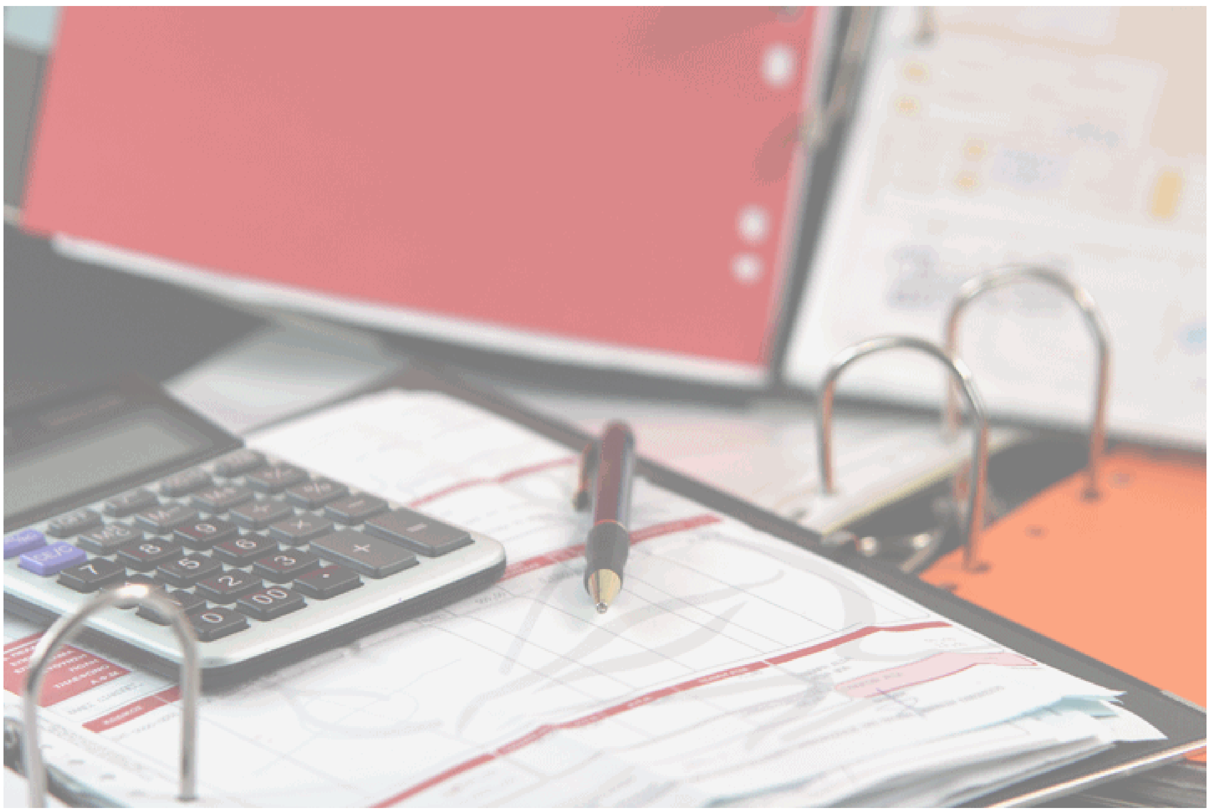
Debunking “Accountability to Donors”



A White Paper

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at Help 4 NonProfits

Help 4 NonProfits COMMUNITY DRIVEN INSTITUTE

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Community-Driven Institute at Help 4 NonProfits
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A dangerous movement has been growing in the Community Benefit / "Nonprofit" world*. It has seemingly sprung from the same loins as the movement to have organizations "run more like businesses." With its business-like focus on dollars, it is not surprising that the sequel to the "Run Like a Business" movement is the "Donor Rights / Accountability" movement.

The essence of Donor Rights / Accountability is that organizations are primarily accountable to their donors, as the donors (according to this theory) are the organization's investors - the ones that make everything possible. Therefore, organizations owe their primary accountability to those donors, to ensure they are spending the donors' money wisely.

Whither Accountability?

The questions "To whom are we accountable? And for what?" are about more than just dollars and donors. These questions are at the heart of everything Community Benefit Organizations are able to accomplish. And the reason for that is simple: *We accomplish what we hold ourselves accountable for.*

If Community Benefit Organizations hold themselves accountable for creating an amazing future for their communities, their donors will be happy, because their communities will be healthy, vibrant, resilient, humane places to live.

And organizations will provide those results by being fiscally prudent and gracious to their donors, simply because it is impossible to produce extraordinary results if they do their work in any other way.

The Donor Accountability Movement, however, asks us to turn that logic on its ear.

* Throughout this paper, the word "nonprofit" has been placed within quotation marks. The reason for this is philosophical. Community Benefit organizations are not "non" anything. They are powerful forces for improving the quality of life in our communities and our world. Until such a positive term is more commonly recognized, however, we continue to use the word "nonprofit," but set off the term in quotation marks to indicate that it is not our term of preference - nor one that is particularly descriptive. It is just the term that, in the U.S., is most commonly recognized. (The same philosophy applies to the term NGO / Nongovernmental Organization outside the U.S.)

Illogical Constructs, Faulty Assumptions and Disappointing Results

"Our donors are our investors; we owe our primary accountability to them." Such statements sound good at face value. Sadly, though, the Donor Accountability Movement is rooted in faulty assumptions, and built upon logic that is seriously flawed. More important for our communities, however, the philosophy behind the Donor Accountability Movement is hazardous to the ability of community organizations to create visionary improvement to the quality of life in our communities.

To get the simpler targets out of the way quickly, let us first address the logic flaws, moving from there to the faulty assumptions at the heart of the Donor Accountability Movement.

Illogical Construct #1:
Accountable to No One?

The first illogical construct focuses on that rare animal - the fully funded, fully endowed organization.

If organizations are primarily accountable to their donors and funders, and an organization has no donors to whom to be accountable, then to whom *is* the organization accountable?

And if the logic works for that organization, why is the logic different if someone has given a donation?

Does accountability really relate to the level of financial security an organization enjoys? If an organization starts out with many donors, and over the years grows an endowment to the point where it needs to do virtually no fundraising, resulting in very few, if any donors - to whom is the organization accountable?

And does true accountability really change over time if an organization's finances change, but its purpose remains intact over that time?

Illogical Construct #2:
Bill Gates vs. My Grandmother

If Donor Rights advocates are correct, an organization owes its primary accountability to its donors, because their dollars make everything possible.

Does that mean the organization is more accountable to the person who writes a $1 million check than to the person who gives $10? Are we then really talking about a sliding scale of accountability, where the organization is accountable to each and every donor, in direct proportion to the level of his/her gift?

And how does that work out in practice? What exactly do those “donor rights” buy in terms of levels of accountability based on gift size?

Taking that logic one step further, does the same “accountability” apply if the $1 million check came from Bill Gates, representing a fraction of his total wealth, while the $10 came from my grandmother, living on a fixed income, to whom that $10 meant giving up something else she would have purchased that week? What rights would each of them deserve as donors to whom the organization might hold itself accountable?

Which raises the next question: If two donors make 180 degree opposite requests of an organization, and they both gave the same amount, to whom is the organization accountable? Which one of those donors’ best interests should be the primary concern of the organization?

Illogical Construct #3:
Donating What?

If an organization is first and foremost accountable to those who provide the resources to make their programs possible, are those organizations only accountable to donors who give them cash?

What about the donor who provides $100,000 in free rent every year for ten years? What about a volunteer who works 40 hours a week, every week, for free?

If we are primarily accountable to our donors, are we accountable to our volunteers and our in-kind donors to the same extent we would be accountable to our cash donors? And if not, why not?

Illogical Construct #4:
Are Thousands of Organizations Accountable to ME?

There are thousands of organizations that receive large grants from the various layers of various governments - local government, state / provincial government, federal / national government.

If organizations are primarily accountable to their donors and funders, to whom, exactly, are these organizations accountable?

Are they accountable to the whole government? And what does that really mean? I understand what it means for government to be accountable to the people it governs, but to what or to whom would an organization be accountable if it is accountable TO the government?

Perhaps, then, those grantee organizations are accountable just to the division of the government whose budget provided the funding. Or within that division, perhaps they are accountable to the proposal review team, or to the individual program officer who approved the grant.

Or are those grant recipients accountable to the Division Chief that oversees all those program officers? Or to the elected officials who appointed the Division Chief - the folks to whom that Division Chief is himself accountable?

> But wait - that money didn't really come from the government. You and I gave that money to the government! So is each and every one of those organizations then accountable directly to each and every taxpayer?
>
> Are they all accountable to ME?

Students of logic know that logic does not spring from thin air. Our assumptions create that logic. As we consider the logic leaps noted in the previous examples, therefore, it is not surprising that the assumptions at the heart of the Donor Accountability Movement are also seriously flawed.

Faulty Assumption #1:
The Corporate Comparison

Both Corporate and "Nonprofit" Accountability are about the fiduciary obligation to represent the interests of others.

When we state that a "nonprofit" organization is primarily accountable to its donors, therefore, we are stating that the organization's primary allegiance is to represent the interests of those donors.

Rather than assume the "truth" of that mandated allegiance at face value, let us consider the assumptions behind that "truth." What assumptions might help us determine whose interests an accountable organization would aim to represent?

The most commonly cited assumptions in the "Donor Accountability" argument look something like this:

1) In a for-profit corporation, shareholders invest the dollars that allow that corporation to do its work.

2) In a Community Benefit Organization, donors provide the dollars that allow the organization to do its work.

3) Therefore, because for-profit corporations are accountable to their shareholders, "nonprofit" corporations are accountable to the donors.

And while this may seem airtight, the assumptions do not add up. Delving further into those assumptions, we instead find the following reality:

1) One can only be held accountable for one's own actions. Therefore, a corporation is accountable for the actions it takes.

2) The purpose of a for-profit corporation is to generate profits. That purpose is typically stated in articles of incorporation and/or bylaws, as well as other corporate documents such as investor prospectuses and/or Securities and Exchange Commission Filings.

   Corporations therefore take two sets of actions. First, they promise would-be investors that they will generate profits. Second, they do day-to-day work that generates those profits.

   The actions for which the corporation will be held accountable by all parties, therefore, are all centered around the promise to generate profits.

3) The shareholders will receive the benefit of the corporation's actions - those profits.

4) For-profit corporations are therefore accountable TO their shareholders, and accountable FOR taking actions that will provide the very most benefit / reward possible for those shareholders - the highest return on the shareholders' investment.

5) Corporate accountability to shareholders, therefore, is NOT due to the fact that the shareholders provided the funds (actions taken by the shareholders). The corporation is accountable to those shareholders because the shareholders will reap the benefit *that derives from the corporation's own actions - the actions for which the corporation is accountable!*

This is not a difference of semantics. It is, in fact, everything. Corporations are not accountable because their investors put the money in, but *because the investors are the ones that will reap the rewards of the actions for which the corporation is indeed accountable.*

Which begs the question, “In the world of Community Benefit Organizations, who will reap the benefit of what the organization does - the actions it takes?”

Yes, it is the community - everyone, including the donors, but also including you and me and our neighbors and friends.

Therefore, the “shareholder / investor” argument does more than simply fail to prove that community organizations are accountable first and foremost to their donors.

The corporate analogy actually proves instead that community organizations are primarily accountable to the community they have promised to benefit with their actions.

Faulty Assumption #2:
Accountability for “The Money”

Now we’re at the heart of the matter. If organizations are to be held accountable to their donors, the only logical thing they could be accountable for is The Money. Asking a room full of “nonprofit” board members what they are *primarily* accountable for, that is the response that will likely be provided by many, if not most of them.

We are primarily accountable for “The Money.”

And as was made clear in Faulty Assumption #1, that is simply not true, as the corporate argument actually focuses that primary accountability on community benefit.

If the assumptions and logic of the Corporate Model do not bear out the suggestion that Community Benefit Organizations are primarily accountable for The Money, then is there a set of assumptions that does prove this “truth” to be true?

Perhaps those assumptions are found in the law. Are not community organizations LEGALLY accountable, first and foremost, to donors and funders? Are they not LEGALLY accountable primarily for the money?

Well, no. Legally, community organizations are accountable for upholding the law. That's it.

Now in some cases, the laws they must uphold may include contract law. For example, if there is a contract between an organization and a donor / funder / government contracting office, the organization must legally uphold its end of that contract, just as it would be legally bound to uphold any contract. But in those cases, it is not because the other party is a donor, but because there is a contract involved.

And so, short of ensuring that money is not used for an illegal purpose, the "legal accountability primarily for the money" argument does not hold any more water than the corporate argument.

Perhaps, then, the overriding assumptions are found in the organization's tax exemption. In exchange for their tax exemption, must not community organizations be primarily accountable for the money?

Wrong again. Organizations receive their tax exemption for one reason: to provide community benefit. The prime example of that is tax exempt hospitals in the U.S., who often find themselves scrambling to put a cash value to the benefit they provide to the community. The IRS wants to know that the community is receiving at least as much in "community benefit" as the hospital is saving by not paying taxes.

Again - not the money; Community Benefit.

But just to extend the logic, let's take the tax exemption assumption one step further.

If the reason an organization would be primarily accountable to its donors has anything to do with the tax exemption the organization receives, then it stands to reason that the reverse would be true as well - that donors are accountable to the organization.

Absurd? Hardly. And that is because the organization is not the only one getting a tax advantage; the donor will receive a tax deduction for his/her gifts. And depending on the net worth and sophistication of the donor, he/she may get tremendous personal tax advantages for giving a particular gift in a particular way. The path becomes muddier, not clearer, the more we head down this particular road.

Summary of Points

The above all combines to bring us here:

If the theory of primary accountability for the money is not a matter of legal accountability or the tax code; and
If corporate accountability actually proves that organizations are accountable primarily to the community, rather than primarily to donors; and
If it is almost impossible to discern specifically to whom an organization would owe its accountability in the case of a government grant; and
If we have to think hard (or feel we are rationalizing) to determine why a cash donor should be the object of accountability over an in-kind donor or volunteer; and
If we have to think just as hard, if not harder, to determine cut-off donation levels for varying degrees of accountability - and again determine what exactly that means;
And **if** we cannot determine to whom an organization would be accountable if it was fully endowed and did not have to raise money through donations or grants…

Then maybe it is time to put to rest the notion that the primary accountability of a Community Benefit Organization is for the money, and that a Community Benefit Organization is primarily accountable to its donors.

Perhaps it is time to start looking not at the issue of accountability for the means - the money - but for the end results: community improvement. And perhaps it is time to start considering what could be accomplished if boards held themselves first and foremost accountable to their communities, rather than to their donors.

We Accomplish What We Hold Ourselves Accountable For

As it is in the for-profit world, the ultimate seat of accountability in a Community Benefit “Nonprofit” Organization is the board. In the quest to make boards more effective and, yes, accountable - if demanding more donor rights is not the answer, then what is the answer?

The answer is that we stop aiming at the symptoms, and start aiming boards at their potential. And then have them hold themselves accountable for that.

And what is that potential? It is no less than the community’s highest aspirations - the aspiration for our communities to be safe, healthy, vibrant, humane, joyful places to live.

Here’s the thing about the Donor Accountability Movement: It stems from the same frustration everyone seems to have about the work of the “Nonprofit” Community Benefit Sector.

Donors and boards and everyone else want the same thing from Community Benefit Organizations - they want significant, visible improvement in the quality of life in their communities. To date, the systems this sector relies on have failed to aim at that end result, and in some cases aim glaringly away from such results.

But if we change both governance systems and governance culture, making it the norm that boards will indeed hold themselves accountable for creating the future of our communities, then they will be accountable to their donors and everyone else.

Boards cannot accomplish “extraordinary” if they are wasteful and inefficient. And, more to the point, if boards are holding themselves accountable for creating extraordinary communities, donors will be excited and engaged, rather than critical.

Donors are a hugely important part of what makes Community Benefit organizations work. They are, in fact, investing their dollars, their in-kind gifts and their time. And they are frustrated with the fact that our communities do not seem to be dramatically changing.

Unfortunately, those advocating for donor rights are making the mistake of aiming their complaints at the money, rather than the results. But that does not invalidate their reasons for doing so. They want what we all want - better communities, and healthier organizations leading that charge.

Therefore, consider the following:

If the board is holding itself first and foremost accountable for creating an amazing future for anyone whose lives are touched by the organization, and

If the board is rooting every single decision in the organization's vision, mission and values, and

If that board is creating plans that aim first at the difference they want to make, and then at ensuring they have all the means to accomplish that - and that no undue risk or liability can harm those efforts, and

If the board is consciously monitoring to ensure those plans are being implemented,

Then our organizations will have far more than just happy donors.

Our organizations will have boards that are committed.

Our communities will have organizations that are energized.

And we will all have communities that are becoming all they have the potential to become.

Boards of Community Benefit Organizations are creating the future of their communities, whether they do so consciously or not. And they will indeed accomplish what they hold themselves accountable for.

The issue of where boards aim their accountability is therefore the most important question any organization can ask. That question will mean the difference between always aiming their accountability at the means vs. aligning those means behind extraordinary community results.

It will mean the difference between boards that are always putting out organizational fires, and boards that are proactively creating the future of their communities and their organizations. It will mean the difference between a board that is excited about the organization's potential, and a board that is - in a word - bored.

An energized board is a board that is engaged, first and foremost, in making a difference. It is a board that is actively aligning the organization's means behind making that difference. And it is a board that is engaging others to make a difference as well.

Now that is something for which to hold ourselves accountable!

Resources to Focus Your Board's Accountability on What Matters Most

Governing for What Matters
This 4-part article shows boards how to focus their work on creating visionary results for the community the organization serves. Learn to place the board "means-based" functions of *Legal Oversight*, *Operational Oversight*, and *Board Mechanics* within the context of the board's primary function - *Leadership*. This article is guaranteed to energize your board!
http://www.help4nonprofits.com/NP_Bd_Governing_for_What_Matters1-Art.htm

Board Recruitment & Orientation:
A Step-by-Step Guide to Building an Energized Board
Learn why this step-by-step guide is the sector's best-seller for building and recruiting an energized board. This manual uses stories, forms, exercises, brainstorm sheets and old-fashioned common sense to help your board know its job, focus on what matters, recruit for what matters, and ensure they always know what they need to know to do the job. You will not find a more practical tool for building an energized board.
http://www.help4nonprofits.com/BoardRecruitingBook.htm

Monitoring: The Heart of Board Accountability and Effectiveness
If your board is accountable for the whole organization, how do you keep track of it all? This audio class focuses boards on both the *how* and *why* of monitoring, to ensure they are not letting things fall through the cracks. If the board is accountable whether they act accountably or not, this 85 minute class will set them on the path to active accountability.
http://www.help4nonprofits.com/Workshops/TeleClasses/Monitoring/Monitoring-ProgramDetails.htm

Free Articles Library
This online library contains a rich compendium of articles on topics of interest to Community Benefit Organizations - resource development, governance, community engagement and more. All of it is free - and worth its weight in gold!
http://www.help4nonprofits.com/H4NP.htm

Hildy Gottlieb has been called "the most innovative and practical thinker in our sector." As President of Help 4 NonProfits and its Community-Driven Institute, her ground-breaking work aims the Community Benefit Sector at its highest potential - creating the future of our world.

Hildy's credentials include teaching, writing and consulting in the Community Benefit Sector, as well as co-founding 2 community organizations. Hildy's numerous awards include a Points of Light Citation from President Bill Clinton. Her writing has been seen in various publications including the Chronicle of Philanthropy, and her books have become industry standards - including her manuals on Community Engagement, and Board Recruitment & Orientation.

Learn more about Hildy and the Community-Driven Institute at www.CommunityDriven.org and at Hildy's blog, ***Creating the Future***, at www.HildyGottlieb.com.