

***Community Based Organizations and the Nonprofit Sector
in Massachusetts: Where Do We Go From Here?***

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Introduction (1)

Nonprofits represent a huge sector in the United States that includes hundreds of thousands of different organizations. According to Executive Summary of *The New Nonprofit Almanac & Desk Reference* published by the Independent Sector and the Urban Institute, there are approximately 1.6 million nonprofits in the United States today, including 1.2 million charitable organizations. And between 1987 and 1997, charitable organizations grew at 5.1 percent annually. Further, the “entire nonprofit sector had a 6.7 percent share of national income, or a total of \$485.5 billion” (p.xxviii). The total annual revenue for charitable organizations in 1997 was \$665 billion. In addition to attracting the full-time equivalent of 5.8 million volunteers, the sector employed 10.9 million workers in 1998. This means that 7.1% of all working Americans were employed by organizations within this sector. (2)

Nationally, nonprofits hold an enormous amount of assets. In terms of assets held, Massachusetts ranked third behind New York (\$150.2 billion), and California (\$137.1 billion) in 2001 with more than \$108 billion according to the National Center for Charitable Statistics in Washington D.C.

As is the case across the nation, nonprofits in Massachusetts are engaged in a range of charitable and economic activities that touch every aspect of life. The sector includes thousands of organizations that serve as intermediaries between government, the private sector, and people in the delivery of public services. The smaller and community-based nonprofits represent the most numerous kinds of nonprofits. Approximately 80% of nonprofits in Massachusetts, for example, report an annual income of less than \$1 million in 2003 according to a recent report by MassINC, *The Massachusetts Nonprofit Sector: An*

Economic Profile (March 2005). And 60% of all nonprofits filing with the IRS report an annual income of less than \$250,000! These community-based organizations and nonprofits provide human, social, and education services that help to ensure a decent standard of living for residents and citizens. They provide voice to collective interests and needs that may not be heard in electoral or policy forums --children and youth in need of assistance, homeless families and individuals, immigrants, and others.

Furthermore, and very important for an increasingly diverse nation, smaller and community-based nonprofits play a leading role in involving new or different groups of people in the civic life of local communities. These groups include thousands of people and households that have not yet achieved middle-class status. Yet, to expand the ranks of the middle-class, it is this sector that has to be provided with basic services aimed at their social well-being and economic survival. Actually, those families that have yet to reach middle-class status, and require the kinds of services provided by community-based nonprofits, far outnumber the middle-class sector. Note, for instance, that the median income for households in Massachusetts, and as reported by the U.S. Census Bureau for 2000, was \$50,502. If we posit that the middle-class includes households with incomes between \$45,000 and \$75,000, then this sector does not really represent the 'average' family in the Commonwealth. In 2000, this category included but 24% of all households in Massachusetts. Another 45% of the 2,444,588 households in the state had an income below \$45,000. In other words, there were more than one million households in Massachusetts with an income far below the level that would qualify designation as middle-class.

Aside from responding to the needs of families and individuals who do not enjoy middle class status in the state, the nonprofit sector is a key economic player as is documented in *The Massachusetts Nonprofit Sector: An Economic Profile* by MassINC. The smaller, community-based nonprofits are engaged in many economic activities that serve to increase the level of disposable income in local areas. They are venues to attract resources from out of state, including foundation and federal government grants. They assist in the building and maintaining of physical infrastructure and affordable housing. They are responsible for training a significant proportion of the state's workforce. They help to facilitate the attraction of businesses to local communities. They represent a considerable employment base and increase the disposable income available to local areas. The nonprofit sector is one of the state's biggest employers in an occupational sector projected for rapid growth.

According to *The Massachusetts Job Outlook through 2006*, issued by the state's Division of Employment and Training, the social services sector (not including health services or education) is projected to be one of the largest in terms of the growth of future jobs. It notes that "...31,800 new jobs in a myriad of social service organizations..." (p.3) are projected by the year 2006.

Community-based nonprofits pervade all facets of life in Massachusetts and its neighborhoods, whether in health, the environment, recreation, education, public safety, or any number of neighborhood issues. Although a prominent player in civic and economic life, the individual and collective work, and impact, of nonprofit activities can be overlooked; yet, ironically, as observed by Douglas Baird of Associated Day Care, "it is the absence of services distributed by nonprofits" that allow citizens to see and appreciate the work of this

sector. This observation is iterated by Gita Gulati-Partee, the Director of Public Policy for the North Carolina Center for Nonprofits: “Nonprofits are so entwined in communities that it is easy to miss the impact they have on daily life. Consider the organizations with which people come into regular contact – churches, day-care centers, arts programs, human services, youth centers, and the many groups that work to improve the quality of life in communities...” but can remain quite un-noticed. (3) Thus, nonprofits are an essential feature of civic and economic life today. As Brian O’Connell reminds us in *Civil Society: The Underpinnings of American Democracy*, nonprofits are links between individual, community, government, business, and other entities. (4)

The linkages described by O’Connell seem particularly reflective of the missions and operations of smaller and community-based nonprofits. Another participant observed that they are the “connecting points” between people from different backgrounds and ages, people and opportunities, and people and other sectors. Community-based nonprofits are the basic glue for these connections and therefore are key in providing services, triggering and sustaining civic spirit and volunteerism, and supporting local economies. These kinds of linkages makes this sub-sector a sort of buffer, or safety-net, for the effects of inequality and poverty in the state for thousands of children and families, and other groups.

The timing of this study is consistent with political and economic developments that are changing the traditional relationships between state government, nonprofits, and foundations. The shift of governmental responsibilities from the federal government to the states, economic transformations, and changing demography are producing tensions between these

sectors, sometimes resulting in nonprofits –and, especially community-based organizations– becoming targets of growing concerns expressed by civic and business leaders. Population changes, fluctuations in national and state economies, and calls for utilization of faith-based organizations and free-market approaches in the delivery of public services all mold how effectively community-based organizations pursue their missions to help people at the neighborhood level.

Community-based nonprofits must carry out their missions within a context of fiscal cutbacks, widening income gaps, increasing skills gaps, increasing needs for services, all while government is scaling back. Concerns are nevertheless being raised by a range of voices. They include questions about the impact, or lack thereof, of community-based nonprofit services on social and economic problems. Some people are suggesting that these nonprofits operate without regarding the effectiveness or impact of particular service-related strategies or approaches. Nonprofits are perceived by some observers as lax in seeking organizational efficiencies to reduce repetition or duplication of services. There are concerns about redundancy as a consequence of rapid growth of this overall sector; and concerns about the degree of dependency of nonprofits on state government and foundation funding. And, there are growing concerns about abuses in how foundations, as nonprofits, are used by some individuals and families to avoid taxation without the expected corresponding commitment to meeting a public purpose. The latter taints negatively the public support for all nonprofits. In many cases, these concerns arise due to an understanding of the mandate and burdens carried out by community-based nonprofits, but also to a lack of collective and loud voice on the part of this sector.

Others are worried that nonprofits are treated as monolithic regarding problems like corruption uncovered about a few foundations. A recognized national leader of the foundation sector, Emmett D. Carson, observes that “...a growing disconnect between the public’s expectations for nonprofit organizations and the operational realities faced by nonprofit organizations” facilitates a situation where negative issues “...raised about any nonprofit organization seems to be used against all nonprofit organizations.” (5) This means, for instance, that stories about corruption in relatively large foundations or nonprofits inevitably spill in terms of negative misperceptions about other nonprofits regardless of their work or impact, or efficiencies.

It is not surprising that a recent survey, reported in the *Chronicle of Philanthropy*, shows “an erosion of confidence in nonprofit organizations” (6) Two factors feed public discontent with this sector. First, there are the periodic exposes about the organizational abuses among nonprofits. It is easy for the public to overlook the work of the overwhelming majority of organizations not associated with abuses when a negative story about one nonprofit is reported. A series on the part of the *Boston Globe* about abuses in private foundations is a case in point. The series focused on mismanagement and abuse of trustee privileges on the part of some private foundations. In fact, these private foundations are very different than the smaller and community-based nonprofits pursuing public charity. They have lots of more money, and lots less accountability. But in the minds of some readers they are probably all thought about in the same way, because the general public knows little about the diversity of this sector. (7)

A perception highlighted during this study is that community-based nonprofits “do themselves in” when they respond to the funding environment in ways that reflect a cutthroat competition for support from foundations or the state legislature. Rather than considering how to work together to obtain funding, these organizations simply do their own thing –and may be successful at it- but at the expense of other community-based organizations that could be partners in dealing with and impacting community problems. This is not intentional on the part of nonprofits but rather reflective of the way state government, foundations, and nonprofits operate in today’s setting. The perception arises, also, because community-based nonprofits have yet to present a collective face to the public or state government, or to foundations.

Foundations and State Government

The policies and practices of foundations and state government have significant impacts on the status and future of community-based nonprofits. Foundations influence the fiscal and organizational capacity of nonprofits through funding decisions, public relations, and prioritization (and consequent fiscal support) of ‘methodologies’ for resolving social and economic problems. They provide resources that are basic to the work of community-based organizations in responding to increasing social and economic demands. In this way, foundations indirectly influence the nature of relationships between state government and nonprofits. Program and strategic goals established by foundations have a substantial impact on decision-making on the part of local community groups. Although foundations have been consistent supporters of community issues, they are criticized for not understanding fully how to help community-based organizations become stronger. Today, for instance,

foundations are urging higher standards of operations and efficiencies upon nonprofits while overlooking that they have been major funders of these organizations and therefore are partially responsible for earlier inefficiencies and ineffectiveness. Others, including a foundation representative, have criticized the call for accountability on the part of foundations that only involve “a one-way street where the foundation insists on program accountability, but does not act in ways accountable to the community.” A complete discussion of accountability should also include the effects of single year grants; not funding operational costs of organizations; and, providing larger grants to larger institutions though the greatest need for services are being responded to by smaller community-based nonprofits.

There is increasing public attention regarding what is, or is not, an appropriate level that foundations should meet in terms of grant-making on behalf of the public. On one side of this issue are people who believe that focusing on obtaining more funding from foundations is misguided: “There is a perception out there that foundations could do more to help nonprofit organizations. The reality is that foundations are not able, nor will they ever be able to close the gap of government funding to the social sector” according to one participant. On the other side, there is a criticism of public foundations as losing their “moral compass” to use the phrase of one interviewee, and instead “acting to protect endowments at all costs.” This debate re-emerged with the introduction of federal legislation to revise the current practice of allowing foundation to count administrative expenses as grant-giving. One bill called for removal of administrative and operating expenses from the calculation of charitable distributions on the part of foundations. It would have required the minimum 5% payout to consist solely of grants. While a recent compromise in the U.S. House of

Representatives regarding this legislation may make debate moot, continuing economic pressures indicate that these questions will continue to be discussed and debated by legislative bodies, and foundation and nonprofit circles. (8)

The status and future of community-based organizations and foundations are intertwined; this is the case for nonprofits and state government, as well. Certainly state government is limited in terms of its own fiscal capacities in responding to the growing demands faced by nonprofits. Indeed, state and local budgets have required delicate balancing acts over the last several years in ways that point towards continual reductions in support for nonprofits. Nevertheless state government is the major buyer and consumer of human services provided by nonprofits. State government represents an important arena for supporting and encouraging comprehensive strategies for collaboration among nonprofits and with other sectors.

State government can help the public become aware that building the capacity and effective impact of this sector holds benefits for government and business interests. It is for these reasons that journalist Rob Gurwitt proposes that government and nonprofits are now inseparable. He observes, “ In fact, at the local level at least, what we think of as ‘government’ has become something much more complicated than that. It is an amalgam, a mix of public agencies, nonprofits, businesses, foundations, universities, religious organizations and neighborhood groups that, to one extent or another, come together around a particular problem. Economic development, education reform, housing the mentally ill, even policing-all depend on joint action. But dependent as government has become on other

parts of the community to help it meet its goals, the reverse is equally true.” (9) This is evident in the numerous laws and regulations that link the state and nonprofits, and other sectors.

The role that government decides to perform, or not, regarding delivery of goods and services affects directly what many community-based organizations can, or cannot, do in neighborhoods. As noted by Phillip Boyle and Gordon P. Whitaker, “Government is still the only institution with formal authority to act for all the people, but increasingly government discharges much of that responsibility through nonprofits or businesses. One consequence of this transformation is that roles and responsibilities of the three sectors overlap. This can increase tensions among the three sectors, but also increase opportunities for collaboration.”(10) At a broader level, elected officials have influence on nonprofits through control of resources and line item designations in the state budget. Government influences the activities and reach of nonprofits by the adoption and implementation of business and corporate regulations, including taxation policies and practices. State government can serve as advocate on behalf of nonprofits before the general public and corporate leaders. It has bearing on nonprofits through the appointment of commissions and citizen bodies that review and evaluate the work of nonprofits. (11)

These three sectors are certainly linked through business and taxation regulations, as well as provision and monitoring of state contracts and grants. Determining how community-based nonprofits, state government, and foundations can work together more effectively, however, goes beyond discussions about state budgets, or legal and regulatory frameworks, or simply

providing more money to nonprofits. (12) These sectors should be treated as equal stakeholders in civic dialogues and debates about the most effective ways of responding to public needs. State government, foundations, and nonprofits are part of an intricate set of political, economic, and institutional relationships that fundamentally affect living conditions for many individuals, groups, and communities. It is important, therefore, to remember that civic discourse and debate about strengthening community-based organizations must include the participation and partnership of all three sectors. Strategies and actions solely directed at proposed changes for community-based nonprofits represent an incomplete picture for strengthening these partnerships. State government and foundations must be part of the change process.

Contributions of Community-based Nonprofits in Massachusetts

Massachusetts' community-based nonprofits play vital roles beyond the delivery of services. They help to build social capital and facilitate civic engagement for residents and new groups in local settings. And they are vital economic resources. Nonprofits operating in neighborhoods generate social capital in maintaining personal, familial, and community networks associated with the distribution of many kinds of services and resources. Nonprofits help to build “long term relationships of trust and reciprocity,” “shared visions,” “mutual interest, “ and “financial nexus” and that are necessary for the effectiveness of neighborhood revitalization and reach of human service activities. (13)

The Massachusetts Aging Services Organization, Inc., conducted a “social accountability” survey that illustrates how nonprofits contribute to the building of social capital and civic capacity. (14) They contacted 51 administrators of nonprofits that provide social and health services to elderly persons and inquired about their civic contributions. They asked what ‘other’ kinds of activities are offered in addition to the direct services. The list included activities such as making charitable contributions/donations; providing English classes for employees; volunteering for community services such as Toys for Tots, and cultural activities; donating land; mentoring; volunteering in schools and hospitals; and participating in fundraising activities. These responses represent one example of how nonprofits provide venues for volunteering, sharing information with residents and citizens, and generally supporting community efforts.

By tapping social capital at the local level, it is the community-based nonprofits that expand

civic capacity. While social capital focuses on individual relationships that are healthy for bonding people together and increasing civic involvement, civic capacity has to do with the way in which different individuals and groups work together on behalf of specific public interests or issues such as improving public schools and housing, or increasing public safety.

(15) Since nonprofits are a glue for connections between people, institutions, and government, -social capital- they become a critical component in the building of civic capacity where residents can become empowered to help in improving living conditions.

It is the community-based nonprofits that play a major role in the assimilation of people and new groups into society. This includes work with immigrants as they seek to become part of the social and economic fabric of communities. They help individuals become connected with mainstream institutions in productive ways. A case in point is the role that nonprofits play in re-introducing rehabilitated prisoners into their communities. One report concludes that community organizations that integrate former prisoners into neighborhood settings are necessary for successful rehabilitation as productive citizens. The report calls for policies that “Maintain and expand programs that reconnect offenders to their communities on a positive, law-abiding basis, including transitional and post-incarceration support to inmates who complete their terms.” (16) An implication of this observation is that community-based nonprofits are probably more efficient in rehabilitation of some former inmates than are government agencies precisely because the former involves individuals in a web of the social capital of a community.

Similar to the situation just described, some community-based nonprofits provide basic

services in ways that government cannot. One reason for this situation is that many times clients require closer contact and interaction than what government agencies, serving many people, is capable of providing. Two examples include the Women Against Aids Council in Roxbury, Massachusetts, and, Arlington Trabajando, Inc. in Lawrence, Massachusetts. Both organizations, one in health and the other involved with neighborhood revitalization, reach clients who otherwise might not be served by larger and more bureaucratic public agencies. Their clients require information that crosses many boundaries. Government, or the private sector, are not structured to do this as well as nonprofits.

Community-based nonprofits assist government in making impoverished and working-class residents and citizens aware of important benefits that can improve their living conditions and thereby integrate these groups with mainstream institutions and processes. Nonprofits programmatically connect the availability of social welfare with outreach and accessibility. Although social services are officially available and targeted for groups, service inaccessibility can still be a problem due to lack of information or know-how about applying for services. Sharing information about the Earned Income Tax Credit and assistance in applying for this benefit is a case in point. (17) A number of local and successful campaigns to encourage eligible families to apply for the earned income tax credit resulted from city governments working in alliance with many smaller and community-based nonprofits. These organizations have an ability, sometimes missing in government and the private sector, to “explain” policy and related services in ways that are culturally, socially, and linguistically resonant with the target population.

Community-based Nonprofits as an Economic Resource

Nonprofits are not formal businesses, of course. As explained by Ruth McCambridge and Lester M. Salamon, it is not possible to make nonprofits act as if they are for-profit entities. They have different revenue and cost structures, are not taxed and do not operate in a free market, which sometimes prevents leaders from viewing nonprofits as economic entities or resources. (18) It is shortsighted to overlook the fact that nonprofits have an enormous economic impact on communities. Another kind of impact is the money that nonprofits ‘save’ for government. Community-based nonprofits have greater organizational flexibility than state agencies and thus can tackle new challenges more quickly in some cases. (Unfortunately, this sector also saves government funding because its workforce is underpaid, given its responsibilities). Wolpert explains that “Through donations and efforts of volunteers, nonprofits reduce the financial burden on local government.” (19)The sector raises and receives hundreds of millions of dollars every year and spends vast funds on health, education, housing, recreation, the environment, the arts, and other areas. There are literally thousands of people employed, and tens of millions of dollars, both public and private, that are expended by nonprofits to meet basic human and economic needs. As local entities, and as do businesses, they too contribute to the community by spending money and increasing the disposable income by paying wages, rents, fees, and taxes. At the very local level, community-based organizations help to make neighborhoods more livable and attractive to businesses and have become a channel for the employment of disadvantaged workers, women, and people of color.

Nonprofits are not only major employers, but part of an employment sector that is projected

to grow significantly. Further, nonprofits train a considerable portion of our workforce. Indeed, nonprofits are major suppliers of workforce development in the state. Approximately 75,000 residents per year receive workforce-related services and training in Massachusetts. The Massachusetts Workforce Alliance reports in *Workforce Development: A Diverse Provider Network Meets Diverse Workforce Needs* that nonprofit community-based organizations represent more than half (53.0 percent) of all organizations that provide such services. (20) Community-based nonprofits play a major role in training immigrants in this state. This is important because as noted in *The Changing Workforce: Immigrants and the New Economy in Massachusetts*, immigrants are a key source of labor and have helped to keep the New England economy competitive. (21) Much of the training and education received by immigrants is taking place with local nonprofits.

Nonprofits operating in neighborhoods contribute to the building and maintenance of physical infrastructure. They invest considerable resources in the expansion and improvement of physical infrastructure in Massachusetts. In the area of housing the accomplishments are notable. The Massachusetts Association of Community Development Corporations states in its *Production and Pipeline Report*, that nonprofits have started and developed 72 commercial and mixed-use real estate properties, contributing to the creation of 1,455 jobs being created or maintained. In 2001 alone, community development corporations and other nonprofits built and produced 950 affordable housing units; and, during the 1999-2001 period provided job counseling and training to thousands of people. (22)

Expenditures for physical infrastructure help to attract external resources (such as visitors and tourists) producing ‘cluster effects’ that strengthens small businesses and makes areas more attractive for investments. As one example of how a nonprofit, though not a business, can nevertheless attract business investments, The Initiative for a Competitive Inner City, notes that “...Boston Franklin Park Zoo has the opportunity to serve 1 million visitors annually and employ approximately 210 people.” (23) This is a considerable achievement in terms of what these visitors spend and learn about this part of the city, and the employment of a local and young labor force. Cultural institutions can have a positive impact on local economic development and neighborhood revitalization.

This is also the case with community-based nonprofits. A national study commissioned by The Brookings Institution Center on Urban and Metropolitan Policy calls for strategies aimed at strengthening connections between these kinds of nonprofits and businesses. Based on a comparison of three cities (Cleveland, Indianapolis, and St. Louis), William T. Bogart found that local places with healthier nonprofits and strong partnerships with businesses are associated with more impressive economic activities. As he states in *Civic Infrastructure and the Financing of Community Development*, “Beyond subsidies themselves, the partnerships between private for-profit firms, private nonprofit firms and foundations, and public agencies that often help make these subsidies work are an important dimension of development in urban areas”. Karen Phillips, president of Abyssinian Development Corporation in New York, notes that this kind of arrangement is beneficial to the community, nonprofits, and businesses: “The public sector works with nonprofit groups to set the stage for the private sector to operate effectively at a profit.” (24) This occurs according to the

Bogart because, "...nonprofit organizations play an important role in not only channeling capital to projects that need it, and, in giving the market-rate sector faith in the viability of investment in low-income areas. Successful and respected nonprofit corporations lure commercial lending into distressed areas with the carrot of profitable investment." (25) Thus, nonprofits are an important key for the design of sound local economic development initiatives.

In many neighborhoods across Massachusetts it is community-based organizations who providing leadership and resources, and 'staying-power' to revitalize communities. The sector helps to identify problems and challenges facing neighborhoods; it collects and distributes information about government opportunities; it involves local businesses in developing revitalization strategies; it provides the training for development of entrepreneurial skills; it helps to train a local workforce; and, it serves as a nexus for necessary financing of various types of neighborhood redevelopment projects. Community-based nonprofits in Massachusetts served 4,648 entrepreneurs in the 2001-2002 period. This included 1,200 entrepreneurs described as low or moderate income. These nonprofits helped to start 108 new businesses, expand the capacity of 354 businesses, and created or helped to retain 720 jobs. (26)

Government and higher education initiatives established to encourage the growth of small businesses are discovering that they have to work closely with nonprofits in order to meet their missions. For example, the executive director of the Martin Luther King, Jr. Business Empowerment Center in Worcester, Robert Thomas, works and provides assistance to

nonprofits in addition to small and local businesses. Endorsing strongly the idea of collaboration and linkages between the business and nonprofits sectors his center provides numerous services, including computer training, business assistance to clients referred by nonprofits, and has rented office space to nonprofits. The Center has worked with the Red Cross, the United Way, Aids Project Worcester, Centro Las Americas, and other nonprofits in order to meet fully its mission of helping small businesses.

Another program, the HUD/Community and Enterprise Development Center based at Northern Essex Community College in Lawrence, Massachusetts has had a major impact in offering capacity-building activities and resources for the benefit of a growing number of Latino businesses and micro-enterprises. Unlike initiatives to help businesses but only work with businesses, this Center works with nonprofits, as well, as a way to meet its mission . The director of the Center, Ms. Mayte Rivera, states that her Center has “assisted and worked with Women’s Resource Center, Casa Dominicana, International Institute of Greater Lawrence, and others. The Center has provided board development workshops, strategic planning and technical assistance related to fundraising. We found that we can strengthen small businesses in neighborhoods by assisting community-based organizations with leadership development, expanding their funding opportunities, and other activities that help nonprofits reinvest their resources in local businesses.” These are two examples showing that efforts to help small and local businesses should involve community-based organizations in the neighborhood. Both initiatives approach this sector as a key component for expanding the capacity of local businesses. This all suggests that these kinds of nonprofits perform multi-level and multi-faceted functions for local communities, and should be treated as key

pieces of civic, political, *and* economic strategies at the local level.

Achieving Greater Accountability

The issue of accountability is partially captured by a query posed by an interviewee: “When should a nonprofit go out of business? Do they ever?” The implication here is that nonprofits have an existence divorced from the matter of organizational inefficiencies or impact on a particular problem or issue. This observation is merely a perception. Much more hard data regarding the demise or closing down of nonprofits has to be collected before definitive conclusions can be made about this matter. The query is a bit of a non-sequitor, however, since nonprofits are not businesses. This does not mean that the continual reach for efficiencies should be abandoned; nonprofits must continually seek the ‘most bang for the buck.’ But nonprofits cannot pursue accountability effectively if they try to replicate the processes associated with formal businesses in pursuing the bottom line –and clients don’t ‘buy’ their services. Perhaps the more appropriate query, and one that gets to the point, is how can community-based organizations use the current political and fiscal context to achieve quality accountability in terms of efficiency and effectiveness, and impact on the problems they are trying to solve? Accountability for community-based nonprofits has to be posed differently than simply asking when do they go out of business?

Accountability in this context is different than merely holding elected or appointed officials accountable to a public interest. Political scientist Jeffrey Berry and colleagues note that “Citizens can decide not to re-elect a state official who has failed to deliver what they want; they cannot similarly vote out of office the executive director of a nonprofit who has failed to deliver what they want. Indeed, . . .nonprofit organizations are not especially accountable, transparent, or democratically governed institutions.” (27) Actually, there are many laws that

require procedures aimed at monitoring and proscribing fiscal and organizational decisions and actions of nonprofits in Massachusetts. Chapter 12 and Chapter 68 of the Massachusetts General Laws include numerous sections describing legal procedures and penalties for public charities that cover definitions, liabilities, filing requirements, solicitations, and governance (see, www.ago.state.ma.us). Accountability for nonprofits, however, includes this kind of monitoring but much more.

In addition to ensuring that organizations fulfill grant and contracting requirements, the literature indicates that a comprehensive approach towards increasing accountability for community-based nonprofits includes:

- *the degree of responsiveness to the wishes of the public;*
- *continual efforts to work effectively with other sectors;*
- *developing capacity for showing impact of activities;*
- *nurturing an active and participatory board of directors; and,*
- *; involving citizens and clients, and stakeholders, in decision-making.*

Douglas Imig, a Professor at the University of Memphis believes that yet another component of nonprofit accountability is a satisfactory balance between meeting client needs and chasing grants solely in response to the resource environment. This sentiment was echoed in many of the interviews. Some respondents noted that the very missions of some nonprofits have changed as a result of organizations focusing on where the grants are, versus the original reasons for which their organizations were founded. Thus, a critical component of accountability for nonprofits can be summed up in the famous Shakespearian quote, “Above

all, to thine own self, be true”!

Under a more comprehensive approach to accountability nonprofits have to reassess how to improve their interaction with the public and convince it that it is doing an important job. Many people who are otherwise supportive of nonprofits expressed concern about the perceived insularity of some organizations. They want community-based nonprofits to remain cognizant of the actual needs of residents -as defined by the residents. This particular issue was highlighted in a study reported in *The Nonprofit Quarterly*, “Do You See What I See?” It is based on a survey and interviews in a Philadelphia neighborhood comparing the perceptions and policy preferences of nonprofit leaders and local residents. The study discovered a “disturbing gap...challenging the assumption that community-based organizations are on the same page with the resident populations they serve.” (28) This finding is echoed in the many comments on the part of local activists and leaders that nonprofits in community settings have moved away from their original social change missions. Much of this has to do with the needs of ‘chasing dollars’; another part may be due to successes that lead to routinization. What is clear is that community-based nonprofits must again consider their work and operations in light of the overall well-being of communities, and how residents in these communities defined their well-being.

One participant in the study offered a tool for strengthening the choices and involvement of clients with decision-making on the part of nonprofits. At a public forum facilitated by the author in the Fall 2003, Dr. Elena Letona, the executive director of Centro Presente, an organization providing immigration assistance in Cambridge, Massachusetts, called on

nonprofits to adopt different attitudes towards low-income clients and their communities. She raised questions about the assumption on the part of some nonprofit organizations and leadership that clients do not have the capacity or willingness to help or become involved as volunteers and stakeholders in the planning and implementation of services. She uses the example of her own organization to prove otherwise. It instituted fees for some services at very low cost for clients. A few individuals expressed concern about this because it might weaken the public service mission of the agency, or not really produce a significant amount of revenue. While this is not a response to the need for increasing revenue, it is a way of ensuring that *clients are treated as consumers* of the services of the agency. One result of this policy is that it makes the agency more legitimate and representative of the community since they feel some ownership.

Gus Newport, a highly respected civic activist and former elected official, who has worked with many national and local nonprofits senses smugness on the part of some community-based organizations. Due to success in establishing the organization and meeting its mission and goals, the leadership becomes routinized and impermeable to ideas that call for change. This tends to inhibit creative strategizing about meeting systemic challenges, or allowing new people to assist in the strengthening of the organization.

Another interviewee described some well-established neighborhood-based nonprofits as, “arrogant”. It is this kind of situation that led to the suggestion of an interviewee: “They have to become more relevant to the communities they serve. They have to allow more direction and control from the community and from its users. This is critical if they are to

recover at least some of the communities' support and respect.” This does involve a balancing act for nonprofits. As the sector seeks stability, organizational efficiency, and higher levels of professionalism it has to maintain and even strengthen its linkages, openness, and accountability with communities in which they seek to provide services.

In order to improve relationships and interaction between nonprofits and the public the Maryland Association of Nonprofit Organizations adopted a “Standards of Excellence: An Ethics and Accountability Code for the Nonprofit Sector.” These *Standards* (that include 8 guiding principles and 55 performance benchmarks) have been used to recruit nonprofits pledging to adhere to them, but have also been widely publicized and supported by corporate and government leaders. The Standards outline steps for ensuring clear connections between stated mission and program activities; democratic and participatory governance; conflict of interests; respect and support of human resources, including its workers and volunteers; sound financial practices; openness with public regarding organizational activities and finances; ethical fundraising; and encouraging participation in public affairs. Each of these general areas is accompanied by specific practices that nonprofits agree to implement on a voluntary basis. (29)

Civic leaders in local communities, representatives of faith-based organizations, legislators, and the media should be continually aware of the daily and routine impacts of nonprofits on the well-being of residents. Nonprofits have to keep the public informed about its activities and impacts in order to become more effective political players. The advice is similar to one in a report by Lydian Altman-Sauer, Margaret Henderson, and Gordon P. Whitaker,

Strengthening Relationships between Local Governments and Nonprofits where the authors urge nonprofits to “Pay attention to the workings of the whole community, not just your client population...Create and maintain your organization’s place in the fabric of the whole community...Be a steady presence as a knowledgeable resource on your issue...stay informed on current events and personalities in your community...Regularly attend and contribute to community meetings, even if there no obvious or immediate benefit to your organization.” (30)

Achieving and reflecting accountability on the part of community-based nonprofits has to be pursued within a “cycle of accountability” to use the words of Trinh Nguyen, the director of fundraising for the Boston Women’s Fund. The call for accountability on the part of nonprofits has to be matched with enhanced sense of accountability on the part of foundations and state government. This means that achieving accountability has to take place in a context of building relationships of trust between foundation and nonprofits. The mere call for accountability cannot be viewed as a quick fix for responding to major challenges. Achieving accountability requires thoughtfulness and support, and respect, for how the nonprofit wishes to pursue the implementation of its mission.

Heeding this forewarning will help avoid a problem that can arise easily in the call for accountability. Horace Small, the executive director of United Minority Neighborhoods, an organization that provides training and technical assistance to many neighborhood-based nonprofits in Boston, points out that this burden is especially heavy for nonprofits working in low-income and communities of color. Nonprofits working in these areas tend to be smaller

and have fewer resources, and more dependent on state and foundation dollars for the delivery of services. Only a comprehensive and multi-level approach, and where nonprofits, foundations, and state government are acting as partners and even peers, can guarantee that the call for accountability will not be borne unfairly by nonprofits seeking to help the most vulnerable groups in our society.

Nguyen's call is supported by growing number of statements urging foundations to also increase their own institutional sense of accountability. In a forum sponsored by the Boston Foundation on November 14-15, 2002, Joel Fleishman, a Professor of Law and Public Policy Studies at Duke University, states: "Because foundations do not have to raise money to survive, they do not have the built-in accountability mechanisms of nonprofit organizations, which must answer to their donors and often to their clients...Foundations insist that grant-receiving nonprofits be accountable to them, but to whom are the foundations themselves accountable?" He provided a response to this query: "To no one but their board, the IRS, and the state attorney general, none of which does, as a general rule, an acceptable job of accountability enforcement." (31) This lack of accountability on the part of foundations to the public encourages foundations to pursue decision-making in response to scarcer resources in the same way for which they criticize nonprofits. They too overlook Prof. Imig's warning that community-based nonprofits should not respond solely to the resource environment and forget the essential features of their missions.

State government, as a key partner working with nonprofits, must practice what it preaches regarding accountability. One participant opines that state government can actually

discourage a more sophisticated view of accountability due to its, “narrow definition of public accountability.” Government defines accountability by “its focus on whether contractors, or nonprofit organizations, are meeting requirements that largely relate to their financial and management capacity...government agencies traditionally rely on process measures, such as number of clients served, to determine success”...in this way, “quality and effectiveness of programs are not as emphasized.” (32) Another interviewee criticized state government for being less preventive-oriented in its approaches and more reactive; this same person noted that state government operates in a costly “crisis mode not preventive mode.” Another person complained of state agencies’ preoccupation with “reams and reams of paperwork” rather than rewarding organizations to adopt creative and effective approaches regarding certain problems. State government is a necessary component for helping to increase accountability on the part of nonprofits and therefore it must continue to move from simply measuring outputs towards giving more weight to effectiveness and impact.

Key Challenges Facing Community-based Nonprofits

One of the leading national experts on nonprofits, Lester M. Salamon, notes that this sector faces substantial pressures including fiscal strains, increasing competition with other for-profit sectors, impact of technological changes, and, increasing concerns about the quality of the nonprofit workforce. (33) Some of these challenges are similar to those raised in interviews and meetings with the author about community-based nonprofits. They include, 1) responding to the consequences of devolution and fiscal crisis; 2) strengthening nonprofit internal capacity; 3) expanding and enhancing programmatic *and* strategic collaboration; and, 4) understanding how to utilize more fully the economic potential of nonprofits.

Responding to Devolution of Federal Responsibilities to the States

It is nonprofits situated and operating in neighborhoods that are on the frontlines of responding to increasing public demands even while resources are becoming scarcer. This places community-based organizations in a precarious position. Higher public expectations regarding the continual operations and impact of nonprofits become more intense when resources become scarcer. This kind of burden increases as a result of reductions in federal and state funding; scarcer foundation and corporate giving; increasing service demands; and, increasing competition from faith-based organizations seeking to expand their role in the delivery of the goods and services that have been traditionally the domain of local and state government.

Recent developments such as these have adversely affected many smaller nonprofits in Massachusetts. Community-based organizations have had to reduce services to clients, cut

staff and operational costs, and dismiss workers over the last several years. According to a survey of 40 human service agencies conducted by GT Management and the United Way of Massachusetts Bay in 2002, the current fiscal crisis has forced agencies to reduce or freeze staff salaries and benefits; reduce services; and consider the possibility of mergers. While mergers are not inherently bad, they should be born of strategic considerations aimed at efficiencies and impact rather than as a consequence of fiscal crisis facing organizations. (34)

The author conducted an informal email survey with the assistance of Karant Associates in the summer of 2003 of 65 nonprofits throughout Massachusetts that work in the areas of rape crisis assistance, public health, youth and employment-related services. The survey aimed to gather information regarding program closings or service reductions, and programmatic responses on the part of organizations. Nonprofits across Massachusetts were asked if any programs have been reduced or eliminated as a result of cutbacks in state or foundation funds. The survey responses indicate that more than half, or 52.0 percent, were forced to close entire programs or reduce services to low-income clients; another 29.0 percent of the respondents in this survey reported the need to reduce staff and budgets in 2003. (35) This situation is not totally unexpected. An earlier study focusing on Boston predicted these kinds of effects on smaller and community-based nonprofits as a result of reductions in public support. (36)

Regardless of the fiscal state, contracts totaling billions of dollars are still issued to nonprofit agencies. The Massachusetts Taxpayers Foundation reported that state government issued more than \$2 billion in state contracts involving more than 1,100 human service providers in the 2003 fiscal year. (37) Some of the biggest state agencies, such as the Department of

Mental Retardation, Department of Social Services, and the Department of Mental Health, spend more than half of their budgets on purchased services. One state agency reported working with 240 providers across the state in 2002. More recently, Steve Kadish, Undersecretary, Executive Office of Health and Human Services, pointed out that “there are about 2000 POS providers with state contracts with about 2.5 billion worth of services annually, or about 10% of the state budget. This has grown over the last 30 years –from very little to now a major business delivery component.” He opined that this is a result of nonprofits becoming an important partner with government in the delivery of quality services. (38)

The state system for retaining nonprofits to provide services has been criticized by many, including state officials, as inefficient. Reasons for this poor evaluation include the fact that state contracts for individual providers involve much red tape and represent, as per one observer, “layer, on layer, on layer of rules” aimed at monitoring inputs in terms of dollars provided rather than on impact. Individuals raised problems with confusing and inconsistent information about potential contracts for services. Nonprofit providers believe that they are shortchanged in terms of required agency practices and reimbursement for services.

Criticism is lodged at the requirement that client services reimbursement are tied to “origin of contract” and thereby ignores increases in service costs. Related to this problem is the fact that government spends money through categorical programs. The rationale is that government needs to provide *x, y, z*, services. But this produces a ‘silo effect’ according to Geoff Beane that are not necessarily based on community needs, or comprehensive responses to community needs. Instead, these silo effects reflect narrow political and agency decisions.

Another practice that is a target of criticism is the imposition of new mandates or change orders, or regulations, that are not reimbursable but represent additional operating costs to nonprofits. A foundation representative reiterated concern about this matter. She claimed that state government tends not to reimburse nonprofits for what contractual services actually cost. In effect, this means that nonprofits have to turn to foundation resources to subsidize unmet costs for services provided to state government. Foundations, however, are reluctant to support overhead or operating costs versus program support. Based on experiences with Latino nonprofits Prof. Miren Uriate noted that these kinds of problems put smaller nonprofits that are serving low-income populations at a disadvantage.

The need to reform the Purchase of Service (POS) system is supported widely. A report issued jointly by the Massachusetts Taxpayers foundation and the Massachusetts Council of Human Service Providers, Inc, *Reforming the Commonwealth's \$2 Billion Purchase of Human Services: Meeting the Promise for Clients and Taxpayers* calls for coordination in the provision of services; access to accurate information; consistency between prices offered for services and performance and quality of service; focusing on results and impact versus outputs; eliminating unnecessary requirements in service contracts; and generating savings from economies of scale through use of a 'lead agency' approach. Currently, the Executive Office of Health and Human Services is examining some of these recommendations and collecting input from several working groups it has appointed for this purpose.

Strengthening Nonprofit Internal Capacity

Participants identified four strategies for strengthening internal capacities of nonprofits within the framework of accountability explained above. These include:

- *designing tools for measuring various kinds of impacts;*
- *planning and implementing strategies to attain funding diversity;*
- *developing comprehensive leadership to represent the organization and mission; and,*
- *expanding professional development for the nonprofit workforce, and the salaries paid to its workers;.*

Measuring Impacts

Many individuals and groups are calling for nonprofits to pay more attention to outcome measurements in order to show impact. Outcome measurements, versus input/output measurements, focus on whether services are making a difference. Ellen Lazar, former President of the Neighborhood Reinvestment Corporation in Washington D.C., an organization that has devoted substantial attention to this issue, exclaims, "...we must answer the question how effective are we? Many foundations, financial partners, and intermediaries are pushing for answers. At the root of the question is accountability. As community development nonprofits, we are entrusted with substantial public and private resources, for which we must be vigilantly accountable. Outcome measurement techniques determine not only if funds have been spent appropriately, but also what impact the resources have made. Are neighborhoods safer? Are families more stable financially? Are housing opportunities available to families in need?" (39)

An article by John Sawhill and David Williamson, "Measuring What Matters in Nonprofits" states similarly that "Every organization, no matter what its mission or scope, needs three

kinds of performance metrics –to measure its success in mobilizing its resources, its staff’s effectiveness on the job, and its progress in fulfilling its mission.” (40) And Elaine Morley, et al., write that outcome measurement “...involves the identification of outcomes; development of appropriate outcome indicators and data collection procedures; data analysis to better understand organization achievements; and user-friendly, regular reporting of the findings.” It is this kind of data, rather than simply monitoring of activities that can “...help nonprofit managers or constituents understand *how well they are helping their client*” (41)

The Neighborhood Reinvestment Corporation has developed guidelines and indicators for assessing activities and impact of organizations in the areas of housing, economic development, and community building. (42) Elements of a beginning process for measuring outcome include a) determination of major challenges or needs facing communities; b) assessment of connections between nonprofit mission and needs of the community; c) adoption of goals and objectives aimed at a community challenge or problem; d) determination of measurable indicators and data to measure goals and objectives; and, e) sharing results with a range of stakeholders in the community, but also state government and foundations.

Attaining Funding and Revenue Diversity

Community-based nonprofits have to balance continual operations and maintenance of quality in the delivery of services with increasing demands, but without accompanying increases in resources, or even reductions in resources. This is why Klare E. Shaw, a Senior Associate at the Barr Foundation, urges community-based nonprofits to conduct internal

reviews to determine how costs can be reduced, or controlled; consideration of changes in staff or program structures; seeking affiliations with other nonprofits in order to cut costs; identifying in-kind goods and services; and, generate higher levels of donations.

Almost everyone agreed that nonprofits have to reflect a mix of funding sources in order to enhance their organizational stability and impact. (43) This is a key urging for community-based nonprofits. As observed by the former President of Dimock Community Health Center, Dr. Jackie Jenkins-Scott, at the panel described earlier, "We have not resolved how we reconcile mission-driven organizations with the [need] to be bottom-line organizations." Her fellow panelist Joanne Jaxtimer, First Vice President and Director of Corporate Affairs at Mellon New England, reiterated this call: "Just as we advise clients to diversify their portfolios, we advise clients in the nonprofit sector to think creatively about how they diversify their funding sources." This means that nonprofit leaders need to develop strategies to diversify the funding base as a way to strengthen their organizations and increase the impact of their services.

Terms like 'strategic philanthropy', 'social ventures', and 'social entrepreneurship' were mentioned by some interviewees as broad strategies for accomplishing this kind of objective. *Strategic philanthropy* calls for foundations and corporations to become more investment-oriented and targeted in how they work with nonprofits. Implicit in this call is the belief that approaching grant making as an investment creates value. (44) *Social Venturing* involves tapping of donors to use investment strategies to support socially worthy, and efficient, enterprises. Organizations like New Profit, Inc. and Social Venture Partners, seek to pool

resources of philanthropists and donors in order to invest in nonprofit organizations. But their approach does not involve merely providing a grant. A relationship is established between the venture firm and the nonprofit that allows the former to share its organizational expertise. Finally, *Social Entrepreneurship* refers to individuals who, according to Andrew M. Wolk, president of Root Cause Institute, are "innovative, resourceful, and results oriented addressing the root cause of a social issue. As leaders, social entrepreneurs draw upon the best thinking in the business, nonprofit, and public policy worlds to develop strategies that maximize their social impact." (45)

There are numerous examples of successful commercial ventures on the part of nonprofits that reflect various features of strategic philanthropy, social ventures, and social entrepreneurship. But, let's not make the mistake of adopting the call for social entrepreneurship as a panacea for resolving serious problems facing communities and key challenges facing nonprofits. This is just one possible tool and its applicability on many factors. An overview of select examples of social entrepreneurship point to various factors associated with the possibility of this development among nonprofits.

At least five components are required for smaller and community-based nonprofits to be capable of exploring and taking advantage of entrepreneurial opportunities. One component has to be a reliable and stable fiscal and programmatic infrastructure. Another is flexibility in decision-making in response to changing conditions, challenges, and opportunities. Third, there should be research and development capacity in the organization. Fourth, an organization has to have staff members with the skills, *and time*, to engage in research-

related activities. The fifth element is the acknowledgement on the part of the leadership of nonprofits, including executive director and board, to conduct long-range planning and take risks without violating or sacrificing the mission of the organization.

Foundations have to realize that blue prints for achieving success in funding diversity are not applicable to every nonprofit. As explained by one individual, "...smaller nonprofits will never have enough money to meet all their costs. It is hard for these nonprofits to think beyond, 'how are we going to make the next payroll?'" The success of some nonprofits in achieving desirable funding base and revenue diversity through strategic orientation and behavior should not obscure the fact that not every nonprofit can pursue these kinds of strategies immediately. In 2000, for instance, two researchers surveyed 519 nonprofits regarding business ventures and discovered patterns that suggest which kinds of nonprofits seek out and succeed with business ventures. (46) They found that nonprofits in the arts and culture have a tendency to be involved with business ventures; they also tend to be "older, more experienced nonprofits"; and the budget size and number of employees have a strong association with nonprofits involved with these kinds of ventures. More than half (55 percent) of the nonprofits surveyed and involved with a business venture had 100 or more employees; furthermore, the budget many of these nonprofits are in the \$5 million to \$12 million range.

Community-based nonprofits may not be able to pursue commercial ventures in the same way or degree as larger nonprofits. They may not have the personnel infrastructure or management information systems to pursue alternative funding via commercial ventures.

Pursuing these kinds of possibilities can deflect people, skills, and time away from a community-based organization's mission-related activities. It is more difficult for smaller nonprofits to exercise flexibility in transferring resources from delivery of services towards pursuit of business activities. Highlighting these potential obstacles is not an argument against the running of efficient organizations. Whether small or large, nonprofits must continually assess the extent to which their expenditures are related to the mission and goals of the organization, and if there are less expensive ways of initiating and completing necessary activities.

Comprehensive Leadership

Many studies identify leadership of nonprofits as the “linchpin” of the sector. (47). The quality of leadership is a key variable for effectiveness, entrepreneurship, and accountability on the part of community-based nonprofits. But leadership is complex and goes beyond individual characteristics. The leadership of community-based, whether at the level of executive director or the board, has to reflect an appreciation and capacity for comprehensive planning and vision. Operationally, this means that leadership has to become more aware about what is happening in the neighborhoods in which they operate. Leadership must be aware and appreciative of changing demographic patterns; social and economic challenges facing the neighborhood; and awareness of how to leverage one's own resources with external resources.

Along this line, strategic plans adopted by community-based nonprofits should not be pursued totally separate from other ongoing community initiatives or changes. Many

strategic plans produced by and for nonprofits include only perfunctory commentary about a community agenda, and instead focus solely on internal dynamics. A group of community-based nonprofit representatives in one city, for example, and engaged in planning a series of local development initiatives and activities had relatively little input into, or knowledge about that city's master plan's approach to local economic development or recommendations regarding housing and transportation, issues that have impact on the work of their organizations. The leadership of community-based organizations must be aware of such developments, and be willing to support, critique, or offer alternative visions for the future of the community and city, not focus exclusively on organizational needs and opportunities.

Increasing Quality of Professional Development

A survey of 1140 randomly selected nonprofit employees by Paul C. Light with the Brookings Institution's Center for Public Service found that compared to federal or private sector workers, those in the nonprofit sector tend to "come to work for the change to accomplish something worthwhile" and are less likely to state that "work is boring." (48) These workers are also "more likely to express pride in their work". The report concludes that "Viewed as a whole, nonprofit employees are highly motivated, hardworking, and deeply committed, but often serve in organizations that do not provide the resources to succeed. Perhaps that is why turnover among executive directors is so high, why board vacancies are increasing, and why so many talented recruits leave early in their careers." (49)

Massachusetts has similar problems with its nonprofit workforce. As a matter of fact, the term "workforce crisis" is used a joint report by the Massachusetts Council of Human

Service Providers and the Pioneer Institute. The report, *Innovation Out of Crisis II: Solutions to the Human Service Workforce Crisis* by James Stergios and Michael Weekes, outlined some of the issues above but also pointed to problems with literacy and basic skills among human service workers. (50) Workers in these sectors tend to receive lower wages than other sectors, little training and professional development, and experience high turnover. As explained by one participant, this problem becomes aggravated when workers are asked to re-prioritize, or change the way they deliver services, or immediately have to learn how to implement new services in response to changes in public policy, but without adequate resources or re-training. This situation produces stress and burnout. These problems are acute for smaller nonprofits. Lack of professional development opportunities can mean that highly experienced and dedicated workers sometimes are forced to leave for career advancement reasons, or find themselves remaining in the same position for too long a period. These nonprofits cannot compete with larger nonprofits regarding salary and prestige in the recruitment and retention of employees.

According to the Massachusetts Council of Human Service Providers, Inc., "...chronic low pay and inadequate benefits have led to high turnover and extended staff vacancies." (51) The Early Education Clearinghouse in Boston reported that in the year 2000 the staff turnover reached 23% in Head Start Programs, and 56% in Before- and After- School Programs. (52) Staff turnover adds high costs for nonprofits and social service providers and is disruptive of the delivery of quality services. Marilyn Anderson Chase, Vice President for Community Investments at the United Way of Massachusetts Bay, explains that workers employed in after-school programs have a very high turnover rate. This is a problem because

it tends to reduce professional consistency and quality in services offered to children. She presupposes that improving work conditions for the nonprofit workforce in after-school programs, and thereby reducing staff turnover, will help to ensure consistent and quality services for children in after-school programs.

This situation gives rise to a question about who should pay and provide professional development for the nonprofit workforce? Many community-based nonprofits do not have resources to support employee-training activities or career ladders. Yet the quality of the nonprofit workforce is related to the quality of service delivery. The Massachusetts Council of Human Service Providers proposes that a “Credentialing Project” be established with the purpose of devising professional standards for professionals in health and human services agencies. This system would ensure some support for workers to understand better issues like participant empowerment, assessment, crisis intervention, but also be introduced to information about careers in their areas. Such a model could be the basis of raising salaries and enhancing the professional competencies of a large number of nonprofit workers. This might have an indirect and positive effect on the problems cited above.

The need for professional development is applicable to the boards of many community-based nonprofits. Nonprofits rely heavily on volunteer boards; but in some cases board members have limited expertise and mission-related experience. As forewarned by the National Center for Nonprofit Boards’ newsletter, *Board Member* “Along with the benefits of being a board member—the opportunity to affect social change, personal and professional growth, camaraderie, and prestige—come duties and responsibilities. Many board members don't

realize the extent of their responsibilities, the potential liabilities they assume, or to whom they are accountable.” (March 1999).

The fact that they generally do not compensate board members can make it difficult to recruit individuals with skills or experiences in some area. The dependency of public charities on government funding or foundation support, furthermore, can force allocation of administrative resources to fundraising and grant writing efforts versus program development, research, and policy advocacy. Public charities, in particular, need smooth and effective relationships between executive director and board because of their public missions. Sustaining an effective relationship between executive director and the board of directors, or community groups, takes much work and time that could reduce resources available for programmatic activities.

Expanding Programmatic and Strategic Collaboration

Programmatic collaboration between nonprofits can include a range of efforts aimed at generating organizational efficiencies and improvement in the delivery of services. *Strategic collaboration* includes actions on the part of nonprofits to create or identify collective impact on a community challenge or problem. There are increasing local and national calls for nonprofits to increase collaboration. . And it seems that nonprofits are responding. Much of the urging and response is for ***programmatic***, rather than ***strategic*** collaboration. Terry Lane, Vice President for Program at The Boston Foundation, notes that while the number of collaborative proposals receive seem to be increasing, the calls for collaboration are “not from one sector to another”. This speaks to programmatic collaboration; strategic

collaboration, however, includes planning and actions to create, or identify, or advocate on behalf of community-wide interests and agendas for improving local living conditions.

It will be difficult to move towards strategic collaboration where various groupings of nonprofits and other partners make a collective decision to resolve a community problem or challenge. Ron Ancrum, President of Associated Grantmakers of Massachusetts, believes that “nonprofits in Massachusetts, culturally, have a difficult time collaborating. Each group feels that their way is the only way to do what they do. Therefore, they compete.” He adds that such competition inhibits the formation of associations based on common interests and that could serve as effective public policy voices. (53) This is an idea raised in the warning of Professor Peter Hall Dobkin at the March 7, 2003 forum on nonprofits: “Nonprofits need to think more civically,” said Hall. “When resources are scarce, agencies get into a feeding frenzy and are not operating as a united front. We compete for donations and grants and contracts... Nonprofits need to work harder to think about how not to be one another's worst enemies.” This criticism is heard in the field of workforce development where according to some commentary nonprofits operate without coordination with each other. (54) This critique is lodged at nonprofits in other areas, as well. A study conducted by Dawn Hutchison, et al., in 2001, *The Boston Nonprofit Sector’s Quest for Organizational Effectiveness*, reports that “nonprofits in the Boston area fail to identify with other nonprofits on a sector-wide basis. Many do not learn from others’ mistakes or successes.” (55) While this critique has some validity, it is important to note that the nonprofit sector has also reflected leadership in overcoming destructive competitiveness. For example, the Massachusetts Workforce Alliance represents a budding coalition of coalitions involving 250 community-based

organizations. This organization is involved in providing a cohesive voice for enhancing the quality of workforce systems throughout Massachusetts. A later chapter in this report identifies other initiatives led by community-based nonprofits that serve to question the perception of over-competitiveness on the part of this sector.

There are some practices on the part of foundations that can inhibit programmatic and strategic collaboration. For example, the provision of grants that support vital activities on the part of nonprofits are sometimes issued for a relatively short period and then repeated for another short period. This tends to inhibit collaboration because nonprofits are not afforded the opportunity to “think outside the box” or become entrepreneurial; instead, they have to focus on the next cycle of foundation or government grants. Collaboration requires a stable fiscal and funding base that is associated with a strong organizational infrastructure. Another interviewee with a long record of providing technical assistance to community-based nonprofits perceptively observes that collaboration involves not only desire, but a set of skills as well. Several participants emphasized that sustaining and supporting collaboration is labor intensive and requires an extraordinary amount of facilitation. And, simply urging more collaboration without providing resources in order to accomplish such will come to naught. Nonprofits have “to learn how to collaborate” by understanding organization development and attaining greater familiarity with a range of community issues. But again, this takes funding that may not be forthcoming from foundations or state government.

The tendency not to support operations in favor of specific projects or activities can discourage an orientation towards collaboration. A criticism raised by some participants is

that during fiscally-tight times foundations adopt “responses associated with the corporate sector during these periods, that is, cutting back, demanding more efficiencies, and focusing on program inputs rather than on impact on families and communities.” And there is a concern that some foundations seem more supportive of what they find exciting rather than what nonprofits and community groups might consider important. This observation is captured by one exasperated respondent who stated that foundations periodically get “jazzed up about something” without really being in touch with the communities they seek to help. This posture dilutes the possibility of collaboration on an extensive basis.

In spite of this somber assessment, and as implied earlier with the example of the Massachusetts Workforce Alliance, there are encouraging examples and emerging models of programmatic collaboration by nonprofits that can lead to collective and strategic approaches to improving living conditions. A recent example of joint fundraising, and something that should be replicated across the state, is the “Community Gems-A Family Celebration”, a fundraising event designed to benefit six community based organizations. These organizations, the Children’s Services of Roxbury, the Hispanic Office of Planning and Evaluation, La Alianza Hispana, the Roxbury Multi-Services Center, United Homes for Children, and Youth Build Boston, decided to pursue fundraising in ways that capitalized on a division of labor. One of the events held under the umbrella of this initiative showed that this model can be effective for smaller and community-based nonprofits.

Further, there are emerging foundation initiatives that seek to change this scenario. For example, The United Way of Massachusetts Bay recently launched an initiative aimed at

collecting information and ideas from community organizations and nonprofits that helps to establish a “community” agenda versus a nonprofit agenda. The purpose of this effort is “to attain a deeper understanding of community concerns and barriers to community successes.” Titled, “Charting Our Course: A Symposium on Community Change”, the project is based on soliciting short proposals for dealing with some issue or problem related to one of four priority areas: childhood development, sustainable employment, affordable housing, and out-of-school time education. Respondents are required to discuss a specific focus or issue and describe how the short- and long-term impact of its approach can be measured. The proposal requires information about the primary target population and identification of potential partners. It places major emphasis on working with networks on behalf of a problem defined by the community. In other words, incentive for collaboration is built into the process.

The Hyams Foundation’s “Building Community Initiative”, though more than ten years old, remains an impressive example of a strategy aimed at working with groups of community-based organizations around an agreed upon neighborhood agenda. This foundation decided to identify major issues and concerns facing residents in different neighborhoods by holding meetings and focus groups with a wide range of people. According to Henry Allen at the Hyams Foundation, “The Building Community Initiative” was “launched in 1992 as a four-year project (that was eventually expanded to eight years) to provide funding to four neighborhood-based coalitions in Boston neighborhoods that were experiencing high levels of youth violence.” Funding was directed at coalitions that would work on common neighborhood problems. Allen concludes that “The four funded groups, ...succeeded in a

number of areas, including: developing positive, working relationships with the police department that brought community policing to the neighborhood...targeting and closing down drug houses; securing funding for increased youth services...securing agreements with non-profit and for-profit housing developers to significantly expand affordable housing development...bringing more resources into the neighborhoods to support small business development..." and other community benefits.

A few interviewees reflected that encouraging competition between nonprofits, rather than a focus on collaboration, and even allowing the weaker ones to close, can increase organizational efficiencies of smaller nonprofits. This would resolve the problem identified by one person: "there is some redundancy in that some nonprofits may be vying for the same customer base." Theoretically speaking a competitive framework may serve to improve services and offer more options to clients with different experiences and circumstances.

Well, there is competition, and then there is competition. There are probably few people who would object to the need for state government to ensure competitiveness in the seeking funding to provide services. But to push competition simply as an idea that will make things better is another matter. The call for more competition in the latter sense does not come without a price. Interviewees raised questions about the apparent target in the exhortation for more competition: is the target the smaller nonprofits due to a presumption that larger nonprofits can produce economies of scale? Or, is the target, the elimination of less efficient or effective nonprofits whether larger or small? Or is the aim to reduce the amount of public resources distributed to nonprofits? State Senator Jack Hart, who was interviewed while serving as chair of the Commerce and Labor Committee, adds a concern about the smaller

nonprofits serving very needy clients in low-income neighborhoods that do not have the kinds of resources found in other places, and therefore could not possibly compete effectively with bigger and ‘richer’ nonprofits.

Overemphasis on competition can actually weaken the likelihood of collaboration in the nonprofit sector. Edward Skloot, a leading authority on social venture strategies, notes that “It is obvious that a strong dose of competition can productively and usefully weed out poor performers...But the further weakening of already vulnerable nonprofit service deliverers can have an obviously damaging effect on the provision of quality service and an equally destabilizing affect on local communities in which they are located...”(56) Another potential problem is that the effects of competition will be skewed. Competition as a policy tool may hurt smaller nonprofits while not addressing incompetence or ineffectiveness on the part of larger nonprofits since they have more resources to resist proposed changes.

Establishing frameworks for cooperation and sharing of resources holds much more promise in leveraging resources available in the nonprofit sector. One possibility for programmatic collaboration that is being implemented in some places is for nonprofits to share administrative costs. Another is to pursue funding as a team of nonprofits rather than individual organizations. Smaller nonprofits can join together in raising donations that would be distributed on an agreed upon basis. This could result in higher donations at a lesser cost than it would take for a single nonprofit to solicit contributions. As noted in a recent article published in the *Harvard Business Review*, “soliciting large volumes of tiny contributions, as the majority of nonprofits must do, is inherently inefficient. You tend to

incur a lot of labor, marketing, and other costs for every dollar you bring in. For another, trying to get your share from a pool of more than 50,000 foundations and millions of individual donors leads to a lot of overlap and waste.” (57)

We should not forget, however, that this observation goes against the grain in terms of the traditional way nonprofits have operated, and the typical ways in which foundations and state government have worked with nonprofits. Up until recently, as a matter of fact, the latter two sectors have not asked nonprofits to operate in a manner that emphasizes programmatic collaboration. Regardless of an inadequate history of collaboration, today, the pursuit of programmatic collaboration is important for ensuring organizational efficiencies but also the quality of services delivered in various settings.

The political and economic survival of nonprofits, especially the smaller and community-based ones and that have become critical components in the building of neighborhood revitalization and community development, and representing society’s safety-net, requires the development of strategic collaboration as well as programmatic collaboration. One approach to strategic collaboration is offered by the Non-Profit Alliance of Greater Lowell (*One Lowell*), established in 1999 with the purpose of building “collaboration that strengthens the influence and impact of community-based organizations through sharing resources and advancing excellence in administration. (See, <http://www.npalgl.org>) The organization uses various committees to plan the pooling of resources and determining its activities. This initiative is already beginning to realize significant benefits that strengthen the individual nonprofits according to Victoria Falhberg, Executive Director of One Lowell,

and an organizer and supporter of this initiative. In 2002 it organized a “Campaign for Voter Vitality” resulting in a 69 percent increase in voter registration in the city of Lowell. As a collaborative entity, the Non-Profit Alliance of Greater Lowell can be less inhibited in the electoral mobilizing constituents of nonprofits. An individual nonprofit may not have the resources, or believe that it is vulnerable to criticism, if it became too involved with the electoral mobilization of constituents. Another important accomplishment is the pooling of resources in organizing training activities. Nonprofit members pay dues and decide collectively how the funds can be used to obtain training resources. This approach not only saves money, but also ensures that training activities respond directly to the organizational needs of the nonprofits.

Another example of an initiative that is laying the groundwork for strategic and place-based collaboration is the Roxbury Youth Workers' Alliance, founded in 1996. This is a coalition that sponsors and supports advocacy involving the more than one hundred youth workers in parts of the South End and Roxbury neighborhoods. The initiative seeks to maximize the effect of available youth resources and activities within certain neighborhood boundaries. This collaborative approach is strategic because it encourages a more unified civic and ultimately effective voice for youth organizations operating in the same neighborhoods. It also helps to mold what might be a collective and community-based agenda for youth services.

The Massachusetts Workforce Alliance mentioned earlier, is another example of this development. The MWA is supported by the Boston Foundation and BankBoston for

activities in forming a coalition of workforce organizations and interests. It provides a voice and advocacy for the skill development and employment interests of low income organizations, as well as local nonprofits working on behalf of these communities. The MWA is a voice in policy circles and reflects interests that cut across the specific agendas of individual organizations. This ensures that workforce is approached holistically and based on community-wide benefits rather than the interests of particular sub-sectors, or organizations, within the area of workforce matters.

An initiative on the part of Third Sector New England to maintain a “Nonprofit Center” also points towards strategic collaboration that should be embraced by community-based nonprofits. The idea behind this initiative is, in part, to provide a space where resources can be shared between nonprofits and thereby reduce administrative costs. But the far more important purpose of this effort is precisely, according to a report prepared by this organization in May 2002, *Concept Paper: A Multi-Tenant Center for Boston-area Nonprofits and Community Organizations*, “to strengthen strategic collaboration, improve organizational effectiveness and further build the power of Boston-based third sector organizations committed to social and economic change”

Neighborhood, or place-based strategic collaboration should be supported strongly by community-based organizations because it is a way to enhance the sector’s collective political, economic, and civic roles. As proposed by an advocate of the nonprofit sector, “The sector won’t be taken seriously until collaboration takes hold in a serious way.” There are simply too many voices, a cacophony, that are having individual conversations with

foundations and state government. While solo nonprofits may enjoy strong reputations with foundations and state government, community-based nonprofit sector has to take leadership in pushing strategic collaboration because it will represent a base by which to increase impact on community problems and issues. It will be easier for nonprofits to be creative, entrepreneurial, and bold in their approaches if they begin to think and act more collectively; further this is a way to help individual nonprofits “...survive and prosper when they are part of a network of organizations that support and undergird their initiatives.” (58) Strategic collaboration can encourage nonprofits to work together in networks, or alliances, or partnerships, at the city and regional levels.

Utilizing Nonprofits as Economic Resources

An increasing number of studies document the economic contributions of nonprofits. Some of these reports include John E. Seley and Julian Wolpert, *New York City's Nonprofit Sector* (Nonprofit Coordinating Committee of New York, May 2002); Mary Kilcoyne and Pat Harmon, *Return on Investment: The Economic and Social Impact of the Non-Profit Sector in Worcester County* (Youth Opportunities Upheld, Inc., March 2002); Robert Kleine and Nick A. Khouri, *Economic Benefits of Michigan's Nonprofit Sector* (The Aspen Institute, Summer 1999), and others. A report by Stephen M. Pratt, “Nonprofit Organizations Fuel Boston’s Economy” notes that “Boston-area community-based nonprofits earned \$2.5 billion in income and spent over \$850 million on personnel in 2000...” He argues that the economic impact of nonprofits has to receive higher prioritization in the approaches of state leaders. As Pratt warns: “Further cuts in social service spending by state and local governments will not just increase the suffering of people in need. These cuts will increase unemployment across the

region and prolong the recession.” (59)

Heeding this warning is urged in a study published for the Center for an Urban Future in New York City. The authors of this study, “the Nonprofit Margin” propose that nonprofits be treated the same way as businesses in encouraging both sectors to relocate in areas targeted for economic revitalization. (60) These studies indicate that nonprofits should be treated, to a certain degree, as economic resources. Nonprofits are involved in local revitalization efforts; nonprofits contribute to the level of disposable income in local areas; they help to attract businesses; nonprofits hire workers in impoverished areas and thereby help to keep employment higher; and in receiving funding from foundations and state government, they, in turn, offer contracts for services to local businesses.

State government and foundations can provide an important message to the public regarding the economic impact of nonprofits. For example, State Senator Hart would like to include a role for nonprofits in the design of economic stimulus strategies for Massachusetts. Other voices are reiterating this call. Still, according to Dewees and Salamon, “Regrettably, ...this point is not well understood by policymakers, the press, or the public at large. As a result, this sector is often overlooked in economic development and education and training efforts that could prove extremely beneficial to it in the long term.” (61)

Nonprofits are small in number when compared to the total number of businesses in Massachusetts, but their work is vital for small businesses. In 1999, there were approximately 264,369 businesses in the state. The vast majority of these businesses

(180,858, or 68%) employed between 1 and 4 employees. (62) This is the business sector that is probably most affected by the status and capacity of smaller nonprofits in many local areas. A recent report authored by Chris Sikes, Joseph Kriesberg, and DeAnna Green and published by the Pioneer Institute, *Getting Results: A Small Business Development System That Works*, proposes similarly that a healthy nonprofit sector is a key part of strategies for strengthening small businesses in many neighborhoods. Due to size and limited fiscal and technical capacity, individuals seeking to start or sustain small businesses have to rely on the nonprofit sector. These authors note, “Entrepreneurs, especially those in inner city, rural, and disadvantaged communities, are most likely to benefit from business development services if they are accessible to them at the local level. Accessibility is not just a question of geographic proximity, but also of linguistic and cultural competence. A recent immigrant to the United States is much more likely to receive the help she needs from a community-based organization where people speak her language than from someone in a federal office building downtown.” (63)

The Massachusetts Development Agency, (also known as *MassDevelopment*) has realized significant breakthroughs in helping to expand the economic capacity of nonprofits. Tools used to work with nonprofits as economic entities includes assistance with cleaning and developing brownfields, providing capital financing and developmental loans; and, mortgage insurance guarantees. As described in its Annual Report for 2002, *Fueling Our Economy*, the agency uses its “Financing Program for Nonprofits” program to pursue partnerships with charitable nonprofits interested in participating in local economic development or neighborhood revitalization initiatives.

Another way in which the state can treat nonprofits as economic entities is by transferring ownership of vacant or underutilized state buildings to nonprofits, or consortiums of nonprofits. In places where there is abandoned housing, city and state government can seek to transfer ownership to nonprofits that are geographically-located in the target area and who agree to manage operations from the renovated housing. This would represent a relatively low-cost infusion of resources to nonprofits operating in poorer areas. Foundations can partner in this effort by providing long-term and low-interest loans for physical rehabilitation. This would represent expenditures that serve to strengthen the economic infrastructure of the area, as well as helping nonprofits provide services.

If city government facilitated the transfer of abandoned housing to nonprofits, then funds used for rental expenses could become available for owning and renovating properties. Again, this would not only help nonprofits financially, but also represent infusion of disposable income in the area thereby producing favorable social and economic spillover benefits.

In order to maximize the economic benefit from the presence of healthy nonprofits, state government has to pay more attention to the professional development and working conditions of its workforce. As noted earlier, according to the U.S. Census Bureau, in the year 2000 the nonprofit sector employed more than 331,000 workers in Massachusetts. It can assist nonprofits by helping to increase the quality of recruitment, training, and professional development resources available to this workforce. It should also support increasing the wages paid to the staff of nonprofits. Unless wages are competitive with other

industries, nonprofits could lose higher skilled and more experienced employees; this would have an adverse effect on the quality of services.

Career ladders for upward mobility should be widely available. This is consistent with the fact that social services represents one of the fastest job growth areas for Massachusetts.

Partnerships between Career Centers, Community Colleges, and local nonprofits have to be expanded as a part of this overall strategy. (64) As recommended in a study published by the Pioneer Institute, “Providers should make training and mentoring integral to their mission. Much of the training must focus on ensuring that direct service workers possess basic skills. But it should also gradually allow workers to assume responsibility for tasks like budgeting and case management.” This report calls for a greater involvement on the part of higher education in order to accomplish this goal. (65) There are already emerging and established programs that can serve as models for this kind of activity and where foundations, state government, and nonprofits can work together to maximize professional development opportunities.

Conclusion and Recommendations

This report provides information and discussion about the significance of community-based nonprofits in Massachusetts. It highlights the contributions of nonprofits, especially those serving local communities. The report emphasizes that nonprofits, foundations, and state government must work together and expand the quality of their partnerships and relationships in order to meet several challenges and pressures facing nonprofits in Massachusetts. These include the effects of devolution and periodic fiscal strains; the need to achieve a high level of accountability; strengthening the internal capacity of nonprofits; and tapping nonprofits as economic resources in local places. Because nonprofits are so intertwined with state government and foundations, the latter also have to pay attention to these kinds of challenges. Therefore, the following recommendations are grouped by the broad challenges described earlier, rather than by what each specific sector should consider for action.

Responding to Devolution of Federal Responsibilities to the States and Fiscal Strains

The leadership of Massachusetts should seek to **encourage a civic culture of giving and reward charitable contributions that is targeted towards community-based organizations**. Massachusetts is ranked among the lowest levels in the entire nation. The Catalogue for Philanthropy reported some growth in the rate of charitable giving in this state between 1997 and 2000. (66) Regardless of the rate of growth, however, giving remains comparatively low here. The percentage of income contributed by people itemizing charitable contributions in 2000 in the United States was 3.5% representing an average charitable contribution of \$3,500. In this state, however, the figure was 2.8%, among the lowest in the nation. (67)

In a report prepared by the National Center for Charitable Statistics and based on the IRS Statistics of Income Bulletin for 2003, Massachusetts was ranked 3rd in the nation in the average adjusted gross income per income tax return. But 31st (!) in the average charitable contribution per income tax return with itemized charitable contributions. In spite of this record, in 2000 approximately 72% of Massachusetts's voters approved a ballot measure that would have made it easier for people to make charitable contributions. Due to fiscal pressures the measure was postponed for implementation until the year 2014 by the Massachusetts state legislature. Massachusetts' leadership should do whatever is possible to reinstate a tax deduction for charitable contributions especially for smaller and local nonprofits involved with ensuring the state's safety-net, and operating on the frontlines of communities in need of services. Allowing for a state and targeted tax deduction could represent an infusion of significant private funds for community-based nonprofits and at the same time build a culture of giving. There should be a mechanism to encourage citizens to give to community-based nonprofits. This is a critical cog in any strategy to encourage giving because many smaller nonprofits do not have the infrastructure to support campaigns and effective appeals to the general public. (68)

Community-based nonprofits should develop strategies to tap the resources within the growing number of retired citizens in their neighborhoods. This sector should **increase attention to creating volunteer opportunities for older and retired residents**. According to the Massachusetts Coalition on Vital Aging, there are thousands of retirees who are not being asked to help or volunteer. Older and retired residents can provide 'new blood' and

vast experience on boards; volunteer for services; and help to raise funds for public charities. This recommendation is consistent with the report of the *Blue Ribbon Commission on Older Workers*, in April 2000, “One of our major findings is that the future prosperity of the Massachusetts economy is highly dependent on the Commonwealth’s ability to fully utilize workers 45 and older...Workers 45 and older represent the largest pool of underutilized workers in the Commonwealth.” (69) It is consistent, as well, with actions proposed by the Massachusetts Service Alliance to increase volunteerism and community service in their report, “Make Massachusetts the #1 State for Community Service.”

State government **should streamline contractual procedures with nonprofit providers in ways that lessen unnecessary burdens on this sector.** The lessening of red tape regarding contracting is an indirect boost to the economic health of nonprofits that can, in turn, save much in terms of money and staff time. Some reform suggestions include increasing the number of longer-term or multi-year state contract available to nonprofits; allowing nonprofits to recoup costs incurred as a result of un-funded mandates such as increases in minimum wage, or training requirements, or changes in administrative regulations; and, ensuring that nonprofits have ready access to information and ample time to prepare to respond to calls for potential contracts for services. (70) Spearheaded by the Executive Office of Health and Human Services, a planning effort is underway to reform the “Purchase of Service (POS) system. This Office is continuing to review and analyze POS spending patterns and trends and has appointed several workgroups to provide assistance with this analysis. This activity could improve considerably the capacity to establish appropriate performance measures that could be monitored by all parties and will go a long way in saving

money for all concerned.

Beyond these kinds of recommendations, **nonprofits should seek to diversify their revenue base in terms of funding and contractual sources.** As noted earlier, there are preliminary organization requirements for effective movement in this direction. Nonprofits must have a stable infrastructure and seek to encourage the development of holistic leadership.

Foundations can be helpful to nonprofits to develop strong leadership and organizational capacity for achieving substantial revenue diversity. The United Way of Massachusetts, for instance, encourages nonprofits to develop and attain budgets where only 20% of their revenue comes from the United Way. As grantee nonprofits reach a certain threshold of “dependency” on one source, it should trigger discussions between its leadership and major funders about how to lower the amount of revenues received by substituting other potential sources of funding. The W.K. Kellogg Foundation uses distribution of multi-year funding to encourage nonprofits in pursuing diverse funding sources. A few years ago it provided a grant to a youth organization in Boston in the amount of \$300,000 for a period of three years. But rather than divide the distribution equally into three years, it provided most of the funding in the first and second years. The program officer at this foundation believed that this would help strengthen the nonprofit’s infrastructure and encourage its leadership to begin thinking about funding alternatives before the grant expired.

During periods of fiscal strains foundations should become more proactive in playing a counter-cyclical role according to people like Ruth McCambridge of *Third Sector New England*. Just as state governments have instituted ‘rainy day’ funds, foundations should

consider similar approaches. In 2001, Massachusetts rainy day fund amounted to 10% of the state's budget. According to the former Speaker of the Massachusetts House of Representatives, Thomas M. Finneran, the permanent institutionalization of a rainy day fund represents "...our best chance to ensure steady, stable, predictable funding for the core services which advance our economy and society." (71) Similarly, foundations **should consider how to build "rainy day funds" or support other strategies aimed at helping community-based nonprofits maintain stability during periods of economic changes that adversely affects this sector.**

Strengthening Nonprofit Internal Capacity

Nonprofits must focus on strengthening the internal capacities of their organizations as a response to fiscal strains and to public criticism. Enhanced organizational capacity also is essential in order for these organizations to become more effective advocates of their constituents. Nonprofits should consider strategies for the **design and adoption of impact performance measures that focus on a) community-wide problems and issues, and b) the continuum of interim outcomes required to reach funded goals.** For example, as noted by Geoff Beane, workforce development will not be successful with homeless individuals in getting them involved with GED programs if there is not some focus on finding stable home situations. A campaign to expand the utilization and acceptance of performance measures has to reflect recognition that objectives outside the immediate ones, are just as important as the ones that are funded.

Although nonprofits have to exercise leadership regarding this particular issue, it would be

perceived as cynical by many people to place this burden on nonprofits given the history of funding and government requirements emphasizing program outputs versus community impact. Identifying community problems that will be addressed requires the involvement of all three sectors, but also community-based input. A related caveat: foundations and state government cannot presume that significant community problems and issues will be resolved without time and support to develop and implement impact performance measures.

According to the Kellogg Foundation's *Logic Model Development Guide*, a document explaining how organizations can utilize outcome measurement, short and long range outcomes can range between 1-3 years, and then 4-6 years; and it is reasonable that showing significant impact that changes positively some problem or issue can take between 7-10 years. This kind of time period calls for organizational stability on the part of nonprofits and stable and reliable partnerships between nonprofits, foundations, and state government.

State government has an obligation to work with nonprofits and providers interested in using resources to make a difference in the lives of people and communities. A first step in establishing priorities can be a review of the Operations Services Division's "FY 02 Performance Measures by Contractor." This comprehensive report (2,336 pages!) lists output and outcome measures for each provider receiving a state contract in the area of health and human services. It is an impressive collection of information and shows that outcome measures are tailored to individual contractors. State government can use this kind of document as the basis for initiating and participating in discussions regarding expected impacts in various functional areas.

The adoption of outcome measurement management holds immediate advantages for

nonprofits. First, it will tend to level the playing field between smaller and larger nonprofits because competition for certain kinds of resources presumably would be based on the most creative and measurable approaches in reaching priorities. Second, this kind of development would fundamentally change the quality of relationship between government and nonprofits, and foundations, by organizing their joint efforts around strategic priorities established in local communities. A foundation, for example, may indeed become “jazzed up about some new idea” as mentioned by one interviewee, but this is not what would be driving decisions regarding support for nonprofits and communities. If a community agenda regarding issues or problems is adopted and supported by nonprofits and residents, then it would be expected that interested foundations would cooperate with nonprofits to ensure that grant-making reflect such priorities and partnerships.

Outcome measures can help groups of nonprofit **to establish geographic-based consortiums that can maximize impact on particular community-wide issues and problems.** Individual nonprofits would still have to be accountable for program outputs of their own organizations but there would be an overall assessment of the impact of nonprofit activities in a particular location. The measure of impacts on communities, if presented effectively to the public, can help to improve the perceptions of nonprofits. If the work of nonprofits is understood not just in terms of daily activities, but also qualitative changes in the lives of people, then this will elicit favorable responses to ongoing and future work. It will encourage collaboration between nonprofits because it will be difficult for any one organization, by itself, to have a long lasting and positive impact on community-wide problem or challenge. In fact, focus on measuring impact means that nonprofits have to

work more closely together for the purpose of success.

State government should heed the call for utilizing impact measurement as one factor for fiscal decision-making. David Osborne and Peter Hutchinson endorse this call in their article, “Reinventing the State Budget.” They propose that utilizing outcomes measures can help state government and nonprofits move from a relationships based on winners or losers in yearly budgetary allocations. The authors argue that outcomes regarding problems, or challenges, or opportunities should be determined initially and used to drive budgetary decisions. They cite the example of the state of Washington, which has begun a process for using this approach. They write that “To achieve improved health for the citizens of Washington, the health team identified four possible strategies: increasing healthy behaviors among citizens (eating better, driving more safely, quitting smoking, and getting more exercise); mitigating environmental hazards (making water, air, and food cleaner and safer); identifying and mitigating risk factors related to gender, socioeconomic hardships, and genetic predispositions; and providing access to appropriate, high-quality medical and mental health treatment. (72) This recent effort, if successful, can be a potential strategy for Massachusetts.

Changing the organizational culture *and* infrastructure of an organization from merely calling for measuring impacts, to utilizing these measures requires resources. A management culture of benchmarking can maximize the efficient utilization of resources and thereby attract additional resources because the organization can show that it is stable and a good, and socially worthwhile, investment. But organizations have to have efficient infrastructures in

place. Further, the development of skills and infrastructure germane to a management culture for measuring outcomes and impacts is a new requirement for many nonprofits. Thus, technical assistance to build this capacity must be ample, comprehensive, and sustained over a period of time.

Training and actual costs for nonprofits that are not now familiar with benchmarking can be expensive to learn. A quick review of available training and workshops offered by a range of consultant organizations indicates that this can cost thousands of dollars for the individual nonprofit. Foundations and state government, therefore, **should increase technical assistance to nonprofits interested in obtaining skills and resources to pursue outcome measurement in the evaluation of their work.** A Ford Foundation commissioned-study about immigrant and refugee-led organizations produced recommendations for the design of technical assistance in this area. Some of the components include multi-year approach in building capacity; increase in general support to help meet infrastructure changes; organizational assessments; training follow-up; and the opportunity for nonprofits to choose the technical assistance providers. (73) The latter is particularly important, because trust between the organization and source for technical assistance is important. Those providing technical assistance should have a track record in the neighborhood served by the local nonprofit and experience in working with issues in that same community.

Expanding Programmatic and Strategic Collaboration

Nonprofits require a mechanism that will allow organizations to share ideas and pursue and implement programmatic and strategic collaboration. Nonprofits should consider formal

consortiums that encourage common risk-taking within neighborhood-based zones.

Nonprofits should establish **geographic-based consortiums for increasing efficiencies, impact, and civic clout**. Advantages to nonprofit consortiums could include more effective communication and exchange of information about community concerns; better understanding of how to utilize resources to trigger positive community changes; helping to create best practices in the delivery of services; showing impact more clearly and effectively; and, encouraging “division of labor” among nonprofits in terms of missions and specific program activities that can reduce duplication or redundancy in service areas. This approach could also enhance considerably the collective and civic voice of community-based organizations regarding public policy.

Accomplishing this will be very difficult initially since there are a range of organizational, turf, and fiscal issues that obstruct moving in this direction. As exclaimed by one interviewee, “...there is just too much competition between community-based nonprofits to do anything!” Nevertheless, there are examples beginning to emerge, and briefly discussed in the report that provide some direction and grounds for optimism regarding this recommendation. The establishment of nonprofit consortiums in local neighborhoods can result in enhancing the collective civic and political influence of smaller and community-based nonprofits and increase possibilities of collaboration in terms of programs and services.

Consortiums, conceivably, could yield increased funding, along with greater program flexibility as it represents and advocates for collective and comprehensive responses to

community problems. In this way, this recommendation is actually the ‘flip-side’ of the call for strategic philanthropy. Under this framework foundations can solicit input from alliances of nonprofits about how to define and attack broad community problems; provide flexibility in the utilization of funding granted to nonprofits; fund operating expenses of nonprofits within the catchment areas; and provide low-cost (both in terms of money and staff time) technical assistance to nonprofits. This approach is consistent with the idea of strategic philanthropy but emphasizes partnership with goals and activities that are determined together with community-based nonprofits.

Treating Nonprofits as Economic Resources

Nonprofits play an important, though at times unrecognized, economic role in local communities. They are involved in building housing; helping small businesses and micro-enterprises; training local workforces; generating disposable income through employment; providing contracts to businesses; and generally improving community conditions that attract businesses. Aside from reducing costs and red tape incurred in the implementation of contracts on the part of nonprofits, there are two other general ways that state government (and foundations) can help nonprofits expand these kinds of contributions: **facilitating the building of equity on the part of nonprofits; and, providing resources to train and raise the productivity of the nonprofit workforce.**

State agencies like MassDevelopment have been working with many nonprofits involved in local economic revitalization. Information about some of the ways this agency has assisted nonprofits should be made more widely available so that other organizations can access state

resources. In addition to these kinds of efforts, state and city governments should seek to transfer unused or under-utilized land to nonprofits for development, and rehabilitation of low-cost office space. In many situations, community-based organizations will have to partner with other nonprofits that have expertise and capacity to work effectively with a range of real estate matters.

The fundamental point here, however, is that community-based organizations should consider the critical importance of land ownership and development in their neighborhoods as an issue that has wide-ranging implications. In some cities, for example, there are abandoned housing that are eyesores and not being used productively. Such abandoned housing, empty lots, might be adjacent or nearby smaller nonprofits that are paying rent but not building any capital or equity. It would make economic sense to transfer ownership of these kinds of properties to nonprofits for housing development or rehabilitating the property for office or community space. Streamlining procedures for disposing these properties to nonprofits represent immediate fiscal savings, reducing state money necessary for managing surplus properties. (74) It would be ideal if nonprofits could gain information about the location of properties that are surplus and encouraged to generate ideas and proposals to make such property more useful to communities and Massachusetts.

The purpose of this recommendation is not simply to provide cheap office and program space to nonprofits, or to meet ‘space crunches’ for individual nonprofits but to expand the equity held by nonprofits operating in low-income neighborhoods. However, lack of adequate space is still a problem for many nonprofits. According to one report, “In addition to high

office rental rates in the Boston area, nonprofits are facing fundraising shortfalls due to the general economic downturn, the uncertainty following September 11, and the continued tendency of funders to support programmatic costs...In our conversations with nonprofit leaders in the Boston area...*Third Sector New England* is also hearing that nonprofits are seeking long-range approaches and solutions to space needs.” Charles Chieppo, the former Policy Director in the Executive Office of Administration and Finance, noted in an interview with the author that a state regulation allows state government to sell surplus property to private sector without local approval. The provision has a 2005 sunset date for determining if significant revenue is being produced for Massachusetts. If it does not, then the possibility of transferring public or un-used properties to nonprofits should be pursued.

State government should seek to expand training and professional development opportunities for the nonprofit workforce, and ensure that salaries are raised to levels that provide resources for decent living conditions. There are several initiatives before the state legislature related to this action that should be supported. One set of initiatives seeks to improve the wages of workers providing human services. As pointed out earlier, the not for profit workforce is compensated at a much lower rate than workers in other sectors. This has a direct bearing on the quality of services received by residents and others. Currently, the system for determining salaries of the nonprofit workforce is ad hoc and arbitrary. The Massachusetts Council of Human Service Providers, the Association of Developmental Disabilities Providers, and the Mental Health and Substance Abuse Corporate of Massachusetts are sponsoring a bill that would discourage the setting of salaries through the current bid process used by the Executive Office of Administration and Finance. The bill

would place the matter of setting salaries under the Division of Health Care Finance and Policy within the Executive Office of Health and Human Services. The bill offered by these groups would, in essence, represent a systematic approach to the setting of fair salaries for many nonprofit workers, and create a process that is consistent with how health care providers are treated in terms of salaries paid to workers.

State government should also expand considerably the professional development opportunities available to the nonprofit workforce. The establishment of standards and licensing requirements is not enough for ensuring quality services and appropriate skills on the on the part of nonprofit workers. A few state officials admitted that much should be done regarding this matter. This concern has led to support and funding for establishment of a training institute for social workers. This proposal was supported and funded by the governor and state legislature. The Institute will provide pre-service training for new social workers and professional development for current employees in the Massachusetts Department of Social Services. This initiative should be commended, but it does focus on the 'receiving' end of the problems that social workers have to deal with. State government, foundations, and nonprofits should consider providing training and professional development opportunities for frontline workers who are the first to deal with individual and family issues that eventually become bigger problems for state agencies.

The last recommendation is for state government, in partnership with foundations and nonprofits, to continue civic dialogue about the contributions, challenges, and potential future directions for nonprofits in urban areas. Such a dialogue has to have the encouragement and

imprimatur of our public leaders. One way of doing this is **to establish and appoint a statewide commission that would explore recommendations proposed here and other reports that serve to strengthen partnerships between nonprofits, state government, and foundations.** Part of the charge of this body would be to re-examine and analyze implications of a state tax deduction for charitable contributions that would be targeted to community-based nonprofits. It can review initiatives and suggestions for expanding professional development opportunities for nonprofit workforce. It could begin framing the design and implementation of a public relations campaign to help the public, and the business community, understand better the nonprofit sector, but especially the critical work of the sometimes invisible, smaller and community-based nonprofits. Part of this last charge would be to explore how nonprofits might assist with local and regional collaboration aimed at common challenges and problems. Such a commission could consider ways of expanding resources and funding for the benefit of community-based nonprofits.

The recommendations in this report are framed within a context of partnerships between the three sectors discussed throughout the report. Such a framework is justified because community-based nonprofits are not merely mechanisms for local distribution of public services. The collective work of this sub-sector of nonprofits that is highlighted in this report represents important contributions to civic and economic life in Massachusetts for *all* residents. This sector helps to maintain or improve decent living conditions; it assists local and small businesses; it helps to build social capital and civic engagement; it builds and rehabilitates physical infrastructure in local communities; it employs and trains many workers; it provides access for the most disenfranchised communities to educational, social,

and employment institutions and benefits; it builds the human capital capacity for the entire state; and it is the last line of defense in upholding society's safety-net. Regardless of the fiscal state, community-based nonprofits have to operate efficiently and effectively; they have to continually seek revenue to maintain operations and services in the context of increasing demands; they have to keep the public and funders informed of their activities and future planning; they have to nurture and develop leadership for their organizations; and they have to ensure that workers are paid and treated adequately in order to maintain quality in the delivery of services. It is unlikely that Massachusetts can move forward as a socially and economically healthy state, if these kinds of organizations are not strong and treated as partners with foundations and state government.

Endnotes

1. An Executive Summary of this report is planned for release by University College, Tufts University (September 2005). Several public forums and panels moderated by the author were helpful in the development of this report. These include a panel sponsored by MassINC, Tufts University, and the Massachusetts Foundation for the Humanities on March 7, 2003 and held in Boston. The panelists included Dr. Jackie Jenkins-Scott, Dimock Community Health Center; Dr. Peter Dobkin Hall, Hauser Lecturer on Nonprofit Organizations, Harvard University; Dr. Ronald P. Preston, Secretary, Executive Office of Health and Human Services; Mr. Angel H. Bermudez, Program Officer, The Boston Foundation; and Ms. Joannie Jaxtimer, First Vice President and Director of Corporate Affairs, Mellon New England. Another workshop facilitated by the author in Boston, and sponsored by the Union of Minority Neighborhoods on September 19, 2003, explored how nonprofits can respond to funding cutbacks. The Massachusetts Coalition on Vital Aging sponsored another panel on October 1, 2003. The purpose of this forum was to explore how retired workers and older residents in Massachusetts can be approached as a pool of potential volunteers and workers in the nonprofit sector. The author also facilitated a forum of community-based organizations in Lawrence on February 15, 2004, and sponsored by Northern Essex Community College and its HUD/Community Outreach Partnership Center. This workshop examined more closely the internal and external challenges facing nonprofits and how these organizations can work together more effectively.
2. Overview and Executive Summary, *The New Nonprofit Almanac & Desk Reference* (Independent Sector and Urban Institute, 2002); also see, "The United States Nonprofit Sector 2001" (Washington D.C.: National Council of Nonprofit Associations, 2003), see Figure 7.
3. Gita Gulati-Partee, "A Primer on Nonprofit Organizations" North Carolina Center for Nonprofits (Summer 2001), p. 31.
4. Brian O'Connell, *Civil Society: The Underpinnings of American Democracy* (Hanover: University Press of New England, 1999).
5. Emmett D. Carson, "Public Expectations and Nonprofit Sector Realities: A Growing Divide with Disastrous Consequences", Center for the Study of Voluntary Organizations and Service, Waldemar A. Nielsen Issues in Philanthropy Series, Georgetown University (March 22, 2002).
6. Harvey Lipman "Survey Identifies Troubling Trends for Nonprofit Organizations" *The Chronicle of Philanthropy* (November 14, 2002).
7. Lack of information and misinformation about nonprofits reflects a national problem as noted by Wolpert: "Most Americans, even a significant number in Congress, are poorly informed about the charitable sector in the United States-what it is, what it does, its current and potential capacity, and how donors and government can possibly enhance the latent capacity of nonprofit organizations." See, Julian Wolpert, "How Federal Cutbacks Affect the Charitable Sector" *Nonprofit Sector Research Fund Working Paper Series*, The Aspen Institute (Spring 1996), p.2.
8. Prior to the U.S. House of Representatives arriving at a compromise in September 2003, one foundation representative proposed that "The Boston City Council should consider adopting a local resolution similar to Sec 105, Reform of Certain Excise Taxes Related to Private Foundations, of HR 7, the Charitable Giving Act of 2003, which would prohibit private foundations from using administrative expenses as part of their legally required 5% payout. This would free up millions of dollars for funding". A rationale offered for this kind of initiative is the claim that this action would represent a more accurate description of the level of "charitable giving," on the part of foundations than that suggested by figures that include administrative costs. The compromise reached in the U.S. House Ways and Means Committee would disallow counting administrative expenses in charitable giving unless they are directly connected to "grant selection, grant monitoring and administration, compliance with federal, state or local law, or furthering public accountability of the private foundation..." (See, www.independentsector.org and, testimony provided to

Boston City Council Hearing on Nonprofits (June 23, 2003).

9. Rob Gurwitt, "Social Services and Reality" *Governing Magazine*, May 1995. p. 1
10. Phillip Boyle and Gordon P. Whitaker, "Educating for the New Public Service: Implications of the "Transformation of Governance"" *Journal of Public Affairs Education*, Vol. 7, No. 4 (October 2001), p. 268.
11. Elected officials in Massachusetts have sponsored legislation that responds both, to the expressed interests of nonprofits and the need to increase accountability on the part of this sector in terms of meeting obligations to clients. Examples of recent legislation proposed by state elected officials includes Senate, No. 793 calling for increased documentation and justification in the use of public funds intended for human service programs. Another petition (House, No. 1113) would regulate the amount of time for social workers in the Department of Social Services to implement certain services. Bills have been filed to improve work conditions and pay for human service workers (Senate, No. 748 and 749); to eliminate wage disparity among direct care workers for the mentally retarded (Senate, No. 823); and to establish a loan forgiveness program for direct care human service workers (Senate, No. 827). Other bills seek to provide resources for professional development of human service workers (Senate, No. 778); assist nonprofit providers with new costs to operations such as increases in minimum wage rates (Senate No. 771), or for inflation adjustments in multi-year social services contracts (Senate, No. 794), and make yearly adjustments in social service contracts (Senate No. 772).
12. Nonprofits are linked intricately with state government through many laws and detailed regulations that along Internal Revenue Codes for 501(c)3 and 501(c)4 govern charitable entities. These laws and accompanying regulations determine the establishment and operations of nonprofits and the kinds of financial and political interactions and other activities that are legal for these entities. They stipulate the conditions under which nonprofits can enter into contracts (M.G.L. Chapter 152 of the Acts of 1986); outline the legal activities and processes required on the part of nonprofits to address public needs or causes (M.G.L. Chapter 156B, s11, s12, s13); determine the kinds of activities allowed for nonprofits (M.G.L. Chapter 180, s4); restricts the kinds of activities related to purchasing, receiving, acquiring, owning, selling, lending, or exchanging goods (M.G.L. Chapter 180, s6); Sections 7, 8A, 11a, and 26A cover a range of activities, including any transactions of property that might change the nature of activities of the corporation; the articles of organization; merging or consolidation of nonprofits; the dispersal of assets; and the filing of necessary legal documents. Legislative accountability of funding to nonprofits is ongoing and as described by a former attorney in the Inspector General's office, state monitoring includes 1) ensuring that there is adequate competition among service providers as a way of producing the best services; 2) designing clear contracts with concrete performance measures; and 3) clear directions and information about contract administration. (email correspondence with David Kassel, former Attorney in Inspector General's Office, Massachusetts on March 20, 2003). Numerous bills and petitions aimed at ensuring accountability and providing support to nonprofits have been filed by the state legislature affecting the work of nonprofits and providers.
13. Langley C. Keyes, Alex Schwartz, Avis C. Vidal, and Rachel G. Bratt, "Networks and Nonprofits: Opportunities and Challenges in an Era of Federal Devolution" *Housing Policy Debate*, vol. 7, issue 2 (1996).
14. Correspondence with Susan Gershenfeld, Massachusetts Aging Services Association, Inc. (Summer, 2003)
15. Clarence N. Stone, Jeffrey R. Henig, Bryan D. Jones, Carol Pierannunzi, *Building Civic Capacity: The Politics of Reforming Urban Schools* (Lawrence, Kansas: University Press of Kansas, 2001), p. 4
16. Robert Keough, *Prisons and Sentencing in Massachusetts: Waging a More Effective Fight Against Crime* (Boston, MA: MassINC, 1999) pp. 8, 40.
17. According to Press Release (June 18, 2003) issued by the Office of the Mayor of Boston at least \$5 million

was returned to the city's low-income workers as a result of a coalition of government, businesses, and nonprofits making residents aware of this the Earned Income Tax Credit.

18. Ruth McCambridge and Lester M. Salamon, "In, But Not Of, the Market: The Special Challenge of Nonprofit-ness" *The Nonprofit Quarterly* Vol 10, Issue 1 (Spring 2003)
19. Wolpert, p. 4
20. Massachusetts Workforce Alliance, *Workforce Development: A Diverse Provider Network Meets Diverse Workforce Needs* (May 2003)
21. Andrew M. Sum and W. Neal Fogg, *The Changing Workforce: Immigrants and the New Economy in Massachusetts* (Boston, Ma: Citizens Bank and MassINC, 1999). 22. Massachusetts Association of Community Development Corporations, *Production and Pipeline Report: Summary and Analysis of the Activities of Community Development Corporations in Massachusetts* (December 2001), p.5
23. See, "ICIC Research Facts", http://www.icic.org/research/research_facts.asp; also Mt. Auburn Associates and Economic Development Research Group uncovered four ways in which the Museum of Fine Arts in Boston makes a contribution towards the attraction of financial resources: direct effects which includes the actual expenditures of the organization; indirect effects include the resources generated by businesses supplying goods and services to the institution; induced effects represent the disposable income of employees and others spent in the immediate vicinity; and visitor effects that involve the expenditures of tourists and others; see, *Economic Impact of the Museum of Fine Arts, Boston*(Boston: Mt. Auburn Associates and Economic Development Research Group, March 2002)
24. William T. Bogart, "Civic Infrastructure and the Financing of Community Development" Discussion Paper (Washington D.C.: The Brookings Institution Center on Urban and Metropolitan Policy, May 2003), p. 1
25. Ibid., p. 28.
26. Chris Sikes, Joseph Kriesberg, and DeAnna Green, *Getting Results: A Small Business Development System That Works*, (Boston, Ma: Pioneer Institute,2003), p.12.
27. Jeffrey Berry, Rob Reich, Margaret Levi, Meira Levinson, and Michael Brintnall, "Report of the Working Group on the Nonprofit, Voluntary, and Philanthropic Sectors" Paper prepared for delivery at the annual meeting of the American Political Science Association, Philadelphia, August 28-August 31, 2003; p. 6 and p. 16.
28. "Do You See What I See" *The Nonprofit Quarterly* Vol 11, Issue 2 (Summer 2004), p. 38; this article is based on research reported by Rebecca J. Kisane and Jeff Gingerich under auspices of the Manpower Demonstration Research Corporation's Project on Devolution and Urban Change; see, *Nonprofit and Voluntary Sector Quarterly*, Vol.33, No. 2 (June 2004). The conclusion of another report, *Not Quite Chaos: Toward a More Disciplined Approach to Community Building* offers a similar warning regarding the public alienation with nonprofits . The report discusses mistrust arising between nonprofits and residents when the former are unrepresentative in terms of the leadership of their organizations, or decision-making processes that reflect relatively little contact with residents and clients; see, James B. Hyman, *Not Quite Chaos: Toward a More Disciplined Approach to Community Building*, (Baltimore, Maryland: The Annie E. Casey Foundation, 2002), Appendix III.
29. *Standards for Excellence: An Ethics and Accountability Code for the Nonprofit Sector* (Baltimore, Maryland: Maryland Association of Nonprofit Organizations, 1998).
30. Lydian Altman-Sauer, Margaret Henderson, and Gordon P. Whitaker, "Strengthening Relationships between Local Government and Nonprofits" *Popular Government* (Winter 2001), p. 37; published under the auspices of the 'Project to Strengthen Government-Nonprofit Relationships' based at the University of North Carolina in Charlotte.

31. See, *Assessing Foundation Performance: Current Practices, Future Possibilities*; and, *Toward a Common Language: Listening to Foundation CEOs and Other Experts Talk About Performance Measurement in Philanthropy* (Cambridge, Ma: The Center for Effective Philanthropy, 2002).
32. Maria Elena Letona, "The Government-Nonprofit Relationship: Towards a Partnership Model" Working Paper Series, The Aspen Institute (Autumn 1999), p.24.
33. Lester M. Salamon, "The Resilient Sector: The State of Nonprofit America" *The State of Nonprofit America*, Lester M. Salamon, ed. (Washington D.C.: Brookings Institution Press, 2002).
34. "Five Cross-Cutting Trends for Human Service Organizations" <http://www.grantthornton.com> accessed July 19, 2003.
35. Sue Karant Associates assisted with this survey during July and August 2003.
36. Robert M. Hollister, Kate Atkinson Kaplan, Gracelaw Simmons, and Christine E. Paul, *Future of Nonprofits in Boston: A Leadership Agenda*, Carol R. Goldberg Seminar, College of Citizenship and Public Service, Tufts University (July 1998).
37. Massachusetts Taxpayers Foundation with Massachusetts Council of Human Service Providers, Inc., *Reforming the Commonwealth's \$2 Billion Purchase of Human Services: Meeting the Promise for Clients and Taxpayers*, (September 2003).
38. Email correspondence with Ron Ancrum, July 27, 2004.
39. *Measuring What Matters: How Do Organizations Demonstrate the Difference They are Making in Communities?*, NeighborWorks Training Institute, New Orleans (June 18, 2003).
40. John Sawhill and David Williamson, "Measuring What Matters in Nonprofits" *The McKinsey Quarterly*, Number 2 (2001), <http://www.mckinseyquarterly.com>, accessed Fall 2003.
41. Elaine Morley, Elisa Vinson, and Harry P. Hatry, *Outcome Measurement in Nonprofit Organizations: Current Practices and Recommendations*, Summary (Washington D.C.: Independent Sector and The Urban Institute, 2001), p. 5; also see, Harry P. Hatry, Linda Lampkin, Elaine Morley, and Jacob Cowan, *How and Why Nonprofits Use Outcome Information* (Washington D.C.: The Urban Institute: June 2002), p. 2.
42. Correspondence with Melvyn Colon, Manager of Resident Leadership Initiative, Neighborhood Reinvestment Corporation, April 13, 2004.
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44. See, Michael E. Porter and Mark R. Kramer, "The Competitive Advantage of Corporate Philanthropy" *Harvard Business Review* (December 2003); also, Jennifer Mullen, "Performance-based Corporate Philanthropy: How 'Giving Smart' Can Further Corporate Goals" *The Public Relations Quarterly*, vol 42, issue 2 (1997), p. 42; also see, "Indicators of Effectiveness: Understanding and Improving Foundation Performance" (Cambridge, Ma: Center for Effective Philanthropy, 2002), p 10; Christine W. Letts, William Ryan, Allen Grossman, "Virtuous Capital: What Foundations Can Learn From Venture Capitalists" *Harvard Business Review* (March 1, 1997); Pete Millard "Profit Ventures Intrigue Nonprofits: Dwindling resources spur entrepreneurship, venture capital plan" *The Business Journal: Serving Greater Milwaukee* (August 12, 2002).
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Ewing Marian Kaufman Foundation (October 31, 1998).

46. Cynthia W. Massarsky and Samantha L. Beinhacher, "Enterprising Nonprofits: Revenue Generation in the Nonprofit Sector," The Goldman Sachs Foundation Partnerships on Nonprofit Ventures at the Yale School of Management; also see their article, "Counting Our Blessings" *Third Sector New England*, vol. 9, Issue 3 (Fall 2002).
47. Carol J. De Vita, Cory Fleming, and Eric C. Twombly, "Building Nonprofit Capacity: A Framework for Addressing the Problem" in De Vita and Fleming, p. 18; and, Beverly A. Cigler, "Pre-conditions for the Emergence of Multicommunity Collaborative Organizations," *Policy Studies Review* 16:1 (Spring 1999), p. 87.
48. Paul C. Light, "The Content of their Character: The State of the Nonprofit Workforce" *The Nonprofit Quarterly*, vol 9, Issue 3 (Fall 2002), p. 9.
49. *Ibid.*, p. 9.
50. James Stergios and Michael Weekes, "Innovation Out of Crisis II: Solutions to the Human Service Workforce Crisis," *Policy Directions*, no 12, Pioneer Institute for Public Policy Research (September 2002).
51. Massachusetts Council of Human Service Providers, Inc., *2003 Five Point Agenda for Human Service Reform*, <http://www.providers.org>, accessed August 2003.
52. Early Education Clearinghouse is an affiliation of the Associated Early Care and Education, Inc. in Boston, Massachusetts. This information is reported on its website, <http://www.factsinaction.org>, accessed June 2003.
53. Email correspondence with author, June 26, 2003.
54. Jay Atkinson, "One-stop Shopping for Job Seekers", *Commonwealth Magazine* (Winter 2001).
55. Dawn Hutchison, Susan Margolin, and Andrew Wolk, *The Boston Nonprofit Sector's Quest for Organizational Effectiveness* (September 2001), p. 10.
56. Edward Skloot, "The Market Economy, Social Responsibility, and the Future of the Nonprofit Sector" in Alan J. Abramson, *Competing Visions: The Nonprofit Sector in the Twenty-First Century*, (Washington D.C.: The Aspen Institute, 1997).
57. Bill Bradley, Paul Jansen, and Les Silverman, "The Nonprofit Sector's \$100 Billion Opportunity" *Harvard Business Review*, Vol. 81, Issue 5, (May 2003).
58. Keyes, Schwartz, Vidal, and Bratt, "Networks and Nonprofits: Opportunities and Challenges in an Era of Federal Devolution" *Housing Policy Debate* Vol. 7, Issue 2 (1996), p.202.
59. Stephen M. Pratt, *Nonprofits Fuel Boston's Economy*, (Boston: Eureka-Boston, 2003); also, see other studies for Massachusetts: *Return on Investment: The Economic and Social Impact of the Non-Profit Sector in Worcester County*, Impact Report by Mary Kilcoyne and Pat Harmon (writers), and Maurice Boisvert, Youth Opportunities Upheld, Inc. Worcester, Ma. (March 2002); and, *Economic Impact of Human Services Agencies on the Pioneer Valley Region: An Analysis of Expenditures and Jobs* by the Center for Economic Development, University of Massachusetts Amherst (July 1998).
60. David Lebenstein and Arlene Wysong, *Social Policy*, July 17, 2002.
61. Sarah Dewees and Lester M. Salamon, "Connecticut Nonprofit Employment" *Nonprofit Employment Bulletin Number 8*, Johns Hopkins Center for Civil Society Studies and Connecticut Association of

Nonprofits (April 2002), p. 10.

62. These numbers are derived from “1999 Businesses: Daytime Population and Establishment Size”, a database compiled by Applied Geographic Solutions (Encinitas, California) for use with GIS applications.
63. Chris Sikes, Joseph Kriesberg, and DeAnna Green, *Getting Results: A Small Business Development System That Works*, Pioneer Institute (2003), p. 5.
64. Also see, Grace G. Healey, “Our debt to direct-care workers” *The Boston Globe* Guest Editorial, (September 1, 2003).
65. James Stergios, “Social Services Network Needs Tune-up” Pioneer Institute (May 20, 2002); also the report, *Labor Market Trends and Issues in the New York City Non Profit Social Services Sector* (New York: Fiscal Policy Institute, August 2002) provides information about how community colleges can structure curriculum to assist in training a range of social service workers.
66. “The Generosity Index 2002: Massachusetts is on the Move” *The Catalogue for Philanthropy*, <http://www.catalogueforphilanthropy.org>, accessed August 4, 2003.
67. *The United States Nonprofit Sector 2001*, p. 7.
68. There are examples showing other statewide strategies for encouraging a culture of giving and increasing volunteerism. A statewide taskforce on charitable giving was established in Maryland to consider how giving can be increased. The Task Force’s report helped to establish a Governor’s Interagency Council that considers strategies aimed at enhancing a “culture of giving” among state residents and organizations. The Task Force considered possible changes in tax laws (including the adoption of a charitable tax credit for households for the benefit of short-form tax filers); public relations campaigns; collection and presentation of data and information regarding the economic impact of the nonprofit sector; and other related recommendations to increase volunteerism. See, Lester M. Salamon, *Private Action/Public Good: Maryland’s Nonprofit Sector in a Time of Change* (Baltimore: Institute for Policy Studies at Johns Hopkins University and Maryland Association of Nonprofit Organizations, 1997).
69. “Older Workers: An Essential Resource for Massachusetts” *Blue Ribbon Commission on Older Workers*, (Commonwealth of Massachusetts: April 2000), p. 62.
70. This recommendation reflects one highlighted in a survey of 1,000 nonprofits in the U.S., “The Nonprofit Agenda: Recommendations to President George W. Bush to Strengthen the Nonprofit Sector” presented by Advocacy Institute, National Committee for Responsible Philanthropy, OMB Watch, and The Union Institute (January 22, 2001).
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72. David Osborne and Peter Hutchinson, “Reinventing the State Budget”, *Commonwealth Magazine* (Spring 2004), p. 19.
73. Emily Gantz Mckay, et al., “Immigrant and Refugee-Led Organizations and their Technical Assistance Needs: Report of a Study Conducted for the Ford Foundation, Migrant and Refugee Rights Portfolio” (Mosaica: Washington D.C., 2001).
74. A precedent for this kind of strategy is Executive Order #385 signed by Governor William Weld in 1996. This order was designed to facilitate the transfer of underutilized or closed state hospitals to community groups and developers.

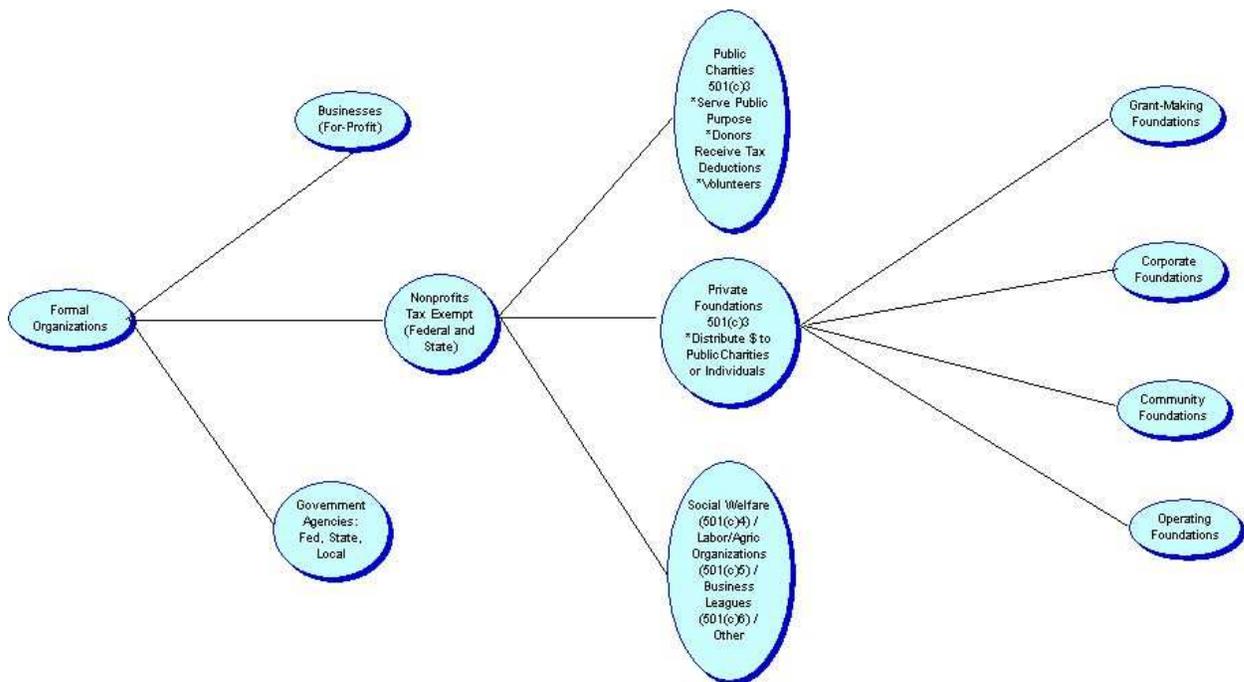
Appendix A: Interviewees and Participants

Henry Allen, The Hyams Foundation
Ron Ancrum, President, Associated Grant Makers
Doug Baird, Associated Day Care
Geoff Beane, Massachusetts Workforce Alliance
Anne Marie Belrose, Assoc Dept Dir, Ma. Dept Community and Housing Policy
Thomas Birmingham, Former President of the Massachusetts State Senate
Marilyn Anderson Chase, The United Way of Massachusetts Bay
Charlie Chieppo, Pioneer Institute
Melvyn Colon, Neighborhood Reinvestment Corporation
Mary Ann Crayton, Community Training and Assistance Center
Jose Duran, Hispanic Office of Planning and Evaluation
Victoria Falhberg, One Lowell
Susan Gershenfeld, Massachusetts Aging Services Assoc., Inc.,
Beth Green, Human Services Forum
Mossik Hacobian, Urban Edge Development Corporation
State Senator Jack Hart, Chair, Joint Committee on Commerce and Labor
Prof. Douglas Imig, Editorial Board, *Nonprofit and Voluntary Sector Quarterly*
Joanne Jaxtimer, Mellon New England
Steve Kadish, Massachusetts Executive Office of Health and Human Services
Sue Karant, Karant and Associates
David Kassel, former Attorney in Inspector General's Office, Massachusetts
Rina Kotchamp, Massachusetts Division of Employment and Training
Terry Lane, The Boston Foundation
Elena Letona, Centro Presente
Meizchu Lui, United for Fair Economy
Ana Luna, Arlington Community Trabajando
Pat Maher, Haymarket People's Fund
Ruth McCambridge, Third Sector New England
Kristen McCormack, Boston University Business School
Trinh Nguyen, Boston Women's Fund
Luis Prado, Department of Social Services for Chelsea
Stephen M. Pratt, The Bridgespan Group
Michael Ripple, Massachusetts Council of Human Service Providers
Mayte Rivera, Community Enterprise Development Center, Lawrence, Ma
Craig Saline, Massachusetts Coalition on Vital Aging
Prof. Jorge Santiago, Northern Essex Community College
Gerald Scott, Massachusetts Department of Mental Retardation
Klare Shaw, Barr Foundation
Horace Small, United Minority Neighborhoods
Harry Spence, Commissioner, Massachusetts Department of Social Services
State Representative Benjamin Swan
Robert Thomas, MLK, Jr. Empowerment Center, Worcester, Ma
Chuck Turner, Member, Boston City Council
Prof. Miren Uriarte, Mauricio Gaston Institute, University of Massachusetts Boston
Bill Walczak, Codman Community Health Center
Prof. Ann Withorn, University of Massachusetts Boston
State Representative Alice Wolf
Michael Weeks, Massachusetts Council of Human Service Providers
Andrew M. Wolk, Root Causes Institute
Faith Yando, Senior Vice President, MassDEVELOPMENT
Stacy Zelbow, GT Management, LLP

Appendix B: Definition and Description of Nonprofits

Nonprofits are tax-exempt organizations that have registered as such with the Internal Revenue Service. In order to qualify for the federal income tax exemption under the 501(c)3 regulation, the entity must be operated for one or more of the following activities: charitable purposes; religious; educational; scientific; literary; fostering national or international amateur sports competition (but only if none of its activities involve providing athletic facilities or equipment; or, be involved in the prevention or cruelty to children or animals. Further, an organization must be a corporation, community chest, fund or foundation; an individual or a partnership would not be eligible. (see, www.irs.gov/pub/irs-pdf/p557.pdf). Many nonprofits, but not all, are public charities falling under Section 501(c)3 of the federal taxation code. This code allows tax-deductible donations and contributions to these organizations. This category includes nonprofits that are public charities in that they provide public services or benefits. The Office of the Massachusetts Attorney General, Division of Public Charities reports that, “A public charity is an entity that is nonprofit, which has a primary purpose to provide assistance or service benefiting an indefinite portion of the public other than the nonprofit's own membership. In addition to philanthropic organizations and foundations, a few examples of public charities include nonprofit hospitals, universities and schools, churches, social service providers, museums, cultural organizations, and youth sports organizations.” (www.ago.state.ma.us). 501(c)4 nonprofits includes public charities, but also other tax-exempt organizations doing advocacy work on behalf of some interest or group rather than the public, and therefore, individual donations and contributions are not tax-deductible. Private foundations are also 501(c)3 nonprofits considered charitable organizations, but not public charities. Foundations are established to distribute money to public charities or individuals.

The following chart is an overview of formal organizations in the United States and illustrates the various nonprofit categories. Community-based nonprofits discussed in this report fall under the 501(c)3 category as public charities.



Data reported in this study is based on analysis of “Registered 501(c)3 Public Charities by County, BMF 07/2003, 501(c)3, 2003, July data for Massachusetts,” “Registered 501(c)3 Public Charities by Major Purpose or Activity, NTEE Code” 2003, July data reported for Massachusetts,” “Registered 501(c)3 Public Charities by Major Purpose or Activity, NTEE Code” 2003, July data reported for Massachusetts,” “Registered 501(c)3 Public Charities by Major Purpose or Activity (NTEE Code)” 1998 and 2003 Jul Data for Massachusetts, Number of Organizations Filing Form 990,” National Center for Charitable Statistics, Urban Institute (Washington D.C.); <http://nccsdataweb.urban.org/>. This is the national depository on nonprofits and was established in 1982 with a mission is “to develop and disseminate high quality data on nonprofit organizations and their activities for use in research on the relationships between the nonprofit sector, government, the commercial sector, and the broader civil society.” (<http://nccsdataweb.urban.org>). This Center uses several database files released by the Internal Revenue Service to collect information and report about nonprofits, including, the “IRS Business Master File” (based on IRS Forms 1023 and 1024) which includes all tax-exempt organizations that have been active over a period of time and contains 26 descriptive variables and 2

financial variables; the “IRS Return Transaction Files” based on the IRS Forms 990; the “IRS Statistics of Income Sample Files” that include 300 variables for samples of nonprofits (usually samples are between 10,000 and 11,000 nonprofits); and, the “1992 IRS Form 990 Parts 3&6 Supplement” based on the IRS Forms 990 but also includes some information about program services and income characteristics for 100,000 501(c)(3) and 20,000 organizations with 501(c)(4) designation.