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The Maryland Association of Nonprofit Organizations: Seeking "Standards for Excellence" for the Future

Editor's note: *This edition of the* Carnegie Results *focuses on the "Standards for Excellence," a Maryland-based capacity-building and self-regulation initiative designed to help nonprofit organizations adopt best practices for management and to instill greater accountability. Although a foundation-supported national replication project has only been recently launched, there are already positive indications that the Standards program is contributing to the development of a strong culture of setting and adhering to standards in the nonprofit community.*

INTRODUCTION

Before Leslie Ostrander took the reins at the Kidney Foundation of Greater Cincinnati in 2002, the organization had been run for nineteen years by the same executive director. It operated like "a mom and pop shop," Ostrander says. "Our board wasn't sophisticated in the realm of what a board is supposed to do for a nonprofit or how a nonprofit is supposed to operate."

More alarmingly, says Ostrander. "I inherited a financial system that was managed by a guy in his 80s who was very used to doing what the former executive director felt comfortable doing, even though their system was still based in DOS [the long-outdated, pre-Windows computer operating system]. Even our treasurer couldn't understand it, and he's a CPA," Ostrander says.

There was no suggestion of impropriety at the Kidney Foundation. Nonetheless, the lack of management safeguards left the organization vulnerable. "If you can't understand your financials," Ostrander says, "you really

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don't have control over your money."

For better or worse, this sort of seat-of-the-pants management and hit-or-miss oversight is not unusual in America's sprawling, diverse and rapidly growing nonprofit sector. Without training or expertise in administration, many nonprofit leaders are unable to manage their organizations effectively. Lacking knowledge about governance, nonprofit boards often do not take the time or adopt the safeguards needed to provide proper oversight. As Cynthia Gibson, then a program officer in Carnegie Corporation of New York's Strengthening U.S. Democracy program, explained in 2002: "Small or mid-sized nonprofit [organizations], in the best of times, are undercapitalized, understaffed and stretched to the bone as they continually struggle to find and secure the financial and administrative resources they need to carry out their missions."

What can and should be done to ensure sound management and good governance in the nonprofit sector? In the wake of high-profile media reports spotlighting ethical lapses at nonprofit organizations and declining public confidence in nonprofits, the question has drawn increasing scrutiny in recent years—both from within the nonprofit sector, and increasingly from government as well.

Consensus remains elusive, but Ostrander's experience at the Kidney Foundation of Greater Cincinnati may suggest an important part of the answer. A year into her tenure, Ostrander attended a workshop series sponsored by the Ohio Association of Nonprofit Organizations. The four-session training was based on an industry-sponsored ethics and accountability project entitled Standards for Excellence—a code of best practices in nonprofit management backed up by an extensive collection of user-friendly educational materials. The Standards code was developed in Maryland during the mid-1990s and it is being replicated in several sites nationwide.

The training made a world of difference, Ostrander says: "We used it to make a lot of changes that we would have wanted to make anyway, but we were able to make them much more quickly because we had this national organization behind us which put some real thought into why they set these standards."

The Kidney Foundation quickly developed not only a new accounting system but also a conflict-of-interest policy to ensure that all funds were properly spent and accounted for. "The materials—the educational packet—were amazing," Ostrander recalls. "The examples they gave us for what you need to do to put every piece in place and make sure you're covered, and the sample policies they included in our packets, made for a really valuable resource. I think it was the best nonprofit training I've ever received."

Similar stories and similar praise can now be heard from dozens of nonprofit organizations in Maryland as well as Ohio and the four other states with nonprofit associations that adopted Standards for Excellence during the first phase of a national replication project, launched with support from Carnegie Corporation and other foundations in 2001. A September 2004 interim evaluation report declared: "The adoption of

Standards for Excellence by statewide associations of nonprofit organizations continues to be widely accepted as a very good idea, for the associations, their stakeholders, and for the nonprofit field as a whole."

In June 2004, the Maryland Association of Nonprofit Organizations—which developed and still guides the project—opened the Standards for Excellence Institute to take the model coast-to-coast, and two more organizations have since signed on as replication partners. Thirty other groups have expressed interest in becoming partners, and the Institute is developing procedures to work directly with interested nonprofits in areas where no replication partners operate.

Despite this progress, however, the Standards for Excellence face an uncertain future. The most immediate concern is financial. To date, the development and replication of the Standards has been heavily subsidized by national foundations. But with foundation resources for nonprofit capacity building increasingly scarce, the long-term business plan for the Standards program requires hundreds of thousands of dollars of earned income each year via licensing fees from replication partner organizations and user fees from participating nonprofit organizations—a difficult and unproven strategy.

The scarcity of dollars has been a factor behind the decision of some replication partners not to offer individual nonprofits an opportunity to become "certified" as complying fully with the Standards code—a core component of the original Standards design and a prominent feature in most publicity surrounding the model. Even where certification is offered, the number of nonprofit agencies earning the program's Seal of Excellence has been limited due to the heavy costs involved for applicants and for the certifying agencies themselves.

The small number of agencies certified by the Standards for Excellence thus far—just 106 organizations nationwide, including Maryland, as of May 2005—has undercut the program founders' ambitions to position the Standards as "the national standard for ethics and accountability in the nonprofit sector." Nonetheless, wherever it operates, the Standards for Excellence program is proving a valuable asset for the nonprofit sector.

BORN IN ADVERSITY AND AMBITION

The Standards for Excellence emerged from two unrelated events in the early 1990s: a scandal at the United Way, and the 1992 hiring of an ambitious, hard-driving consumer rights attorney—Peter Berns—to be executive director of the brand-new Maryland Association of Nonprofit Organizations.

Just as Maryland Nonprofits first opened its doors, revelations of egregious fraud at the United Way of America captured headlines nationwide. The episode, "cast a big shadow not only on the United Way system, but on the nonprofit sector generally," Berns recalls. "It prompted us to begin thinking, 'What is the nonprofit sector's responsibility in the areas of ethics and accountability? What do we as an organized sector need to do to preserve the public trust?'"

Maryland Nonprofits created a committee to study the question and in early 1994 it developed the framework for a sector-led ethics and accountability initiative. Berns floated the concept to several foundations, but for more than a year, he says, "nobody was interested in funding it." Finally in August 1995, Maryland Nonprofits received a $100,000 grant from the Charles Stewart Mott Foundation. The project's goals were twofold: first, to help nonprofits improve their management and governance systems and become more ethical and accountable; and second, through these efforts, to boost public confidence in the nonprofit sector.

In talking with Maryland Nonprofits staff and others involved in the creation of Standards for Excellence, it quickly becomes clear that the planning process was singularly thoughtful and comprehensive. It began in June 1996 with a weekend workshop at the University of Baltimore where expert speakers from all over the country came to describe an array of approaches for setting standards and measuring nonprofits' performance. After the weekend, fifty volunteers divided up into three committees. Over the next two years, one committee spent hundreds of hours reviewing dozens of existing codes, scouring reams of other literature and exploring options to define an ethics and management code for Maryland. The other two committees focused on packaging the Standards, promoting them, and developing a mechanism to deliver the code to nonprofits in a user-friendly format. "Everyone was really committed to creating something that was worthwhile and important," recalls Sylvia Nudler, vice president of the Council on Quality and Leadership, a Maryland-based organization that certifies and accredits agencies working with the disabled. "We all had full-time jobs, and it took an incredible amount of time. But everyone very much stuck with it."

The planning process reflected the perspective of its participants—nonprofit leaders intimately familiar with the peculiar and underappreciated challenges involved in running a nonprofit organization. Unlike businesses, the bottom line for nonprofits is mission, not profit: how then to measure the success of an organization and evaluate the performance of its leaders? Unlike businesses, much of the income of nonprofits comes in contributions from individuals: how then to ask for contributions and raise money in an ethical, efficient manner? Unlike businesses, nonprofits are tax-exempt organizations and therefore obligated to ensure that all funds are dedicated to achieving the mission, not enriching any individual: how then to set fair compensation levels for nonprofit executives? And how to erect financial safeguards sufficient to ensure that all funds are properly accounted for and efficiently spent?

Committee members knew that many nonprofit executives are not well equipped to address these and other management questions. As Amy Coates Madsen, Maryland Nonprofits' Standards of Excellence program director, puts it: "A lot of the folks leading nonprofits come up through the ranks of their organizations as teachers or social workers and they don't have a lot of background in management. Often, they haven't had any training in how to run an organization or work with a board of directors."

By the time Maryland Nonprofits completed the planning and launched the Standards for Excellence project in May 1998, almost two years had passed since the initial retreat and the draft Standards code had gone through nine revisions. The end product of these deliberations is an exhaustive code of best practices—the Standards for Excellence—that sets forth 55 standards in eight areas of nonprofit management: mission and program, governing body, conflict of interest, human resources, financial and legal, openness, fundraising and public affairs/ public policy.

For each area, the code lays out a series of benchmarks applicable to any nonprofit, regardless of its size or mission. Under "mission and program," for instance, the code requires nonprofits to prepare mission statements and update them regularly; conduct ongoing evaluations to assess their progress; and adhere to professional standards in providing services, honoring confidentiality and handling grievances. Under "conflict of interest," it requires a written policy mandating disclosure of potential conflicts and independent reviews of potential conflicts by uninvolved board members. In combination, the Standards code provides a detailed blueprint for how a well-managed and responsibly governed nonprofit organization should operate.

While one committee was writing this code, another was developing materials to educate nonprofit leaders about the Standards and help nonprofits meet them. Materials were written in plain English and presented in user-friendly formats. The design for a booklet introducing the Standards was based loosely on a spiral-bound ethics code employed by the Lockheed Martin Corporation, printed in 5" by 7" format featuring cartoons and other eye-pleasing graphics. During the spring and summer of 1998, Maryland Nonprofits prepared write-ups covering many of the management issues addressed by the Standards. Maryland Nonprofits has continued to work on these materials ever since, and now has 22 educational packets—each spelling out a challenge, detailing concrete strategies, and suggesting sample policies groups can draw from to upgrade their management systems.

"We felt that as a membership organization it would not be responsible, nor do we have the right, to articulate standards for nonprofits unless we also provided resources to help organizations learn how to meet those standards," says Maryland Nonprofits' Peter Berns.

MAKING A DIFFERENCE IN MARYLAND

Though Maryland was not the first state to develop nonprofit standards—Minnesota's nonprofit association produced a set of guidelines in 1994—the publication of the Standards for Excellence was a big event in the nonprofit sector. In its July 16, 1998 edition, the *Chronicle of Philanthropy* reprinted the eight guiding principles of the Standards code verbatim.

The launch of the Standards program was even bigger news in Maryland. Maryland Nonprofits distributed copies of the code to nonprofit organizations all over the state (including many that were not Maryland Nonprofits members), and to state legislators and county executives, media and others.

Maryland Nonprofits offered introductory workshops on the Standards for nonprofit leaders statewide and it began distributing copies of the code at every Maryland Nonprofits event and training program. Maryland Nonprofits also developed training sessions on a variety of topics included in the code (such as personnel policies, budgets, office policies and procedures, and evaluation), plus an intensive, multi-session training program to help nonprofits roll up their sleeves and begin implementing the Standards in their organizations. Within a year, Maryland Nonprofits distributed 11,500 copies of the Standards for Excellence and provided introductory training on the program to 230 Maryland organizations.

Many Maryland nonprofits also responded enthusiastically to the final piece of the Standards program—an opportunity to become certified and earn a Seal of Excellence by demonstrating that their organizations met all of the program's requirements. In the first year, 125 nonprofits requested applications for the certification program and Maryland Nonprofits trained 70 nonprofit executives statewide to serve as "peer reviewers" to assess and approve the applications. (Each application is reviewed first by Maryland Nonprofits staff, then by a team of three peer reviewers.) When Maryland Nonprofits announced the first cadre of certifications in October 1999, however, just seven groups were included. The complexity of the 55-item code and the demands of the application process proved too much for most nonprofits—a trend that continues to this day.

Despite the low number of certified organizations, the project yielded important benefits in Maryland. A statewide survey of nonprofit organizations conducted in June 2000 found that nonprofits—both dues-paying Maryland Nonprofits members and other nonprofit groups—were far more likely than nonprofits surveyed in 1996 to have a mission statement, evaluate their own programs, publish an annual report and implement conflict-of-interest policies. Maryland Nonprofits members were more likely to take these steps than other nonprofits. Moreover, nonprofit executives who had been exposed to the Stands for Excellence had far higher expectations for how their organizations should operate than executives without access to the program.

The program also proved invaluable for Maryland Nonprofits itself: membership in the association has grown substantially since the Standards program was launched (from 900 members in 1998 to 1,550 in 2005). The Standards also provided a center of gravity for Maryland Nonprofits. "Once we got into the project," Berns says, "ethics and accountability became a big part of our identity. Over time we integrated the code into everything we do as an organization."

EXPORTING ETHICS AND ACCOUNTABILITY

"It wasn't our goal to create something that would be used outside Maryland's borders," Standards program director Amy Coates Madsen told the *Chronicle of Philanthropy* in 2003. "But as soon as the ink was dry, we started getting calls from groups in other states asking to replicate the program." Nonprofit associations in California, Colorado, Louisiana, North Carolina, Oklahoma and Utah all called in the first year expressing interest in replicating the project and the North Carolina Center for Nonprofits began distributing copies of the Standards to its members in 1999. Madsen and Berns quickly began thinking about a national replication project. In 2000, as more and more organizations sought to replicate the Standards model, Maryland Nonprofits reached out to foundations and quickly won initial grants from the Surdna Foundation and the Rockefeller Brothers Fund. Then in early 2001 it secured almost $1.3 million—$900,000 from Carnegie Corporation of New York and $380,000 from Atlantic Philanthropies—to support a two-year replication project.

In its replication plan, Maryland Nonprofits promised to help five state associations customize the Standards to their own needs and preferences and to help them adapt all of the promotional materials, educational packets and training curricula associated with the program. Maryland Nonprofits would provide ongoing consultation and training to help replication partners implement all facets of the program and built into the replication budget substantial pass-through grants in each state ($60,000 in year one, $45,000 in year two) to help finance the program start-up.

Maryland Nonprofits also required that any association wanting to become a replication partner commit to hiring a full-time project coordinator and sustain a project budget of at least $90,000 per year—meaning that the association would have to raise and contribute at least $30,000 to the Standards program in year one and $45,000 in year two. Many nonprofit associations expressed interest, but Maryland Nonprofits selected Louisiana, North Carolina, Ohio, Pennsylvania and Georgia as the participants.

Like the initial planning process to create the Standards for Excellence, the launch of the national replication was impressive, due both to the Maryland Nonprofits' direct assistance and to the atmosphere of mutual support it created among the replication states. Rick Moyers, who headed the Ohio Association of Nonprofits from 1999 until November 2003, calls the initial stages of the replication process "one of the most collaborative and mutually supportive endeavors that I've ever been a part of. We met two or three times as a replication partners group, and each time we would leave loaded down with notebooks and electronic files that included everything we needed to be successful."

Tish Mogan, vice president of the Pennsylvania Association of Nonprofit Organizations and the director of its Standards for Excellence project, also praises Maryland Nonprofits: "When we were going through the first round of certifications, they were right at my side, making sure that we were doing it consistently," she says. Trisha Lester, vice president of the North Carolina Center for Nonprofits, says the pass-through funding was especially helpful. "[The extra funds] allowed us to go and talk with two or three groups at a time or have a more focused discussion around board issues or other concerns. Those are things we couldn't have done without the support and they made a big difference."

"Virtually everyone we spoke with had positive things to say about the role that Maryland Nonprofits has played in this process," program evaluators Lawrence Bailis, an associate professor and senior research associate at the Center for Youth and Communities at Brandeis University and Andrew Sokatch, director of research and evaluation for The New Teacher Project, reported in September 2004. "There is widespread feeling that Maryland Nonprofits staff have gone beyond simply providing training and a range of supportive materials. They are, universally, thought of as caring, committed, and quick to respond."

With this support, replicating the Standards for Excellence model proved both easier and harder than anticipated—but clearly feasible. Maryland Nonprofits anticipated that the replication states would make substantial modifications to the code to suit their own goals, culture and legal codes. Indeed, nonprofit leaders in each replication state reviewed and debated the code extensively. But in the end, while these conversations helped cement support for the Standards process in the replication states, none resulted in major modifications.

On the other hand, Maryland Nonprofits found it more difficult and time-consuming than expected to prepare replication partners to operate the program. In a progress report to Carnegie Corporation, Maryland Nonprofits confided that the least effective strategy employed in the project was allowing each replication state to move forward on its own timetable. "Having each partner at a different stage of the replication process was very challenging on both the pace and the evaluation of the work," the report stated.

For the replication partners, the certification component of the program proved the most daunting. In a January 2003 interim report, Bailis and Sokatch noted that "The state association and local nonprofit agency time necessary to shepherd an application through certification—developing materials, providing training, review of materials provided by participating associations—is perhaps the clearest example of program elements that take far more time (and therefore money) than was originally assumed."

This heavy burden was key reason why three of the five states—North Carolina, Georgia, and Louisiana—initially decided not to offer certification. Instead, they would focus exclusively on promoting the Standards and offering training and support to help nonprofits adopt whatever elements of the code suited their needs. Ultimately, Louisiana reversed its decision and began to offer certification. But North Carolina and Georgia continue to operate a no-certification version of the Standards program.

With or without certification, the Standards for Excellence model proved readily transportable. All five participating state nonprofit associations implemented the program successfully. As of December 2003, the partner states had distributed more than 20,000 copies of the Standards and 9,000 educational packets and they had received information requests from almost 2,500 organizations. The project also proved valuable for the state associations themselves and the associations' aggregate membership grew nine percent in two years. "Perhaps most importantly," project evaluators Bailis and Sokatch concluded, “the process of replicating the Standards for Excellence has provided them with a central organizing principal by which to grow, strengthen and direct their staff members, boards, and organizations.”

SHIFTING GEARS

In 2003, two years into the replication process, Maryland Nonprofits had much to feel good about. The ethics and accountability model it had built from scratch and made work in Maryland was now up and running and apparently making a difference in five additional states. [For more on how the Standards for Excellence made a difference for individual nonprofits, see sidebar.] Many more state associations were also interested in adapting the model, as were a number of management-support organizations for nonprofits, university-based nonprofit centers, foundations and others.

Despite this success, however—or perhaps partly because of it—Maryland Nonprofits found itself at an uncomfortable crossroads in 2003, contemplating a dramatic shift away from the methodical, step-by-step replication approach it had employed to that point. Instead, Berns and Madsen began developing plans for bold and risky new course: nationwide replication.

By 2003 the nonprofit sector found itself embroiled in a growing firestorm. Just over a decade before, in 1992, the United Way scandal—which saw United Way president William Aramony resigning under accusations of misusing the organization’s funds (he was convicted in 1995 of various counts, including fraud and filing false tax returns)—had been followed by a steady stream of similar (if less spectacular) revelations in the following years such as corruption at the Washington, D.C. chapter of the United Way; dubious insider land deals at the Nature Conservancy; and a series in the *Boston Globe* exposing lavish spending and excessive compensation at several philanthropic foundations. In 1999, Johns Hopkins University nonprofit sector scholar Lester Salamon was prompted to warn that “...important questions have been raised about the effectiveness and accountability of nonprofit organizations...this (and more have) undermined public confidence in the sector and prompted questions about the basic legitimacy of the special tax and legal benefits it enjoys.” Then, in 2001, in the wake of the terrorist attacks on the World Trade Center and the Pentagon, both the Red Cross and the September 11th Fund, which had been created by the New York City Community Trust and the United Way of New York City, were faulted by many for their handling of donations intended for victim relief. Soon, Senate Finance Committee chairman Charles Grassley began commissioning studies on the nonprofit sector and convening high-profile hearings. Meanwhile, the Brookings Institution released a series of studies showing that public confidence in the charitable sector eroded substantially between 2001 and 2002 and then remained at historic lows.

With so much attention suddenly focused on ethics and accountability, Maryland Nonprofits decided it was time to shift the project into a higher gear. A 2003 renewal grant proposal to Carnegie Corporation declared that, based on its success to date, "Maryland Nonprofits recognizes the opportunity for the Standards for Excellence to become the national standard for ethics and accountability in the nonprofit sector." At the same time, the proposal conceded that "the existing state-by-state replication approach, while successful, is so labor intensive and expensive that the Standards program is not likely to achieve national scale in a time frame that is responsive to the interest that has been expressed by nonprofit technical assistance providers throughout the United States and elsewhere."

The new plan called on Maryland Nonprofits to establish a Standards for Excellence Institute to raise the profile of the program nationally and support broader replication efforts. Through the Institute, Maryland Nonprofits would seek to sign on additional replication partners—both state associations, and other types of management support organizations—and also to launch a new still-to-be-defined "direct service track" that would make the Standards code (as well as training, support and the opportunity for certification) available to nonprofits located in regions where no replication partner was operating.

In seeking to establish the Standards program as "the national standard for ethics and accountability," Berns was embarking on an uphill struggle. In the years since Maryland Nonprofits launched the Standards for Excellence, the heightened focus on misbehavior in the nonprofit sector had spawned a number of parallel initiatives aimed at monitoring the performance of nonprofit agencies or holding them accountable for ethical behavior and efficient programming. For instance,

- **Guidestar**, a web site posting tax returns for 850,000 charities nationwide (see *Carnegie Results*, Winter 2005), began producing "Analyst Reports" in 2002. The reports provide basic information on about 200,000 individual nonprofits nationwide and compare each with other organizations in their sub-sectors and their home communities on a variety of indicators.
- **Charity Navigator**, launched in 2001, uses tax return data to rate 4,300 charitable organizations nationwide on seven financial measures, including fundraising expenses, administrative expenses, organizational growth and cash reserves.
- The Better Business Bureau's **Wise Giving Alliance** launched a charity rating service in 2003 to assess national charities. Designed as a resource for donors, the ratings assess 500 organizations' adherence to minimum ethical standards in governance and oversight, measuring effectiveness, finances and fundraising.

Among the growing gaggle of ethics and accountability initiatives, the Standards for Excellence stood out in several ways. Rather than setting a minimum level of acceptable behavior and performance for nonprofits, the Standards offered a template for excellence in nonprofit management. And far more than any other ethics and accountability initiative, the Standards erected elaborate mechanisms—through its outreach activities, educational materials, and training programs—to engage nonprofit leaders, encourage them and assist them in reaching for excellence.

Many of the charity watchdog groups rely heavily on data from nonprofits' tax returns. But with very limited IRS oversight of nonprofits in recent years, these forms are often fraught with errors and omissions. Also, charity watchdogs typically award their highest ratings to organizations spending the least on administration and overhead. As a result, says Berns, "They discourage leaders from spending on the infrastructure of their organizations or pursuing the management practices and good governance demanded by the Standards."

Paul Nelson, who oversees a highly regarded certification program for evangelical organizations, warned in the *Chronicle of Philanthropy*, "For all the enlightenment that financial information provides, it does nothing to help a donor understand how well a nonprofit is organized…It doesn't reveal anything about how the group's board functions, whether it has internal conflicts of interest, or how responsible the group's fundraising habits are."

On the other hand, close observers also see gaps and weaknesses in the Standards for Excellence approach. Art Taylor, who directs the Wise Giving Alliance and also serves on the national Standards for Excellence board, says that the program is providing a valuable service to nonprofit organizations. "But it's about organizational improvement; it's not about accountability, because they don't report organizations who don't meet those standards." Peter Shiras, a senior vice president of Independent Sector, a leading nonprofit sector trade association, says "The Standards program was really designed for excellence, not for meeting minimal norms of accountability." Indeed, project evaluators Bailis and Sokatch find that the Standards program "seems to have its greatest impacts…on nonprofit organizations that are predisposed to want to learn more about them and hence improve the organization…It may well be that those nonprofit organizations that are most out of line with the Standards and most likely to cause negative publicity would be the *least* likely to make the changes that would lead to their adoption."

According to several observers, the weakest link in the Standards approach may be the low number of organizations certified. "No matter how hard I try to explain that the Standards for Excellence is an ethics and accountability leadership program, I think people are always going to judge it by how many organizations have been certified," complains Rick Moyers. "And if that's how people look at it, the program is always going to be viewed as a failure." Peter Shiras says, "The Standards program is making an important contribution to the field, but the thing that will stick in everyone's mind, once you've set up these standards, is how many groups have met them?"

Another obstacle to making the Standards for Excellence a "national standard" is the perception that the program is rigid and difficult to implement. Audrey Alvarado, executive director of the National Council of Nonprofit Associations, the membership group for state associations like Maryland Nonprofits and its replication partners, has seen the value of the Standards. "Many nonprofits are more willing to adjust their practices if you provide them this kind of help," she says. But Alvarado also says her membership is not willing to adapt the program as a national standard. "There's been some push-back," she says. "It's an awfully expensive proposition to sustain this over time." She adds, "It becomes an identity issue for the state associations. Does participating in Standards for Excellence come at the expense of other things the state associations are called on to do?"

DOLLARS DILEMMA

In addition to these programmatic concerns, the ambitious new strategy for replicating the Standards for Excellence also carried serious financial challenges. Based on the success of the first stage of replication, both of the project's main funders—Carnegie Corporation and Atlantic Philanthropies—agreed to renew support. However, both foundations authorized only one year of additional funding and at a lower level—$350,000 from Carnegie Corporation and $250,000 from Atlantic Philanthropies. And both decided not to consider any further grant requests. In each case, the decision had nothing to do with the Standards for Excellence. Rather, each for its own reasons elected to terminate (Atlantic) or substantially scale back funding (the Corporation) for projects aimed at supporting the health of the nonprofit sector. Geri Mannion, chair of the Strengthening U.S. Democracy Program at Carnegie Corporation, says that the shift in priorities is not unusual. "The Corporation, like many other foundations, views itself as a catalyst for change, an incubator of ideas," she explains. "We step in when we think we can make a difference in helping to support organizations that are critical to advancing ideas and programs in different fields, but we can't keep funding every organization in every field we work in on an ongoing basis." And, Mannion adds, "for these kinds of efforts, foundations should never be considered long-term sources of revenue." Instead, she suggests, the federal government should support efforts to oversee and monitor nonprofits. Despite dramatic growth in the nonprofit sector in recent years, the Internal Revenue Service employs fewer than 500 employees to examine the roughly 500,000 nonprofits required to file federal tax returns. The *Boston Globe* reported in December 2003 that the total budget of the IRS's tax exempt division is just $72 million per year, even though a federal excise tax on philanthropic foundations established in 1969 specifically to support oversight of tax-exempt organizations generates more than $500 million in tax receipts every year.

For Maryland Nonprofits, the declining support from foundations (or forthcoming from the federal government) created an unexpected funding shortfall in 2004. As a result, the organization both dipped into its own reserves to support the program and made a tough decision to begin charging the replication states a $15,000 per-year licensing fee to continue in the project. The decision was unpopular, causing the first ripples of tension between Maryland Nonprofits and its partners. "It was a tax on our organization," recalls Joe Geiger, director of the Pennsylvania nonprofit association. "It would have been preferable if there continued to be grant money to carry it through until the program could be self-sufficient."

Looking ahead, Maryland Nonprofits began drawing up a new financial plan that relied more on earned income and less on foundation largesse—an issue for many nonprofits seeking sustainability for their programs that does not rely on competing for limited foundation dollars. The Maryland Nonprofits plan depends on a continually growing group of replication partners agreeing to pay ongoing licensing fees, as well as substantial earned income via training and publication fees. Some of the existing partners feel no hesitation to pay the fees and remain a part of the program. "We can afford it, and it's something we want to do," says Karen Beavor, executive director of the Georgia Center for Nonprofits. But an official from one other replication partner, who asked not to be identified, expressed reservations about continuing to pay licensing fees. "I'm not sure what we're going to do in three years. We'll have to reexamine things then," the official said.

Berns is confident that once it has signed on twenty replication partners, the Standards Institute will be self-sufficient. "It's just like with any business start-up," he says. "You need to be able to capitalize the business long enough to become financially sustainable."

MOVING AHEAD

Despite the uncertainties surrounding its Standards program, Maryland Nonprofits has forged ahead admirably since receiving its Carnegie Corporation renewa grantl. In June 2004, the organization officially launched the Standards for Excellence Institute to significant fanfare. The opening generated a wave of favorable news coverage for the initiative, with stories in the *Washington Post*, *Chronicle of Philanthropy*, *Business Week*, *Baltimore Sun*, and *Wall Street Journal*.

While Standards for Excellence is not yet close to becoming the national standard on nonprofit accountability issues, the program has earned a prominent niche in the national debate. In June 2004, when the U.S. Senate Finance Committee issued a discussion draft outlining ambitious proposals to tighten oversight and increase accountability in the tax-exempt sector, the text specifically highlighted the Standards efforts as worthy of replication (and perhaps even federal funding). A month later, Maryland Nonprofits director Peter Berns was invited to participate in a roundtable discussion of the proposed rules. Berns also serves on a nonprofit oversight and self-regulation panel convened by Independent Sector, at the Senate Finance Committee's request, and in May 2005 he was asked to submit comments to the House Ways and Means Committee, which is also examining nonprofit sector accountability issues.

Programmatically, the replication drive is proceeding gradually, but steadily. Maryland Nonprofits has signed up two additional replication partners—the Idaho Center for Nonprofits, and the Giving Trust (in Illinois). The Institute began offering a national certification option, meaning that any nonprofit in the nation may now apply for the Standards seal, and it also announced a new training program for consultants to help organizations implement the Standards and apply for certification. And Maryland Nonprofits is pursuing discussions with a variety of other potential partners as well. "It's percolating around the country in a variety of interesting ways," Berns says. "We're trying to be flexible."

Maryland Nonprofits has also made progress toward achieving its financial goals for the replication program. Earned income (licensing fees, training stipends and publications) grew from $9,000 in the 2002 budget year to $140,000 in 2005, with $207,000 projected for 2006. In addition, in July 2005, Maryland Nonprofits received approval for a $500,000 grant from the Ford Foundation to support work on the Standards over the next two years.

Meanwhile, all five of the original replication partners continue their work on the Standards. Due to a redesign of its data collection system, Maryland Nonprofits did not have precise, up-to-date data on program activities in the replication states as of August 2005. But Berns estimated that during the program year ending in September 2004, 15,000 nonprofits in the five replication received copies of the Standards codes, 4,600 organizations had board or staff

The Standards for Excellence in Action

Like Leslie Ostrander at the Kidney Foundation of Greater Cincinnati, other nonprofit leaders also report that participating in the Standards initiative has been a boon to their organizations:

- At the North Carolina Conservation Network, a six-year-old membership organization that works with 120 local conservation groups in that state, the Standards for Excellence program has been a key tool in helping the organization mature from a brand-new start up to an established agency. "The Standards really gave us a road map showing us where we were as an organization and what we still needed to do," says executive director Brian Buzby. The standards around fundraising were especially valuable, Buzby says, as the agency began soliciting individual donors after depending initially on foundation grants for most of its budget.
- At Contact Helpline, a 24-hour-per-day telephone support line serving the Harrisburg, Pennsylvania area, Standards for Excellence training has helped educate board members and clarify the role played by the board. "We needed to make sure the board is doing what they're supposed to be doing legally for the organization and know what their fiduciary responsibilities are," says executive director Kelly Gollick, who attended the first of four monthly training sessions in November 2004. The training

members attend Standards-related workshops and 10,500 organizations requested either information about the Standards or assistance in implementing specific standards.

Though the Standards program remains years from its ultimate goal—to become a national benchmark—these interim outcomes are music to the ears of Cynthia Gibson, the former program officer who recommended the first Corporation grant for the Standards of Excellence. She says, "This is a sector that's been around for a very long time but has never done anything like this. When this came along ten years ago, it was just groundbreaking. The progress they've made in the five states has been just incredible."

Vincent Stehle, the Surdna Foundation program officer, doesn't believe that the program will ever stand alone as a national standard. But Stehle does think that when you combine the Standards with other initiatives like Guidestar and the Wise Giving Alliance, "It adds up to a big impact. We're way ahead of where we were a decade ago."

Ultimately, that impact is measured in changes to individual nonprofits like Leslie Ostrander's

also prompted Contact Helpline to adopt its first-ever conflict-of-interest policy. "If we're going to buy computers, we have people from IBM on our board, so we need to make sure it's all done on the up-and-up," Gollick says. The binder of Standards materials distributed at the training has been "very helpful," Gollick adds. "We don't have to reinvent the wheel, so it's not nearly as labor-intensive as it would be."

- In Lousiana, both Kingsley House, a 109-year-old multi-service organization with 135 employees in New Orleans, and Friends of Families of Southwest Louisiana, a six year-old mentoring project staffed primarily by volunteers, went through training and earned the Standards Seal of Excellence in 2004. "Most of the things we already had in place," says Kingsley House executive director, Keith Liederman. "But it took us to another level. One of the things the Louisiana Association of Nonprofit Organizations requires is that every member of the staff and the board understand the Standards. So we've made it part of our orientation process, and it's helping us communicate these ideas to our staff." Margaret Johnson, the founder and only full-time paid employee at Friends of Families, reports that "The process was very difficult—just compiling all the information and putting it in the order they requested." But Johnson says that the certification "gives us credibility. When I go to individuals to ask for money, when I go to churches or to foundations, people feel confident that their money will be managed well. It gives us an edge."

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Kidney Foundation of Greater Cincinnati. In the spring of 2005, Ostrander signed up her organization for a second round of Standards for Excellence training. "Our financial checks and balances are in place now," she says, "but I really want to get them in writing and make sure they're up-to-date and approved by our board."

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