual nature of the nonprofit sector. To miss the two purposes of the nonprofit sector is to miss the whole point of how and why nonprofits are different from business and government.

Nonprofits exist as both a means to accomplish a result and their obvious role - an instrumentality, a means of providing medical care, tutoring, and arts. The second but equally important role is as a means of engagement in a democracy. We need to remember that our organizations are creatures of the 1<sup>st</sup> Amendment - freedom of speech and freedom of association.

I have to tell you that I cringe whenever I hear a nonprofit organization describe their missions as “we are trying to work ourselves out of a job,” making the case that they would prefer that there be no ignorance, isolation, disease or destruction. And when it is, our organization will no longer be needed. Is this low self esteem or naïveté, or both? The

concept is that our work is like a giant collection of March of Dimes campaigns, waiting for the Salk vaccine to eliminate Polio.

I don't believe that the existence of nonprofits is vestigial evidence of human failure that we will cast off at high noon in the Age of Aquarius. I can't imagine a successful business having such a nihilistic view of the future. Plus, this sole focus on the instrumental role. Nonprofit organizations are an expression of what is good and essential about humanity – our ability to understand and join one another, to combine our personal interest with one another, to do together what no one could do alone.

Harvard researcher Robert Putnam addressed this topic in a widely read article “Bowling Alone,” in which he begins by making a strong case for the importance of individual involvement, citing "a wide range of empirical evidence that the quality of public life and the performance of social institutions are indeed powerfully influenced by norms and networks of civic engagement. Researchers in such fields as education, urban poverty, unemployment, the control of crime and drug abuse, and even health have discovered that successful outcomes are more likely in civically engaged communities." <sup>ii</sup>

Putnam goes on to document a decline in U.S. civic engagement, from voter turnout (down a quarter since the 60's) to attending public meetings on town or school affairs (down a third). Fewer Americans report that they trust the government, churchgoing is down, union membership has dropped by half, and even though more people are bowling than ever before, league bowling decreased by 40 percent between 1980 and 1993(!). According to Putnam, "Similar reductions are apparent in the number of volunteers for mainline civic organizations, such as Boy Scouts (off by 26 percent since 1970) and the Red Cross (off by 61 percent since 1970)." While some organizations have added millions of dues paying members (NOW, AARP and the Sierra Club), Putnam describes these as "tertiary" organizations in which the members seldom meet or greet one another, but simply write a check.

The possible reasons cited by Putnam include the movement of women into the labor force, increased mobility, fewer children, more divorces, and the "technological transformation of leisure" (the TV and VCR replacing the PTA). Putnam's speculation on why people seem less engaged in public life has been hotly disputed by a number of other academics, but has inspired a lively debate about the role of nonprofit organizations in engaging citizens in public life.

Nonprofits have a special role in teaching democratic skills and promoting public spirit. Many people don't realize that there are more people taking part in deliberation as members of NPO boards in Whatcom County than all the Whatcom County's county board, city council, and legislator's put together. Nonprofits are essential teachers of democratic skills, priority setting, problem solving and mediation of disputes.

Tocqueville called this both teaching “habits of the heart” and “the science of association.”

Among laws controlling human societies there is one more precise and clearer, it seems to me, than all the others. If men are to remain civilized

or to become civilized, the art of association must develop and improve among them at the same speed as equality of conditions spreads.  
Democracy in America, Vol. II

This is one job, democracy, the nonprofit sector can't work itself out of.

As I said before, it is only in the last 20 years that a substantial number of people have seen the collection of voluntary organizations as a sector, but what they see may in fact be a real problem.

## **Part Two**

### **The six major challenges facing the nonprofit sector.**

#### **1. Unformed Public attitudes**

In general, Americans really like nonprofits. They like donating, they like volunteering, they like getting information and receiving services from nonprofits.

Unfortunately, underneath this general good feeling is a shallow knowledge, so that most of the public doesn't know the basic facts of how organizations are formed, financed, governed or regulated.

The public does not know that 40% of nonprofit sector's income comes from fees, more than from donations, or that much of the work in nonprofits is done by staff. It is a serious problem when the 1998 public has a 1940's views of charities. You may have experienced this yourself, if you have ever told a friend or relative about your job in a nonprofit, and their immediate conclusion is that you raise funds - regardless of your duties.

One danger in this situation is that fools will fill the information vacuum, such as whether or not nonprofit organizations are subject to reporting requirements. The classic example was the 1995 battle over the Istook Amendment to restrict advocacy by nonprofit organizations. Earnest Istook, sponsor of the Amendment, stood on the house floor and pointed to a large pile of papers and books and said "these are the regulations businesses have to follow," and then held up an empty box and said, "these are the regulations nonprofits are subject to." The case for the measure, which passed the House but failed in the Senate, used posters of pigs feeding at a trough of federal dollars. The bill's authors urged voters to call up their representatives and say, "Get rid of this welfare for lobbyists - we have had enough of taxpayer subsidies for lobbying."

The debate illustrates both a willingness to make unsupported allegations in the face of unformed public views, and an ignorance of the regulatory structure surrounding nonprofits.

#### **2. Government Relationships**

Over the centuries governments have had a love/hate relationship with nonprofit organizations. Governments typically want nonprofits to bring resources and public willingness to pitch in to work alongside government activities, but these same governments don't want grief:

In democratic countries political associations are, if one may put it so, the only powerful people who aspire to rule the state. Hence the governments of today look upon associations of this type much as medieval kings regarded the great vassals of the Crown; they feel a sort of instinctive abhorrence toward them and combat them wherever they meet.

But they bear a natural goodwill toward civil associations because they easily see that they, far from directing public attention to public affairs, serve to turn men's minds away from there from, and getting them more and more occupied with projects for which public tranquility is essential, discourage thoughts of revolution.

### Democracy in America, Vol. II

Earnest Istook was just one in a long string of legislators and regulators that have sought to put limitations on the speech and organizing power of voluntary organizations. Numbers count in influencing governments, which is why freedom of association is the first casualty in any dictatorship.

Over the past twenty years a consensus has developed that Americans don't want their government to grow larger, but have growing expectations for services and amenities that serve public needs. A growing strategy is for government to provide these new services through outside contracts, most frequently with nonprofit organizations. The contracting relationships that result have serious implications for the autonomy of contracted organizations, since resource dependency

While government has long seen the nonprofit sector as an effective means to provide public services, a growing number of states are seeing nonprofits as a potential new source of revenue, especially through the property tax. Wringing additional millions out of property tax systems stretched thin is a welcome prospect for many jurisdictions, often through "voluntary" payments in lieu of taxes (PILOT's). In 1995 the city of Philadelphia, PA, sent a letter asking nonprofit organizations to voluntarily pay 40% of the regular property tax rate, or else the city would contest their entire property tax exemption in court. The prospect of long and costly legal battles convinced most organizations to pay up, though privately they called it extortion. PILOT efforts are spreading, particularly along the East Coast. According to Philadelphia's deputy mayor, "While nonprofits are good corporate citizens, we are asking them to be even better corporate citizens."

### 3. Ethics & Accountability

Everyone has heard about the case of William Aramony, and I do mean everybody. After it was revealed that the CEO of the United Way of America had used donated funds for limousines and condos for his 17 year-old mistress, contributions to United Way organizations throughout the US fell by more than \$50 million in the next two years. This case was burned into the public consciousness as shocking perfidy: taking funds raised for the disadvantaged and spending them on luxuries and sex. Aramony's name is frequently brought up in focus groups discussing nonprofit issues, five years after the scandal hit.

The public wants to know that organizations are open, honest, accountable and effective. People want to know that someone is watching these organizations so that the

organization's bank account is in the hands of reputable people. This is why nonprofit organizations should be supportive of effective government oversight and regulation: because the charitable giving climate depends upon it.

One of the key accountability issues is documenting results, but this is also one of the thorniest problems. One of the mantra's of the welfare reform debate was "failed social programs of the 60's," referring to expenses that didn't accomplish anything. If organizations have objectives, should they know when they succeed? Shouldn't funders invest in programs that work, and drop those that don't?

The natural desire to know what works, and what was produced as the result of nonprofit expenditures, faces major problems of measurement and causality. While results such as housing occupancy and job placement may be easily measured, what about youth development or anti-violence education? There is a risk of greater amounts of resources devoted to tracking ineffable results, to no one's satisfaction. This is a classic challenge that organizations need to work on together, in industry sub-groups and as a sector, sharing the results and splitting the costs.

#### 4. Fragmentation and Proliferation issues

When some people look at the rich variety and grass roots nature of nonprofit organizations they see a healthy community. Other people look at the large number of organizations and say "Why so many?" Can't we get a lot of these organizations to merge and end the duplication, waste and proliferation?

Twenty years ago, while the Soviet Union was still in one piece, I took part in an exchange program called the American-Soviet Youth Forum. As we were talking about the role of organizations in our two countries, one of the delegates from Moscow challenged me and said "You have too many youth organizations, that's why you're ineffective. We have one organization, Komsomol, with 36 million members. Komsomol is much more powerful than your youth groups, and everyone has their say."

Obviously not everyone had there say, and guess what? Since 1989 one of the most important and exciting developments in Russia and the Eastern Block countries has been the creation of hundreds of new organizations, a vital voluntary sector.

Now, some donors in this country, including business people who should know better, dream about ways to create a centralized command economy for the nonprofit sector to end duplication and increase efficiency.

There is an unwitting hypocrisy in free enterprisers that would never question the proliferation of video rental stores or brands of cereal would seek efficiency by limiting the number of organizations. A dynamic nonprofit sector should be considered good news in a democracy, with its own brand of entrepreneurial spirit, competition, startups, mergers and dissolutions.

At the same time, I believe fragmentation is the bane of the nonprofit sector. We need to work together more effectively, sharing information and resources, and we need to get better at developing alliances and partnerships among organizations.

5. Compensation It is probably not news to you that employees in the nonprofit sector make less than employees in the business and government sectors, about fourteen percent less. This does not have to be. There is no justification for lower compensation based on the value to society,

In a cruel twist of fate, you may be subject to the worst of all public opinions: getting underpaid but having the public believe that you either shouldn't be paid at all or that you are actually over-generously compensated. Each year, the only time the popular media pays attention to compensation in the nonprofit sector, it is to document how high it is. The most widely publicized survey of nonprofit compensation is the Chronicle of Philanthropy's annual study of chief executive compensation. Although the first published report contains a full explanation of methodology, the second media bounce drops the qualifiers. Take, for example, the lead from Mike Feinsilber's September 21, 1998, Associated Press story on the Chronicle report, which was published as follows:

*The median pay of leaders at 230 hospitals, universities, big charities and foundations was \$209,914 last year, according to an annual survey of compensation levels of nonprofit organizations worldwide. The \$209,914 median means half of the executives earned more than that and half less.*

The unintended but unmistakable conclusion that the public draws is that nonprofit employees are highly compensated—an unfortunate development for an industry with 9 million underpaid employees and a handful of overpaid ones.

For years, nonprofits have faced ambivalence about their compensation. Why would voluntary organizations pay people? Going back to the sector's religious roots, if you're doing the Lord's work, your real reward is not in the material world. In this field, you not only gain valuable experience, but also get the satisfaction and "psychic" income of knowing you have made the world a better place. The priesthood's oath of poverty makes retirement savings seem unfaithful to the belief that the Lord will provide. Many nonprofit groups strive for a just and humane life for the people they serve, yet at the same time have people on staff who are eligible for food stamps. Generally, hypocrisy doesn't play well in the media. Take the case of a St. Paul ballot initiative to guarantee that city contractors would pay their employees a "livable wage" of \$10 an hour. The tenacious low-income advocacy group ACORN launched the issue, but had to admit publicly that ACORN's own employees didn't make close to that amount.

We know that nonprofit pay will never match Wall Street or Silicon Valley, but that isn't necessary. What is necessary is a careful examination of a profession critical to the future of this country, and the implications of a long-term nonprofit wage gap.

At the individual organization level, nonprofit board members should be asking questions about their organization's compensation policy and its effect on recruitment, retention and turnover. Nonprofit organizations are formed to make the world a better place. For the sake of ethical consistency, the organizations that engage in this work must put their own houses in order first.

In the last 20 years, the nonprofit sector has made major advances in the quality of its management, governance and communications, and clearly has ambitions for further growth. Unless nonprofits place greater attention on employee compensation, we will lose current and future employees to other sectors.

## 6. Second Class Status

This last challenge is the hardest to pin down, but can be described as the current psychopathology of the nonprofit sector. Frankly, nonprofit organizations have not realized their potential in part because they fail to see their own strength, and instead operate as if they were a second class citizen. The smaller size of the nonprofit sector, the lack of public knowledge, historically low salaries, vulnerability to government action and dependency on external funding are both symptoms and causes of this approach.

The nonprofit industry has the potential to grow into a more effective, powerful force in society on behalf of community values, but only if it is accurately and consistently understood. However, the nonprofit sector is not positioned to meet current challenges, let alone see the possibilities of collective action and sector development. Factors within and outside of the sector are defining nonprofits in a position of second class status, with unnecessarily constrained power and influence.

Nonprofits have developed an internalized sense of scarcity and timidity, fragmented concept of place in the economy, lower pay and status, fearful or defensive approach to media and government, and an overemphasis on financial matters. The cumulative communications of thousands of nonprofit organizations contribute to the fragmented, narrow, unbalanced and sometimes negative views of the nonprofit sector. Current nonprofit sector promotion strategies use slogans and images to enhance positive feelings toward the sector and to encourage donations, but slogans and images do not address problems in current public understanding of the sector, let alone conceptions within the sector itself.

The business world and many industries and professions have gone through this same process; developing a set of ideas and accountabilities that define and unite the whole. For example, business has transformed its publicly articulated role over the last 25 years from *“a means of property ownership that generates profit for owners of capital”* to that of *“job creator, engine of the economy and most efficient means to allocate goods.”* Partly as a result small businesses themselves are no longer seen as enterprises that failed to grow, or employers of people that couldn't make it in big business, but as an important resource of Main Street values, entrepreneurial spirit, individual achievement and job

growth. There is no reason that nonprofits cannot also strategically reposition their role in the eye of the public and themselves.

### **Part Three, Joint Action.**

There is a way to take on these challenges, a very American way, and that is by doing together what no single organization can do alone. The Latin phrase *e pluribus unum* (out of many, one), is the historically American strategy, and best solution for the nonprofit sector. The ability to join together for common interest and common defense is basic to human survival, and was described by Tocqueville as the science of association:

Nonprofit organizations throughout the US, and increasingly in countries throughout the world, have joined together

- In Denver, the Colorado Association of Nonprofit Organizations (CANPO) successfully defeated a ballot initiative that would have changed the state's constitutional definition of charity and thrown all nonprofits onto the property tax rolls.
- In Duluth, nonprofits joined together to educate a negative media and hostile city council to defeat a PILOT ordinance modeled on Philadelphia.
- In Cluj, Romania, non-governmental organizations (NGO's) lead by the Pro-Democracy Association, organized the first ever forum bringing together municipal and regional government officials with NGO's to find ways to cooperate;
- In Washington, DC, a city government making payments on contracts eight-ten weeks later than contracted responded only to the Washington Council of Agencies.
- In fifteen states around the US, Leave a Legacy campaigns have been organized which educate the public about the reasons for leaving charitable bequests and other planned gifts to charitable organizations, and help direct them to resources and further information.

Tocqueville described this as *self interest properly understood*. The ability to see beyond individual action to see how much more collective action can accomplish.

There is a skill set of organizing nonprofit joint action that is being constantly developed. You have counterparts throughout the country, and the world, that would gladly share their experiences, methods and ideas with you. There are six main areas in which nonprofits have made major impacts through joint action:

1. Public Policy
2. Communications
3. Information development & exchange
4. Training & Convening
5. Benchmarking
6. Resource Development

The best resource to gather information on what nonprofit associations are doing is the National Council of Nonprofit Associations (1900 L Street NW, Suite 605, Washington, DC, 20036; 202-467-6262; [www.ncna.org](http://www.ncna.org)). NCNA published the book

on how to organize state associations (State by State), and sponsors an annual conference for state associations. NCNA publications and events provide how-to information and examples of successes in the six major areas.

**Part Four**  
**The answer to life's great mysteries**

We live in an age when humankind is getting closer to perfect knowledge. I promised at the beginning that I would tell you the answers to two of life's greatest mysteries, what does God want for people on Earth, and why did the chicken cross the road?

These two questions have the same answer. In Genesis, the Bible says that every creation was good until the creation of man. After God created the first person, Adam, it was not good creation – not good until a second person was created, Eve, so that they could be together. And what is the most logical reason a chicken would cross the road but because another chicken was on the other side of the road. We are meant to figure out how to make the most of being together, to do together that which we can't do apart.

That is the challenge for the nonprofits in Whatcom County, and your work today. Local conditions vary. You clearly have a great set of nonprofits and a great start at finding how joint action can strengthen your individual organizations.

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<sup>i</sup> Democracy in America, Alexis de Toqueville, Ed. By J.P Mayer, Lawrence Translation, Harper & Row, New York (1988), pp.690-691.

<sup>ii</sup> Putnam, Robert, "Bowling Alone," Journal of Democracy, January 1995, p. x.