

## More from non-profits now means less in future

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In the aftermath of the economic tsunami, many non-profit organisations will be called upon to do more with less. As in past recessions, they will work to protect a mounting roster of victims from hunger, homelessness, ill-health and physical abuse.

Board members, donors and managers in the social sector will need to summon their courage and embrace an “equity ethic” to ensure that they and the organisations they support will be able to stay the course for the people who need them. To do so, they will need to tame one of their strongest impulses: to do more.

The role of equity holders in the for-profit world is clear: as owners, they want to ensure their investment is protected so it can grow. They invest capital to build the “factory” that delivers products, attracts reliable revenue and creates profits. A critical ingredient is protecting the enterprise from destructive over-exploitation – too rapid growth, an overly low sales price and strained capacity for too long. This protective role can be described as an “equity ethic”. In the non-profit sector, it is virtually absent.

Board members and donors are the equity holders for our social sector, but unlike in the for-profit world, this does not always engender a true “equity ethic”. As guardians of both present and future social benefits, they are the only ones in a good position to protect non-profits from over-exploitation. Yet the role of “protector” is more difficult than in the for-profit sector, and it is largely because of the nature of the people and causes involved. All of us – clients, government, staff, even board members and leading donors – want non-profits to do more.

We all know and admire people with a calling. In the social sector, those who have it seem to have DNA that compels them to teach, protect and heal. They find a way to serve, even when it means carrying a 100-child caseload, working 90-hour weeks, tolerating unsafe conditions and going without health insurance. We tend to expect this kind of sacrifice, exploiting their commitment while cheering them on. This means that the majority of these people and organisations – especially those serving low-income communities – are “running on fumes”.

Much of the social infrastructure in the US is as shaky as the levees in New Orleans. Our research at Nonprofit Finance Fund on youth-serving organisations in five large states revealed that those serving low-income children operated, on average, with less than two months of cash on hand. In some cases, the average cash position was negative. These conditions have worsened in recent months.

Social equity holders – board members and donors – need to step in now. Demands to do more will come from all sides. In the boards’ hands will be the critical job of charting a path that will serve the public in this financial meltdown, while not compromising the ability to do so in the future.

Here are ways that donors and board members can adopt an equity ethic:

- Keep an eye on reimbursement rates as the workload increases. The government pays non-profits less than a dollar for each dollar of services provided (such as foster care, health education, financial counselling), and as some non-profits increase their workload, they dig themselves deeper into a financial hole. Non-profit contractors often accept these “underwater” prices because they cannot bear to turn away those in need.
- Raise capital to fund change. If you need to grow, downsize, merge or simply become more efficient, capital is needed in addition to revenue.
- Difficult times inspire creativity. We have seen non-profits invest in technology that streamlines fund-raising, work “virtually” to reduce office space and/or travel expenses, and merge services or operations with like-minded organisations.

A core duty of our leaders is to build for the future. It is tempting to over-exploit organisations working to

protect needy populations, because demands on them will increase dramatically. It is even more tempting to abandon creative work, research and environmental needs for the economic exigencies of the present. We cannot afford to do either. A vibrant non-profit sector is crucial to the strength of our economy and the well-being of future generations. Board members must be brave by adopting an equity-holder's ethic that will see us through the hard times, and serve future generations.

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