

Prepared Remarks

Diana Aviv  
President and CEO of Independent Sector  
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Thank you for the warm introduction and the invitation to be here today.

As I flew into this beautiful, historic city, I was reminded that it is home to Pierre L'Enfant – the military engineer who served in the Continental Army and the famous architect who designed the layout of city streets that I walk everyday in Washington, DC. Our two nations have a distinguished history of helping each other in difficult times.

It is fitting then, that we have this opportunity to discuss the challenges facing our respective communities, past and present. This gathering provides us with a wonderful opportunity to share our experiences and learn from one another, so that together we can better accomplish our missions and reach the communities we serve.

Indeed, that is my overarching theme today: the importance of renewing our organizations' capabilities to serve the common good; to move beyond good intentions to lasting, measurable results; to prune away methodologies and strategies that no longer work and instead identify fresh, new approaches that will better serve us in the coming decade. In that context, I have been asked to give you a perspective on a few of the current challenges facing US charities and ways some organizations have responded vis-à-vis 3 of the categories of the study under consideration: (1) new services requested from charities; (2) human resources; and (3) financing of the charitable sector.

Before doing so, however, it might be useful to give you a sense of the US 'nonprofit and philanthropic community' – a term referring to the 1.5 million charities and foundations operating on my side of the Atlantic. The breadth and depth of the American charitable sector is vast indeed and ranges from large hospitals to small-town clinics; from one-room soup kitchens to warehouses full of canned food; from renowned universities and art museums to small advocacy groups focused on issues ranging from the environment to civil rights to government transparency.

The organizational structures that support such efforts range from billion-dollar foundations with large, professional staffs to small nonprofits run by a handful of volunteers. In terms of 'human resources,' volunteer activity in our sector accounted for the equivalent of about 6.8 million full-time employees in 2008. And nonprofits employed about 12.9 million people,

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or 9.7 percent of the total U.S. workforce in 2005. In addition to different missions and internal structures, sources of revenue for public charities vary as well: fees for services and goods account for 50%; government funding 29%; private contributions 12.3%; investment income 5.4% and other income 2.9%.

Amid the great diversity of the US charitable sector, organizations share a special status awarded to them by our federal tax enforcement agency. It is based on their commitment to serve -- not their own interest -- but the interest of the public. And to do so with honesty and integrity. In return, they do not pay taxes and their donors are encouraged to give as much as possible through an elaborate system of tax incentives.

As I understand it and as you well know, France has a strong social compact between its citizenry and the government. This relationship is grounded in the fact that a certain threshold exists, below which your government assumes full responsibility for providing care and service to the most vulnerable members of society.

The social compact in the US is quite different -- and always has been. That point was prominently noted by your own Alexis de Tocqueville in *Democracy in America* (1835), who observed in his travels in America that when citizens faced a problem, they came together to form associations rather than rely on government.

Americans have always had a very ambivalent relationship with their elected government. Just last week, I spoke to a group of wealthy philanthropists in America who argued that government should not be involved in meeting the needs of our most vulnerable citizens. From their perspective, the more government steps up, the more likely it is that citizens will abandon their engagement. While this may not be the current view of the majority of Americans, there is a great reluctance to allow government to play an active role in meeting the needs of its citizens.

Instead citizens and government alike rely heavily on nonprofits, such as community health clinics, nursing homes for seniors, and medical care for disabled people to care for our most needy populations. Such demands on the nonprofit community can become acute in times of crisis -- much like the current recession. Today perhaps the biggest challenge facing American NGOs is the impact of the economic downturn.

Despite some positive signs that the recession's grip on the US economy is loosening, life in America won't return to normal anytime soon. For instance, unemployment rates increased in 27 states in August, and our national poverty rate rose to 13.2 percent last year (2008) -- the highest level since 1997. That translates into millions needing help. In some cases, people who were once dishing out meals, have now joined the assistance lines.

Demand for services has surged -- and continues apace in the US charitable sector. At the same time, funding streams are shrinking in size.

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One survey of 360 direct service organizations across America reported that 83 percent recorded some level of fiscal stress -- near half reported "severe" or "very severe" stress. And we are only talking about 2009. Most believe the year ahead offers little promise for a brighter scenario.

As a result, nonprofits have been trimming budgets, cutting programs, funding fewer efforts, limiting services, and simply closing their doors. Many in the States – and perhaps here as well – are wrestling with the troubling choice of how to reach their aspirations in the long haul while, at the same time, manage their obligations in the short term. The challenge we face is to try to capitalize on the opportunities that can be wrenched from the damage done by a struggling economy.

With demand up and funding down, many organizations are exploring whether the approaches, programs, and strategies that they have in place today are the right ones to accomplish their missions tomorrow. In fact, many organizations are turning to collaboration with other organizations as a means to achieve greater impact, improve internal operations, and of course cut costs.

In a study conducted in April 2009, the Nonprofit Finance Fund reported that 42 percent of the 1,100 US organizations surveyed had developed a partnership with another nonprofit in the past year or planned to do so in the coming year. Nearly 20 percent expressed an interest in studying the feasibility of a merger and 5 percent indicated that they had recently merged with another organization or intended to do so soon. According to my organization's own study, nearly one in five charity leaders are considering a merger in light of economic pressures.

Mergers are, of course, not without cost. It is possible that a new organization may bear little resemblance to either of the old organizations. Then there are salaries and severance agreements to manage; cultures to combine; staff to assuage; morale to build and costs of existing contracts to pay out. In some cases, the initial costs of merging are higher than the combined operating budgets of both organizations, but over time such costs taper out.

Short of mergers, there are other ways to partner with organizations to achieve impact. In the state of Ohio, for example, two theaters and a nonprofit community development corporation created an arts and cultural district in downtown Cleveland and raised a combined \$20 million [\$13.3 million euro]. When the project is complete, they will have revitalized a 15-block neighborhood and spurred some \$500 million [\$339 million euro] in economic development. Another example involves a foundation working with a local state university to fund and promote environmentally-conscious for-profit businesses owned by local residents. And still another: veteran businesspeople linking up young entrepreneurs to invest in creative new projects like alternate fuel stations.

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In these examples, people teamed up with a group that they normally had not worked with in the past. Another way that organizations have found to remain solvent in tough times is to share resources such as accountants or administrative staff with a neighboring organization. People often find excuses why this is impossible: independence; distinctive contributions; competition for funds; reluctant boards; lack of resources and cultural differences to name a few. But as you know, challenging times call for bold behavior. Such partnerships, if handled prudently, can enrich everyone involved.

Technology offers another way to solve pressing social problems and increase the impact and effectiveness of our missions. "Community Voice Mail" is a great illustration. In the past, homeless people in America had difficulty applying for jobs because they could not put phone numbers on job applications. Launched by Cisco Systems Foundation, and with additional support from the Ford Foundation and Harvard University, Community Voice Mail responded to this problem by giving homeless people access to voice mail day or night. Since 2003, more than 300,000 individuals have used this service and over 2,000 nonprofits have distributed contact numbers to clients. It has also been profoundly effective for people in transition or in crisis. After Hurricane Katrina in 2005, relief agencies set up 80,000 voicemail boxes for those in need. In this case, technology essentially changed lives by providing people a connection to jobs, housing, and social services.

Meeting our mission statements and having a lasting, transformative impact in the communities we serve is best achieved with diverse and dedicated people, which leads me to one of the other major challenges facing US nonprofits: human resources, specifically changing demographics. In 2005, for example, the US Census Bureau reported that approximately one-third of our population is comprised of people of color. However, about 82 percent of nonprofits are made up of white staff. In other words, the face of America is changing and yet, in some cases, our sector does not adequately reflect such change.

These trends require us all to ask hard questions of how we manage internally: Are Boards of Directors and chief executive officers of organizations hiring only like-minded people or are they genuinely committed to taking advantage of the rich, diverse talent to be found in every community in America? How are we managing the relationship between volunteers and salaried staff?

One major trend likely to affect the capacity of organizations to fulfill their missions is attracting and retaining talented professionals. This issue looms as a growing challenge for the US nonprofit community. The Baby Boomer generation (ages 45 - 65) is about 76 million people, but the subsequent generation (Generation Xers ages 30-44) consists of only 46 million people. That leaves a 30 million-person gap across America's entire

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workforce -- a gap, nonetheless, that poses a significant challenge to our sector. This is because as the Boomers begin to retire, the next generation simply cannot fill all the leadership and line positions that exist in the sector. The question for "internal management" is whether they are positioned to court younger generations for future management and leadership positions.

What if the boomers don't retire and decide to work into their 70's? Chances are they won't remain in the same positions but will look for less demanding work, perhaps part time. My own ex father-in-law just got a new job as a judge. He is 91!

This means that the potential shortage of Generation X-ers can be made up with a creative engagement of people over age 65, who bring with them years of experience, skills, and a willingness to stay with the organization until they finally retire. Organizations should be asking if they are poised to capitalize on this new source of human capital.

Demographic trends are also nuanced by the crisp reality that the Generation Y or the millennial generation works and volunteers differently than other generations. Young people in America, ages 15 to 29, tend to advocate for a cause, mobilize large groups of people, and raise money online using blogs, texting, and social media networking sites.

Equally fascinating about this young group is that they rally behind causes rather than institutions. Their first priority is embracing an issue, passionately perhaps; then comes their own quality of life preference regarding work-life balance. Behind that, by some distance, comes organizational loyalty. Organizations in our sector could miss precious opportunities if we don't reach out and accommodate younger individuals who want to make a difference in their communities.

One national organization in the US, called Civic Ventures, is helping Baby Boomers remain part of America's workforce either as volunteers or as paid employees. Founded in 1998, this organization capitalizes on the immense life experiences of our older citizens to solve social problems involving education, the environment, poverty, or homelessness. Take Carol Harris-Mannes, who was employed in the entertainment industry for 40 years. Thanks to Civic Ventures, she now works fulltime as a social worker for the Actor's Fund of America in New York City. Or Susie Cavanaugh, a 30-year veteran teacher in Kentucky's public school system. She now helps train and place people from minority populations on the boards of directors for nonprofit organizations.

My larger point is that organizations can benefit from the emerging demographic trends here – if internal management is making them a priority in strategic planning and discussing how such trends may help serve local communities.

Thus far, I have mentioned some of the challenges facing the US sector and ways that organizations have responded. The problem of financing is, in my mind, an immense problem with no easy solution.

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At issue is the fact that our funding sources are unsustainable for a number of reasons. First, the number of nonprofits has increased, but funding has not kept up. Since 1982, the number of US charitable organizations has increased at nearly twice the rate of growth in charitable giving, which rose from \$131 billion to \$307 billion [\$89 billion euro to \$209 billion euro]. Last year (2008), charitable giving showed the first decline since 1987. This development is wholly understandable and a result of market declines, tight credit, and housing foreclosures – economic conditions that have also shrunk endowments and foundation giving on average by 25-30%.

At the same time, state economies across the US are reeling from the recession. The National Governors Association reports “The 50 United States are facing one of the worst fiscal periods in decades. Fiscal conditions deteriorated for nearly every state during fiscal year 2009, and weak fiscal conditions are expected to continue in fiscal 2010 and possibly into fiscal years 2011 and 2012.” State government reimbursements to social and health service agencies, for instance, have been delayed, reduced, or eliminated. The situation is dire given that government funding to these service agencies amounts to about 66 percent of their total revenue – that’s \$85.3 billion [\$57.9 billion euros] annually.

We are nowhere near solving this problem in the US, but are actively questioning how to reconfigure funding models and renew existing relationships that will carry us to 2020 and beyond. We are asking the larger questions about what this means for our government and our sector. Is this the time that the social compact is rewritten and redefined to establish clear and unambiguous roles for the care of our most vulnerable populations? Should our government take on greater responsibility for the social safety net and help develop and sustain small nonprofits the same way they invest in small businesses that thrive?

At the same time, the way our nonprofits do business must change. To be credible they will need -- now more than ever -- to demonstrate that they work has actually made a positive difference. No longer is it enough to have a noble cause. It is essential to demonstrate results.

Furthermore, we must develop a system whereby donors give to organizations that are capable of achieving lasting impact, rather than acting solely on passion or merely because they were asked to help. Whether grantmakers or government sources, philanthropists or individual donors – all should treat charities the same way they would a financial investment, namely to trust but verify. The sector, in turn, needs to develop tools that help them to do that.

One example of this is in the state of Kansas where a community foundation created “Donors Edge,” a program that allows potential donors to look at all organizations in a given geographic area and focus on the cause of their choice. Organizations seeking funds are required to complete a form that arranges information in a manner that makes it quick and easy for

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donors to compare organizations. This organization is a national leader and prides itself on ensuring “every philanthropic investment returns the greatest emotional, civic and financial benefit possible.” To date, they have helped fund more than 3,000 nonprofits in the local community with more than \$1.25 billion [\$840 million euro]. This program has now been replicated in scores of cities across the US. This seems to be a simple solution – a standardized form – and yet, its impact has been profound and may serve as a solution useful in your community as you think about the future.

Let me offer one final and very different example based on an individual born in Paris, raised in Washington, DC, and living in Hawaii. Pierre Omidyar, the cofounder of E-Bay, became a billionaire at age 31 when the company went public. He and his wife, Pam, began a foundation but ultimately gave up their tax-exempt status to run a philanthropic investment firm that could take advantage of principles that made E-bay successful: access, connection, and ownership. An iconoclast of classical business techniques, Omidyar believes that the US charitable sector must adapt if it is to achieve measurable, lasting impact in the future. His actions reflect that philosophy: he works through all three sectors, nonprofit, business, and government to achieve his goals.

There are opportunities such as this one – and perhaps we can explore those answers here together. In addition, I would like to invite you to visit our website for an online discussion of this topic and others regarding the future of the US charitable sector. (Please visit <http://www.independentsector.org/future/>)

In closing, I’ll mention Lafayette Square, a beautiful park located about 3 blocks from my office in Washington, DC. It is named after your famous military commander who provided much needed guidance and support to the young American republic during our revolutionary war. This park is also located directly across from the White House and was, in fact, originally called, the “President’s Park.” Over the years, it has been used as a race track, a graveyard, a zoo, and an encampment for soldiers during the War of 1812.

When I walk among its fountains and statues, I see any range of protesters, marchers, and celebrants heralding causes to which they are devoted and about which they are passionate. To me, Lafayette Square is a place that embodies free speech and the right to assemble peaceably. It represents values and principles that our two nations have long held dear during our shared history. As we look to the future, let us continue our country’s deep and mutual respect and those abiding traditions that have helped us learn and grow.

Together we can contribute in significant and meaningful ways to the world we want to create in the next decade. Thank you.

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