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OPINION

Commentary and Letters

Let's Put the Word 'Nonprofit' Out of Business

By CLAIRE GAUDIANI

NONPROFIT should be nonexistent—the term, not the type of organization. The time is right to insist on a term that focuses on the investment, risk taking, and entrepreneurial imagination that have always been so essential to organizations that serve the social good. "Social-profit organizations" is a term that can better capture the contribution made by entities that have too long been known as charities or nonprofit groups.

MY VIEW

The time is right to insist on a term that focuses on the investment, risk taking, and entrepreneurial imagination that have always been so essential to charitable groups.

Such a term would also give us a new way to name the people who support organizations that promote the public good: social investors, a term that better reflects this generation of hands-on donors who are willing and able to extend this nation's great tradition of American generosity. Today's social investors seek and expect a return on their efforts, in the form of an increase in the greater good.

Getting rid of the term "nonprofit" in favor of "social profit" is not an effort to curry favor with the financial world. It is not a proposal to turn social-service organizations into heartless, PowerPoint-driven bureaucracies. It is simply an opportunity to recognize our great national tradition of philanthropy for what it is and has always been: investment in human, physical, and intellectual capital.

All investors rightly expect a return on their investment. Otherwise the very ideas of change, growth, optimism, and progress are meaningless. Social investors are no different. They are profit seekers of the very best kind, those who believe in a better future for the arts, medical research, the environment, and countless other areas of social-profit focus.

Like companies, social-profit groups raise and invest money, hire and direct staffs, and achieve specific goals. Their presidents report to boards. Profit flows, not in cash to employees and investors, but to society, which benefits from the work of these organizations.

In fact, this kind of profit is so prized that government encourages citizens to invest in social-profit-creating institutions by offering taxpayers a deduction for their investments.

The U.S. government recognized, perhaps earlier than any other democratic country, that social profit was essential to economic and political growth. Social profit supported the entrepreneurialism, comity, stability, and innovation that America has used to prosper over time.

Taxes on income and commercial institutions are one form of redistribution of assets. The work of social-profit organizations provides the other major opportunity to redistribute assets, but as a voluntary investment. When social-profit organizations succeed, they have achieved the same redistribution as taxes on businesses. That is why social-profit organizations are tax-exempt.

The name "social profit" brings another advantage too.

When chief executives and fund raisers speak with donors about investing in social-profit ventures, they can talk about risk and return.

Thanks to the work of a social-profit organization called the Cowles Foundation (which developed the field of econometrics and offered fellowships to researchers who shaped most of the theory and practices of portfolio management and stock markets) we live in a world where investors understand the benefits of diversifying their investments across a range of asset classes. They understand the correlation of higher risk with higher

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LETTERS TO THE EDITOR

Business Ventures Are Realistic for Many Charities

TO THE EDITOR:

News coverage of the recent report by Seedco titled "The Limits of Social Enterprise: A Field Study and Case Analysis," ("Charities' Business Ventures Hard to Sustain, Study Finds," June 14) suggests that nonprofits have been sold a bill of goods when it comes to social enterprise, because business ventures generally do not yield significant income. Therefore nonprofits should launch a social enterprise with extreme caution, or perhaps not at all.

The irony of all this hype and counterhype is that complete financial sustainability has never been the goal of social enterprise, or the message of its knowledgeable advocates. Indeed, the Seedco report itself does not recommend that nonprofits avoid social enterprise. Using the kind of hard-nosed feedback you find in the business world, the report actually highlights some of the real challenges nonprofit groups need to be aware of when considering earned-income ventures.

While the business community does not consider the high failure rate of business startups reason to shut down private-sector entrepreneurialism, when social enterprise is looked at from the perspective of the nonprofit sector, it is promoted as an all-or-nothing endeavor.

The reality is, social enterprise can have a number of much-needed impacts on the nonprofit sector, and financial self-sufficiency is generally not even the goal.

However, a social enterprise may well contribute to sustainability by covering investment and operating costs. It is not uncommon for social ventures to lose money in the first several years of operation, meanwhile contributing income to overhead expenses. The reluctance of foundations to provide operating support may mean some nonprofits can use commercial ventures to offset basic overhead expenses (rent, utilities, insurance, bookkeeping, etc.) more easily than they can find a grant maker to cover those same costs.

The pursuit of earned income can enhance a sense of self-determination in nonprofits that live under the threat of changing funder priorities and endless fund raising.

Distraction from mission is a threat no matter the cause—whether the enterprising effort of starting a social venture or the traditional activity of fund-raising auctions, bake sales, and charitable dinners.

Pursuit of earned-income activities attracts and even demands an influx of new talent with business expertise at both the board and staff level, resulting in a fresh perspective on a nonprofit group's traditional services and operations. Competing in the open marketplace helps a nonprofit shift its focus from process to results, with a parallel benefit to its overall effectiveness and accountability. Social enterprise often raises a nonprofit's public profile and exposes it to new audiences that may be the source of additional

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PABLO EISENBERG

Smithsonian's Recovery From Governance Scandal Has Been Too Slow

FOUR MONTHS after Lawrence Small, secretary of the Smithsonian, resigned in disgrace, nothing much seems to have changed at the institution, despite last month's release of two reports that were supposed to provide a road map for change.

The Smithsonian's Board of Regents is still intact. Two members of the board's audit committee, which was especially derelict in its oversight of Mr. Small, are serving on a committee the regents appointed to review and improve the governance of the institution. Roger Sant, chairman of the executive committee, continues to serve in that role. Also still serving are the three protectors of the institution's integrity and accountability—the inspector general, the chief financial officer, and the general counsel. The foxes remain in the chicken coop, and it appears that many of them want to stay there.

That is the case even though both of the new reports—issued in response to the Congressional concern and public outcry over Mr. Small's excessive compensation and lack of concern for following standard ethical practices in the nonprofit world—fault the Smithsonian's Board of Regents for its lack of oversight and passive approach to governance.

The reports offer many warning signs that would be good for nonprofit groups of all types to consider as they examine their own governance practices, but each report has shortcomings that show that fixing the Smithsonian will be a complex effort.

One report, produced by the committee of Smithsonian board members—plus the chief executive of Independent Sector, Diana Aviv—that is examining governance issues, primarily expressed the regents' mea culpas and critiqued the board's failure to maintain a sense of openness and public accountability. It is very much an insider's study, one that plays down the egregiousness of the board's shortcomings and neglect.

The members of the committee believe they have found religion and will help lead their colleagues on the Smithsonian board to more-effective governance practices. To accomplish this goal, the committee recommends a set of principles and guidelines that are reasonable and could prove effective.

Among the specific changes it suggests are strengthening the role of the institution's inspector general; developing a code of ethics for the institution; banning the service of top executives on corporate boards; bringing Smithsonian Business Ventures—a unit in charge of devising revenue-generation operations—in line with established Smithsonian practices; and ensuring better financial accounting and compensation practices.

In addition, the report suggests establishing a chairman of the board, a new position that would include some of the duties not taken on by the chancellor, the role and title traditionally assumed by the chief justice of the Supreme Court. The board's chairman would play the leadership role in making sure the board was conducting its oversight and strategic-planning role, while the chancellor would preside over meetings of the board and take on other duties.

The report recommends the creation of active standing committees, including one to deal with the institution's seriously deteriorating facilities, which would be chaired by members of the current board.

While such committees make good sense, it is like shuffling deck chairs on the Titanic to put the current members of the board on those committee.

Just as alarming, the committee that wrote the report says it plans to continue to function through the rest of 2007, and possibly beyond, to devise a plan to alter the Smithsonian's governance structure. Why take so long? Why not go out of business in the next few months to make way for a new board of regents, to be selected by a committee of outsiders?

Taking such steps would show that the board truly understood its missteps, instead of thinking that a few apologies and cosmetic changes will make enough of a difference to an organization that has been so poorly managed in recent years.

Under public and Congressional pressure, the Smithsonian's board also asked a committee of experts not associated with the institution to review its practices, and that group has also issued a report—one that is thoughtful and thorough.

The independent committee, headed by Charles A. Bowsher, former comptroller general of the United States, was asked to focus on compensation, benefits, expenses, and ethics. Its report is much harsher in its assessment of the institution's governance problems and the activities of Mr. Small.

The committee members excoriate Mr. Small's "imperial and insular" management style and challenge the myth that he was a great fund raiser. It was, after all, his reputation as a great fund raiser that some board members used to justify Mr. Small's compensation of more than $900,000 a year.

Accusing the regents of a gross failure to oversee Mr. Small's office and the institution as a whole, the independent report says that "it appears that the board reported to him rather than the secretary reporting to the board."

It goes on to criticize the Smithsonian's lack of financial controls and inadequate audit procedures. It also mentions that the "gatekeepers" of the Smithsonian—the inspector general, the general counsel, and the chief financial officer—were not only marginalized but also lackadaisical in exercising their monitoring responsibilities.

In addition to recommending measures to increase effective financial controls, improve compensation decisions, and regulate expenses, Mr. Bowsher's committee proposes a restructuring of the Smithsonian's governance system, a design that is possibly its most controversial and least tenable recommendation.

The independent committee calls for the creation of a governing board within the Board of Regents that would have primary fiduciary responsibility for overseeing the Smithsonian and would meet at least six times a year. It would have its own chairman.

Citing what it believes to be the historic role of the chief justice of the Supreme Court and representatives of the three branches of government on the board, the committee suggests that the chief justice remain as chancellor of the board and the vice president continue as a regent.

Neither of those jobs would carry fiduciary responsibilities, although members of Congress who serve on the board would retain their fiduciary duties. The chancellor would preside over parts of the regents' board meetings. Neither the chief justice nor the vice president would have a vote.

This two-layered overhaul of the Board of Regents makes little sense from an organizational perspective. There is no reason the chief justice and vice president should remain on the board despite the chief justice's interest in doing so. Neither of them has the time to pay much attention to the affairs of the Smithsonian. Without a vote, their presence would be largely symbolic.

Nor do members of Congress have the time and energy to be active board members with fiduciary responsibilities, as the committee proposes.

A better idea would be to establish an honorary or advisory board of government representatives that could meet once a year to review the regents' policy and administrative decisions. The government might be represented on the Board of Regents by a high official of the General Accountability Office or by one member of Congress.

Congress should move quickly to pass legislation to establish a nonprofit, independent Board of Regents, composed of outstanding citizens, experts in the arts and museums, and public-service-minded people who have the interest and time to oversee the Smithsonian, unencumbered by Congressional and other government representatives.

The quality of the board will be key to the institution's future. Board members should be nominated not by anyone now on the Board of Regents, but by an outside group of people not tainted by the irresponsible work of the current board.

Its chairman, perhaps serving half-time at a modest salary, should be somebody with a reputation for integrity and public service—somebody like Paul Sarbanes, the retired Maryland senator—who could help restore public confidence in the activities of the Smithsonian.

Both Congress and a new Board of Regents must keep in mind the historic and contemporary value of the Smithsonian and its 19 subsidiary institutions. It is America's great national treasure, one that has always admitted visitors free to its Washington facilities, and it should continue to keep that tradition of service to the nation.

It is the federal government, not corporate America or private donors, that should be responsible for financing almost all of the costs of an institution that is so important to the United States. Instead of pushing for more private fund raising, Congress must find a way to support this cultural heritage with federal dollars.

Getting a new board, filled with outside perspectives, is the first step to making that happen—and the institution should move quickly to get rid of all aspects of the apparatus that allowed Mr. Small to rule the Smithsonian in ways so contrary to the ethos of public service.

Pablo Eisenberg, a regular contributor to these pages, is a senior fellow at the Georgetown University Public Policy Institute. His e-mail address is pseisenberg@erols.com.

'Social Profit' Is a Label That Fits Today's Charities

Continued from Page 35

returns on their investments. Social-profit leaders can and should discuss exactly these issues with investors. Greater social profit inevitably requires greater risk taking.

A scholarship given to an Ivy League university is a relatively low-risk social investment. While there are no guarantees that the recipient will become a productive member of society, the odds are very good.

College scholarships promised to sixth-grade students from low-income families are more risky. Ask Eugene Lang and his I Have a Dream Foundation, which has persuaded dozens of donors to support such students. That is a greater risk, to be sure, but a phenomenal payoff when it works.

Social-profit organizations offer great opportunities to donors. Leaders of these organizations need to speak about investments in them, some less risky than others, in a way that reflects an awareness of donors' desire to turn a profit—a social profit from joining with an important cause to strive for change.

People who work in the social-profit world need to have the courage and clarity to take the first steps by abandoning the term "nonprofit" altogether. They need to feel comfortable describing the risks and the possibilities, like any venture.

After all, what could be more profitable than the organizations that have brought the world polio vaccines, commercial aviation, radar, penicillin, and private higher education? What has created more growth in America's economy over the past three centuries than the millions of private scholarships that have educated generations of sons and daughters of the less-than-wealthy?

To continue to pursue these vital missions, these organizations need to remain creative and entrepreneurial, and that means changing their outlook and America's perception of their role. To continue calling such organizations "nonprofit" is nonsense.

Claire Gaudiani is a clinical professor at the George H. Heyman Jr. Center for Philanthropy and Fundraising at New York University, where she directs the graduate program in philanthropic studies. She recently wrote The Greater Good: How Philanthropy Drives the American Economy and Can Save Capitalism *(Times Books/Henry Holt).*

JOIN THE DEBATES

Two articles that appeared in these pages have touched off so much discussion about the role of nonprofit groups in the political arena that the authors—Robert Egger and Pablo Eisenberg—will discuss them in a live conversation. The debate, to be held in Washington on August 9, is free and open to anyone.

Even if you cannot attend in person, we encourage you to send questions that *The Chronicle's* editor, Stacy Palmer, can pose to Mr. Egger, founder of D.C. Central Kitchen, and Mr. Eisenberg, a senior fellow at the Georgetown University Public Policy Institute. You may send your questions to editor@philanthropy.com.

To read the articles that will be discussed and get more information about the debate, go to:

http://philanthropy.com/extras