

On Nonprofits, Ethics, and Doing Things Right

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INTRODUCTION

NOT FOR THE FAINT OF HEART

WE'VE ALL HEARD THE SCANDALS. A major social services organization goes bankrupt and collapses. Some leaders embezzle; others sponsor kickback schemes. A beloved housing provider displaces residents. To read the news, the not-for-profit sector is on the verge of economic and moral collapse.

We have become deaf to the success stories: those who quietly protect the rights of children, the poor, and the elderly, who provide medical care in war zones, who feed the hungry or offer employment skills.

As CEO of Selfhelp Community Services, a major New York City not-for-profit organization, I worry about this contrast. Our dedicated staff works daily to ensure that the oldest among us may age gracefully in their own homes, with independence and dignity. Social workers, innovators, home care providers – they all deserve the confidence that comes with good work, not the fear that their sector is in turmoil.

Selfhelp was founded in 1936 by refugees from Western Europe who sought to help their brethren stranded under the Nazi regime, or trying to get their footing in the United States after emigration. Our 80th anniversary has prompted me to look back on how we have stayed true to our mission, while navigating decades of change.

It comes down, I think, to good governance, transparent communication, and strong partners whose guidance and support enable us to move forward, despite the turbulence around us.

WHERE WE STAND TODAY

BY VIRTUE OF THEIR IRS DESIGNATION, not-for-profit 501(c)(3) organizations are chartered to advance the public good. By sheer numbers alone, they are thriving. In New York City, at last count, 42,175 organizations were registered with the IRS, with a total reported revenue of \$165 billion.¹ An exuberant list of services ranges from the arts and animals to religion and the sciences.

Despite the myriad organizations serving a common purpose of addressing social needs, recent press has focused on the actions of a few organizations, leading to a potential loss of faith in the sector's integrity and management. At this point, the activities in question are well-known and do not bear repeating. I am more concerned with shifting our focus to how we can move forward and preserve the trust, which such news stories may erode, that the majority of us are doing excellent work.

When you think about it, such trust is essential. Not-for-profits are reliant on fundraising for the revenue to support our programs. If the public no longer believes that the sector is fulfilling its mission effectively, we are likely to lose the funding to do so. A frightening spiral that would, ultimately, make it impossible to meet society's needs.

I am appalled by the recent revelations about not-for-profits that have not been attentive to, or have mismanaged, their finances, and Selfhelp has strengthened our own internal financial controls in response. But in other industries, the actions of a few do not put the reputation of the entire sector at risk. Sports and entertainment still thrive, and financial services firms still generate enormous returns, despite prominent examples of malfeasance.

One way to sustain trust in our work is to address the reasons for the turmoil, and this has been happening from both outside of and within the sector. Externally, investigations by Attorney General Eric Schneiderman led to the Nonprofit Revitalization Act of 2013, which significantly strengthens the oversight of Boards over financial audits and enacts whistleblower and conflict of interest policies. The goal is to strengthen accountability and reduce the likelihood of malfeasance.

Leadership within the not-for-profit sector has also called for reform. Working with a commission of experts, the Human Services Council of New York identified specific practices which impose economic risks on not-for-profit agencies that enter into contracts with government agencies to provide services for needy populations.

These risks include delays in payments from the government which severely restrict cash flow, and contracts structured with insufficient funding for program management and for indirect expenses such as facilities, technology, and equipment.

How did we get from organizations established with the earnest intention to do good, to an economic landscape which makes it so difficult to do so? And how are some not-for-profits – like Selfhelp and many others – able to fulfill their mission despite the disincentives, and even to thrive?

A BRIEF HISTORY

MANY OF TODAY'S MAJOR NOT-FOR-PROFITS began as small groups of concerned citizens. Local religious organizations provided food, clothing, and housing to those in need, growing into nationwide associations of charitable organizations. The Settlement House movement helped new immigrants to acquire the knowledge and supports they needed to escape poverty, and often, participate in social reform.

Eighty years ago, Selfhelp – established in 1936 as Selfhelp for German Refugees – followed this pattern of a small group coming together to provide relief. Recently arrived on these shores themselves, our founders' original purpose was to help recent immigrants to rebuild their lives in America. As World War II drove waves of refugees from Europe, volunteers provided them with food, shelter, clothing, employment and financial assistance; in fact, Selfhelp employed only one paid staff member for much of its first two decades. At this time, funding for social services was available from private foundations, the nationwide Community Chest (which later became the United Way) and, to a very limited extent, from government agencies. The money for Selfhelp's relief activities came entirely from peers and volunteers who were aware of the increasing brutality of the Nazi regime and were worried about the families and compatriots they had left behind. In this regard, Selfhelp followed the pattern of many not-for-profits which were funded primarily by donations from volunteers, friends, and wealthy individuals.

In stark contrast to today, there was little government regulation in Selfhelp's early years.² Nor did such regulation seem necessary. Selfhelp was accountable to its friends, donors, volunteers, clients, and its Board of Directors, which was made up of founders and long-term friends. The monies raised, while tax-deductible, went to a common moral imperative.

Like many other organizations, our experience was that Great Society legislation changed this climate. For Selfhelp, the 1965 passage of Medicare (Title XVIII of the Social Security Act) and Medicaid (Title XIX) established a flow of monies to provide home health care to aging Holocaust survivors and other vulnerable populations. We received our first contract to provide home care in 1967 from what was then the New York City Department of Social Services, and home care remains an important part of our service portfolio today. The Older Americans Act, which now funds our case management, senior center, and Naturally Occurring Retirement Community (NORC) programs through the New York City Department for the Aging, was likewise passed in 1965.

Across the country, the War on Poverty and subsequent legislation created funding for contracts between local, state, and federal government agencies and not-for-profit organizations, in recognition that there were needs – such as job training, early childhood education, substance abuse, mental health services, and affordable housing – which were not being met on a broad enough scale by private philanthropy. In 1964, \$1 billion was authorized for social programs under the Economic Opportunity Act; by 1971, spending on Medicaid alone totaled \$6.5 billion.³ The rapid expansion of funding created a similar expansion in the scope and services provided by individual not-for-profits and the sector as a whole. While government oversight also increased, the level of scrutiny and the controls that have been put into place today were largely absent. Much of the public discussion focused on the social purpose of new funding, more so than on its management and outcomes; recognizing this gap, universities expanded funding for graduate training in social sciences evaluation to develop metrics for success.⁴

Since then, there has been an ongoing tension between the charitable mission of not-for-profits, the soundness of their business practices, and the funding available for their work. By the 1990s – after three terms of conservative Presidents had sponsored reduced spending on social programs, regardless of results – the pendulum had shifted towards financial survival. The phrase “no margin, no mission,” first used in 1987 by Sister Irene Kraus of the Daughters of Charity, struck a chord with many providers. Not-for-profits were suddenly competing with for-profit businesses, which were seen as more agile and outcome-oriented; in 1996, Lockheed Martin bid on the contract to manage welfare systems in Texas, and it held social services contracts in four states by 1999.⁵ By contrast, not-for-profits were at a competitive disadvantage because reduced funding for

administrative operations had left many unable to innovate or to assume the risk of performance-based contracts.⁶

While competition from for-profits posed a threat to the standard not-for-profit business model, it also sparked innovation. Selfhelp, like some other not-for-profits, developed new revenue streams (in our case, through the provision of home care), with the expectation that such programs would help us advance our mission of serving Holocaust survivors and other older adults. But as not-for-profits were urged to become more efficient by cutting the costs of programs, services, and overhead,⁷ some feared that their missions would be lost in the process.⁸

This history is, of course, brief, and glosses over much of the intricacy and detail of the past eighty years. What is clear is that the rapid expansion of government funding, followed by its reduction and exhortations to be highly cost-effective, caused many not-for-profits to economize to their detriment. Where programming was expanded, the multiple new funding streams needed to do so were complex and required sophisticated new systems and talent to administer them, while the lack of extensive oversight provided opportunities for mismanagement. All three of these factors have led to prominent failures.

A WAY FORWARD

AS A SECTOR, WE MUST ENSURE that we retain the public trust which we have been given to fulfill our mission. Doing so is critical for our staff, who show up every day ready to pour their hearts into their work, and for our friends, volunteers, and supporters who believe so strongly in our mission. Yet we cannot strengthen trust in our sector without establishing a more stable and sustainable platform for the delivery of services.

Not-for-profits need the same resources that for-profit companies have: strong leadership, smart financial management, compliance professionals, modern technology and software, and well-maintained facilities – as well as high-quality talent and the resources to attract it.

We handle essential work which is outsourced to us by the government – yet many organizations struggle to operate under razor-thin margins and face delayed payments that severely limit their cash flow.⁹

We gratefully receive and appreciate restricted funding from individual donors and foundations, and we carefully direct it to honor the donor's intent. The dedication of this funding to programs and services, however, usually leaves a hole in funding for the "back office" functions that make our programs operate – such as the staff who pay our social workers and who monitor how funding is spent.

As we move forward, we need all our partners – government agencies, institutional funders, and individual donors – to understand the importance of providing unrestricted funds to bolster our daily operations.

Yes, we need to be lean and well-managed, and to direct as much funding as possible towards meeting human needs. But it is also vital that we obtain sufficient funding, even modest profit margins, for the basics necessary to steer our ship: for management, strategic planning, technology improvements, administration, and even for rent and electricity.

New government regulations promote greater accountability, but this is only one part of the picture. Well-managed and solidly operated institutions are essential for retaining public trust.

**SELFHELP'S
EXAMPLE**

AS AN ORGANIZATION, SELFHELP has known since our inception that we are accountable to all our partners. We are blessed with an involved Board of Directors which includes both our founders' families and new members with the expertise to navigate challenging times.

Solid governance is a key part of how we have anticipated and mitigated against the risks that have severely challenged others. The basics of our approach are communication and transparency.

We have established a culture in which our Board asks tough and challenging questions in a climate of mutual respect, with an explicit desire to uphold Selfhelp's integrity. We proactively share bad news as well as good news.

Senior staff are in direct communication with the Board committees that oversee their respective divisions, and Board members are also in frequent contact with each other. Selfhelp's Chief Financial Officer keeps the Treasurer informed, who reports to the full Board at every meeting. The Finance, Audit, and Investment Committees work closely together, especially when unique circumstances arise. Each service division is overseen by a committee which

fully grasps its programmatic intent. As a result of its close involvement, Selfhelp's Board thoroughly understands our risks and strengths, as well as the broader landscape that affects our strategies as we move forward.

Working with our Board, we – like many others – have been implementing for years the risk management practices that not-for-profit advisors now recommend.^{10,11,12,13} We conduct scenario planning on an annual basis.

Our technology infrastructure is protected against natural disaster, and each program site has emergency protocols that govern the delivery of services. We collect metrics and engage outside researchers to evaluate the effectiveness of our programs. We understand the financial risks in our operating environment and are taking steps to mitigate against them and to ensure we hit our financial targets.

Our Board's strong leadership, and our commitment to enforcing the integrity that is our hallmark, mean that we have retained the trust of our key partners even in challenging times.

We are entrusted by the government with the care of some of New York City's most vulnerable individuals. We hold one of three contracts with Adult Protective Services to serve as Guardian, under the aegis of the Court, to make financial and medical decisions on behalf of incapacitated people. Our Licensed Home Care Services Agency provides more than two million hours of care each year to frail individuals who often cannot care for themselves. Our housing for low-income older adults provides safe, affordable apartments in communities that promote active aging and wellness.

We trust in our staff. We hire excellent people and monitor their work carefully to ensure, overall, that we deliver the highest quality of care. Our staff come to us because they are truly dedicated and want to make a difference in people's lives, and many stay with us and grow with Selfhelp because of the opportunities they find here to do so.

We hold the trust of our donors, our partners in fulfilling our mission. They are the ones who ensure that our programs have the resources needed to succeed, and who provide the unrestricted funds that support our extraordinary work.

CONCLUSION

THESE ARE DIFFICULT TIMES. In order for not-for-profits to deliver the quality of service that our clients need, we must operate from a secure platform. We need to deliver both “margin” and “mission,” and to operate with skills, resources, and with heart.

The new push for accountability, and the compliance activities that Selfhelp has put into place, are essential for retaining public trust. Such trust, in turn, is essential for ensuring that we have the resources to deliver the programs and services on which our clients rely daily.

Not-for-profits care for the most vulnerable. It is vital for our work that the public is aware of how our ability to do so is dependent on their support,

Integrity, good governance, and a solid economic foundation will all continue to form the cornerstone of mission fulfillment, long into the future.

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Selfhelp is a not-for-profit organization dedicated to maintaining the independence and dignity of seniors and at-risk populations through a spectrum of housing, home health care, and social services and will lead in applying new methods and technologies to address changing needs of its community. Selfhelp will continue to serve as the “last surviving relative” to its historic constituency, victims of Nazi persecution.

Selfhelp



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