

Barriers that Prevent Small Nonprofits from Meeting
Charities Review Council Standards

MPA Capstone Paper

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Table of Contents

EXECUTIVE SUMMARY	3
INTRODUCTION	4
Background	
Analysis of Stakeholders	
METHODOLOGY and ANALYSIS	8
Literature Review	
Informational Interview	
RESULTS and DISCUSSION.....	20
Perceived Barriers	
Actual Barriers	
CONCLUSION and RECOMMENDATION.....	28
REFERENCES.....	32
APPENDIX.....	34

Executive Summery

During the summer of 2013, a group of students from Humphrey School of Public Affairs conducted capstone project to assess barriers that prevent small nonprofit organizations from meeting Charities Review Council (CRC)¹ standards. This report consists of methodology, analysis and results, and recommendations for overcoming those barriers. The consultant group of students initiated the project by conducting extensive literature reviews from related resources. The literature review highlighted current research on best practices in the nonprofit sector and how they relate to the seven accountability standards² of CRC. Current research related to the seven accountability standards is consistent with industry standards of how to effectively manage a nonprofit organization. However, the majority of the information didn't clearly distinguish between best practices for large organizations in comparison to small.

During the assessment, we carried out a series of one-on-one interviews, along with utilization of social media and LinkedIn where we interviewed 24 individuals. In both instances, the atmosphere of the interview was interactive and conversational. Through this process, the analysis of the study identified two major challenges that mainly prevent small nonprofit organizations from meeting the CRC standards. They included, (1) perceived challenges that are superficially created by speculation and founded on false information and, (2) actual challenges that small organizations face in meeting the standards, such as the process of certification and seeing the overall value.

Therefore, it's important that CRC address these misconceptions that prevent many small organizations from meeting CRC standards. This assessment study recommends: (1) addressing misconception anecdotes by increased communication outreach through printed material, social media, and customized direct contacts between CRC and small organizations, (2) improved readiness and affordability of small organizations by providing capacity building and staff training, legal and financial consultancy, and assisting appropriate record keeping and document retention, (3) renewed efforts to improve CRC marketing and communication outreach by inviting small organizations to annual consultative conferences, and (4) establishing CRC Wikipedia website and providing incentives to small organizations for certification.

¹ Charities Review Council: <http://www.smartgivers.org/>

² Annual Review of Accountability Standards:
<http://www.smartgivers.org/standardsreview>

INTRODUCTION

Background

The Minnesota-based, Charities Review Council (CRC) was founded 1946 as the Minnesota Community Research Council to ensure that the generosity of Minnesotans would not be exploited by national war-relief charities active in the period immediately following the Second World War. The goal was to provide information to donors about charities that were well run and faithful to their missions. In recent years, CRC has worked to begin re-positioning some of its services to move from being exclusively a “watch dog” for donors to becoming a trusted “guide dog” for non-profits looking to improve their operations by adopting best management practices.

With this shift in focus a number of issues have arisen specifically related to smaller Internal Revenue Service (IRS) approved nonprofit tax-exempt organizations with expenses below 500,000 dollars per year. While a very large percentage of the over 20,000 Minnesota-based non-profits fall into this category only 100-200 per year are currently partnering with the Charities Review Council at this time.

CRC wants to increase this number to over 400 groups per year, by providing a more comprehensive guide to well-run non-profits to CRC’s donor clients and to the general public. To reach this goal, CRC entered into a Capstone agreement with students from the Humphrey School of Public Affairs to explore some of the barriers to expanding the engagement of small non-profits and to review current academic literature on topics related to accomplishing this goal.

This report summarizes the findings of this Capstone research project and provides a set of recommendations developed through this research and through interviews with stakeholders.

A full description of all specific deliverables included in this Capstone project is included in the attached Memorandum of Agreement. There were five major items:

1. Literature review of research related to Charities Review Council Accountability Standards under review in 2013, including trends/barriers related to small nonprofits
2. Summary of available quantitative information on small non-profits in Minnesota
3. Summary of interviews with leaders of small non-profits about their experience with CRC and with the Council's Accountability Wizard® review process
4. Identification of barriers to small 501c3 non-profits meeting CRC standards
5. Summary of any approaches, tools, and resources identified via the literature review that can potential help small non-profits overcome these identified barriers

Analysis of Stakeholders

In developing our recommendations to CRC, we were very aware of the importance of incorporating a wide range of perspectives in our research. Stakeholders are a very important segment for dynamics and developing changes in all aspects of the public and nonprofit leadership. In his Utilization Focused Evaluation (Patton P. 61)³ Michael Quinn Patton defined stakeholders as: “People who have stake or vested interest in evaluation finding.”

³ Patton, Michael (2008) Utilization-Focused Evaluation. Sage Publication, Inc. Thousand Oaks, California

Definition of terms and roles of stakeholders

Stakeholders consist of many groups of and individuals (Fitzpatrick, 2004, p. 174).

Basically, as defined the following chart, there are four main groups or individuals that affect or affected by the results and the implementation of this study: sponsors, clients, stakeholders, and audiences, which overlaps by nature and in meaning.

Table 1: Definition of Terms

Terms	Definitions
Stake holder	Individual who have a vested interest in this study or its use and implementation
Audience	Individuals and/or groups who will receive the report of the study
Sponsors	The people who provide resources to conduct and evaluation
Clients	Individuals or the organizations who is sponsoring the consultants (students) and typically requested and monitoring the evaluation study
Primary intended users	Groups, individuals, or organizations specifically intended to work with the consultants throughout this study
Program participants	Individual who will receive services from or take part of the program
Evaluation participants	Participating stakeholders that contribute in this study in one of two ways (a) Participating in making decisions about the evaluation or in implementing it or (2) providing data in one form or another.

Source: Participating stakeholders (King, 2013, p.70)

Identifying Stakeholders of this study

According to Fitzpatrick (2004, p. 54), stakeholder whatever their nature of power or interest they hold the future of the program and directs its future outcome. Therefore, it is the interest of the program and common good of all parties to promote to negotiate constructively to every potential stakeholder and promote the common ground. That is possible when the stakeholders are carefully identified and fully defined.

We developed the following chart including the key stakeholders in this study include board, Director, and the staff of Charities Review Council (CRC), which is the client organization; Director, Charities Review Council (CRC), Director of Charities Review Council (CRC), senior managers, and staff; CRC is also the sponsoring organization of this study; the study delivers, and the instructors of Humphrey School of Public Affairs. Other stakeholders include donor organizations, small nonprofit organizations (100-300 nonprofit organization)[2], and the public recipients of the nonprofits services.

Table 2: Selected stakeholder for this stud:

Audiences and Stakeholders	Interests/Concerns
Chris Kewitsch, Executive Director: CRC	To develop adaptive strategies that CRC can collaborate with small 501C 3 organizations and expand its new markets in local level and national level
Lynnea Atlas-Ingebretson, Program Director and other CRC staff and board of directors	To reduce barriers which prevent small nonprofits to meet the CRC standards
Small nonprofits potentially interested in meeting CRC standards	To overcome actual and perceived barriers to partnering with CRC for accreditation
Project Consultants (students)	To provide a high quality and useful product for CRC
Instructors	To assist students in preparing and delivering world-class research and evidence based product
Donors and other community members	To provide a more comprehensive directory of small non-profits using best practices

METHODOLOGY and ANALYSIS

First our team conducted extensive review of current research materials concerning the seven CRC standards currently under review, with an emphasis on their relationships to smaller nonprofits. Through this review, we were able to identify specific challenges facing small organizations in meeting the accountability standards. Second, we conducted informational interviews with leaders from smaller nonprofit organizations in the Twin Cities region. Through this method we were able to identify both perceived and actual barriers to greater use of Charities Review Council services by smaller nonprofits and to better understand the small non-profits perceptions of the Charities Review Council's accreditation process in general and towards their applicable standards. This process also provided a wealth of information and excellent suggestions on ways that CRC could expand the number of small nonprofits using the Accountability Wizard and other services. Key results are summarized below.

Literature Review

This literature review highlights current research on best practices in the nonprofit world and how they relate to the seven accountability standards of Charities Review Council (CRC). Research will also identify challenges that exist specifically for small nonprofit organizations in meeting these standards. Through research, our team has identified challenges and opportunities to meeting the needs of small nonprofit organizations and building capacity. The Charities Review Council has developed accountability standards to not only ensure nonprofits are aware of best practices within the sector, but also potential donors are well informed to make smart giving decisions. Currently, seven accountability standards are under review within the council.

They are as follows:

- Financial Health
- Legal compliance
- Diversity and inclusion
- Public information and annual reporting
- Conflict of interest
- Document retention policy
- Prohibition of loans

This review outlines best practices and challenges through the framework of each of these accountability standards.

Financial Health

Developing transparency around program expenses, funding, and all financial matters will lead to increased sustainability of nonprofit organizations. Quirk and Watkins (2008) outline the definition of small nonprofits along with providing best practices to ensure the longevity of the organization. They define small nonprofits as having \$250K in annual revenue along with five or fewer employees. They also point out the vast potential in the small nonprofit community, with 86% having revenue under \$250K (Quirk and Watkins, 2008). In regards to maintaining financial health, the authors provide a myriad of solutions. They are as follows.

1. Be aware of cash flows and loss in funding sources, with the understanding that finances in small budgets are critical.
2. Remember 70/30 rule in regards to program expenses and fundraising/administrative costs.

3. Understand that few funding sources will automatically renew their commitments. So its important that organizations are transparent in their financial dealings (Quirk and Watkins, 2008).

The challenge the authors point out is modeling small nonprofits after larger ones won't work and although most nonprofits are small, the majority of management advice is geared towards larger nonprofits (Quirk and Watkins, 2008). By understanding this fact organizations committed to building capacity of smaller nonprofits will understand their profound differences from their larger counterparts.

Establishing good financial health, through the accumulation of unrestricted net assets will enable nonprofits to operate more efficiently. Researcher Thad Calabrese tested this idea by looking over six years of information from The National Center on Charitable Statistics. He used the findings to test four theories as to why nonprofits look to grow unrestricted net assets. Those theories included, (1) avoiding debt, (2) to subsidize clients, (3) to create slack, and (4) take advantage of increase investment return. The research showed that avoiding debt was the most important reason why nonprofits accumulate unrestricted net assets (Calabrese, 2012).

St. Clair (2012) poses the question of how much is enough when it comes to unrestricted net assets? Although there's no one answer, the author does give specific reasons and scenarios as to why nonprofits would need to have these resources available. She also stresses the importance of good governing practices and transparency when accumulating these assets (St. Clair, 2012).

Legal Compliance

Nonprofits, regardless of size should be in compliance with federal, state and local regulations. It's also important to understand that laws and legal requirements may vary by state (MCN, 2013). Also, no state law requires a nonprofit organization community to have a code of ethics, although it's considered best practice (CNP, 2013).

Author William Lathen (2008) discusses proven methods every nonprofit should implement for success. Lathen (2008) makes the case for the importance of trust in the nonprofit industry. Without trust, charitable giving and fundraising can be jeopardized. Lathen (2008) outlines 33 principles through four categories that are considered best practices in the nonprofit industry. Category one focuses on legal compliance and public disclosure. In addition to following all international, federal, state, and local laws, organizations should require their board members be adept in knowing all regulations required by the organization. Lathen (2008) also points out several principles that will ensure organizations have met the legal compliance requirement. First, have written code of ethics in which board members sign off. Second, have policy in place to give instruction on dealing with conflict of interest situations. Third, develop "whistle-blower" and document retention policies. Next, provide protection for organizational assets (i.e. financial records, human resources, program information, property, etc.). Last, but not least, make sure information regarding management and governance of organization is made available to the public (Lathen, 2008).

Diversity and Inclusivity

Changing demographics dictate that nonprofits recognize the opportunities of diversity. The *Case for Diversity* article in Nonprofit World reports that in 2002, women and people of

color will represent about 70% new employees in 2008. Today, those percentages are continuing to increase. It is imperative that nonprofit organizations understand that diversity makes good business sense. For example, staff with the understanding and skills, including language and cultural awareness, is crucial to the success of almost all businesses and nonprofits. It is also important to put this in the context of inclusion along with diversity – making sure that all staff members feel fully included and empowered. Planning for these changes will allow nonprofit organizations to devise strategies to be more effective in the communities they serve.

Hayes (2012) article in Profiles in Diversity Journal points out that although the U.S. Bureau of Labor Statistics projects almost 50% of new entrants into the workforce are people of color, the nonprofit community has not kept pace with this reality. Within the nonprofit community, approximately 82% are white, 10% African American, and 5% Latino. Employees of color consist of only 14% of leadership and upper management and less than six percent of specialized positions (Hayes, 2012). Clearly there's work to be done to create equitable opportunities for people of color.

Two important areas that present challenges to diversity and inclusivity are recruitment and retention. According to Hayes (2012), one important area of concern is does the culture of the organization value diversity? The author states that 71% of potential new employees of color make this assessment during their initial interview to determine if the organization is committed to diversity. These candidates are also aware of tokenism and would rather not be put in a situation based solely on their ethnicity. Lack of retention presents another challenge with many employees of color opting to leave an organization due to its lack of diversity. This could present problems for smaller nonprofits with fixed budgets due to the additional expenses of hiring and retraining of new employees. With this reality, many organizations would rather not

hire employees of color than to risk losing them (Hayes, 2012). As more employees of color enter the workforce, organizations will be required to build capacity in this area.

Applegate (2008) outlines this challenge in highlighting the importance building cultural-competency skills as nonprofits look to serve various stakeholders.

Public Disclosure and Annual Reporting

In general, the IRS requires that every tax-exempt organization make available to the public annual returns and documentation signifying exemption. Organizations must also provide copies of these documents upon request. Form 990, which states annual returns should be made available for three years and Form 1023 highlighting tax exemption should be readily available to the general public (IRS, 2013).

Author Julie Kosterlitz (2009) outlines in *Nonprofits New Transparency* best practices around public disclosure. She discusses changes on the IRS 990 form that call for greater accountability in regards to displaying financial information for the general public. In addition to listing salaries of top employees, nonprofits will be required to disclose how they are governed and managed. This would include disclosing voting board members, officers, directors, and employees who've developed business partnerships with the organization. Nonprofits must also disclose if they have policies that address conflicts of interest, whistle-blower protection, document retention procedures, and partnerships with for-profit organizations (Kosterlitz, 2009).

Organizations such as the Canadian Institute of Chartered Accountants (CICA) are helping nonprofits build capacity around public disclosure and annual reporting. Stakeholders, donors, and the general public are calling for greater means of accountability and transparency concerning how nonprofits utilize their resources. Chris Hicks, certified accountant and CICA

principal, talks about the importance of annual reporting in building the reputation of the organization. He says, “Annual reports should be a part of an overall strategy to communicate with stakeholders and help foster public trust and build community support” (CA, 2012). CICA outlines several key principles that should be stated in the nonprofit annual report. They include communication concerning the mission and vision, the strategic plan, statements regarding accountability and stewardship, and how stakeholder needs are addressed. It is also important to understand that detailed annual reporting should be relative to the size, complexity, and resources of the organization (CA, 2012).

Kosterlitz (2009) also mentions the challenge of building capacity around this accountability standard. Due to the recent (2008-09) deep economic recession, many nonprofits have less operating income, while contending with additional expenses in meeting this compliance standard (Kosterlitz, 2009). For smaller nonprofits, this issue could possibly be magnified due to limited resources.

Conflict of Interest

The National Council of Nonprofits state that developing a conflict of interest policy is one of the most important tasks a board can do. The policy should be in writing and reviewed on a regular basis. The policy should also require those with a conflict be given the opportunity to state their conflict, while prohibiting board members with vested interests on a particular issue, from voting on that issue (NCN. 2013).

Michael Peregrine (2011) outlines in the *Chronicles of Philanthropy*, the need for strong organizational leadership by the nonprofit community. Although the board is responsible for strategic planning, fiduciary requirements, and protection of intellectual property, they are also

responsible for avoiding conflict of interest situations. Due to increased regulation and media scrutiny, Peregrine makes the case that nonprofits are under a microscope and the general public is less forgiving regarding mistakes. He goes on to state the importance of organizational integrity with the board developing decision-making procedures that are fair and impartial. Peregrine also suggests policy procedures that address conflict of interest concerns. They are as follows:

- Term limits for board members
- Understand the role of the executive committee and each board member
- Revisit executive compensation and develop contingency plans in case of scrutiny
- Make sure compensation packages were determined without favoritism
- Board members should not accept gifts from donors
- Examine fund raising procedures by making sure they are in compliance with state regulations

Peregrine draws a connection between fulfilling these policy requirements with the overall mission of the organization. Aggressive oversight will not only build public trust, but also allow nonprofits to be more effective in serving the needs of their stakeholders (Peregrine, 2011).

Document Retention Policy

According to the National Council of Nonprofits, tax-exempt organizations should have a document retention policy in place. The objective is to provide information on what documents to save and archive, time period these documents should be saved, and destruction procedures. The policy should include the types of documents generated by the nonprofit, legal length of time they should be saved, and schedule of those times (NCN, 2013). Quirk and Watkins (2008)

outline that bank statements and other financial documents should be filed for a certain time period. Winston & Strawn LLP (2008) highlight changes in the revised IRS 990 form that asks nonprofits about their document retention policies. Although nonprofits aren't legally required to have policy, having one ensures nonprofits are in compliance with the IRS (Winston & Strawn, 2008).

Winston & Strawn (2008) point out that specific sections of the Sarbanes-Oxley Act of 2002 are applicable to nonprofits. This law was created in 2002 to ensure transparency and accountability of public traded companies. Part of the act states nonprofits could be held liable due to the destruction of documents, with the intent to thwart a federal investigation. Although the act doesn't require nonprofits to develop a document retention policy, it does list having one as a best practice (Winston & Strawn, 2008).

Prohibition of Loans

Although the Sarbanes-Oxley Act applies to publicly traded organizations, many believe these standards will eventually apply to those in the nonprofit sector. According to GuideStar (2013), a provision in the act prohibits loans to executives and officers. Doing so could raise issues around conflict of interest, thus jeopardizing the reputation of the organization. GuideStar also highlights in some states, loans to executives constitutes a violation of nonprofit law (GuideStar, 2013).

Strengths and Weaknesses of Literature

The research provided solid information on best practices and challenges throughout the nonprofit sector. The seven accountability standards are consistent with industry standards on how to effectively manage and govern nonprofit organizations. Additional research on

understanding “what are the best methods to building capacity of smaller nonprofits” would prove beneficial. Also a majority of the articles review did not delineate between best practices for larger organizations in comparison to smaller ones.

Informational Interviews

A central element of this Capstone project was a series of one-on-one interviews with board and executive leaders of small nonprofits. These included groups that had successfully completed CRC accreditation one or multiple times, some who had attempted but failed in this process, and some that were interested in considering engaging with CRC but had not yet done so. Each conversation was designed to gather information based on their direct experience and to explore ideas and suggestions that could be developed into recommendations to the Charities Review Council.

Some of the individuals interviewed were contacts made at the CRC annual meeting. Another source of contacts was individuals who responding to social media outreach via LinkedIn, Facebook and Twitter. A total of 24 interviews were conducted for this study. A series of questions were developed to guide these discussions. Not all were asked of all interviewees – each interview was customized to meet time, experience, and other considerations. These questions included:

1. What is the size of your organization?
2. What size of organizations are you generally familiar with?
3. Is your organization currently Charities Review Council accredited? Are you certified by any other organization (Charity Navigator, Better Business Bureau, etc.) or do you participate in some other related processes like the Cultural Data Project?

4. If you are familiar with other processes are you open to answering a few questions on these at the end of this interview?
5. Have you participated in a completed review or renewal or are you still in the process?
6. Have you attempted to meet the standards and either abandoned or failed in the process?
7. Have you participated in multiple reviews? Have you participated in both initial accreditation and renewals?
8. Was the review process initiated due to funder suggestion or requirement? Please explain how the decision came about.
9. Was the review process initiated due to board suggestion or requirement? Please explain how the decision came about.
10. Was the review process initiated due to internal management desire? Please explain how the decision came about
11. Did the process meet expectations for length of time and amount of staff and/or board time needed to complete?
12. Were there additional costs beyond staff time involved?
13. Were there special challenges that you faced that were specific to the size of your organization?
14. Did any board members play a special role in initiating or overseeing this process?
15. Were you and/or your board generally pleased with the outcome of the process?
16. Has this process resulted in more funding or more interest from funders who knew you were CRC certified?
17. Were there standards that seem especially difficult for smaller non-profits to meet or to document as required to achieve certification?

18. Were there areas of work not covered by the current CRC standards that seem especially important from the perspective of a small non-profit?
19. Was the fee structure a barrier? Were there unanticipated costs that were a barrier?
20. How did you find the process of working with CRC – were they responsive and helpful?
21. Have you had a chance to communicate your ideas on ways to strengthen and improve the Charities Review Council process and did you take advantage of that opportunity or opportunities?
22. CRC is moving towards being more of a “guide dog” than a “watchdog” - and they want to help an even larger number of non-profits – especially smaller ones. Do you have specific suggestions for them?
23. Would you advise other non-profits to attempt the accreditation process via the CRC? If yes, (or a qualified yes) what would be your main arguments? If no, why not?

Special questions for individuals familiar with other accreditation processes included:

1. What other certification or accreditation processes are you familiar with?
2. How do these compare with the CRC process? Have you found them to be competitive?
3. How did the process compare and how have you evaluated cost/benefits?
4. As you look ahead will you be renewing all or only some of these certifications? Which ones and why? Discussion

RESULTS and DISCUSSION

While there were many different kinds of nonprofits interviewed; there was one common theme throughout the process– consistently high praise for the excellent customer service provided at all times by CRC staff.

Many individuals had multiple questions over the course of their working with the Council’s Accountability Wizard® and commented on the fact that they got quick responses from CRC. There also was a generally shared perception CRC staff understood and appreciated just how difficult this process can be for smaller organizations. This very positive experience translated into their willingness to devote time to answering our questions for this Capstone and into a general appreciation for CRC’s desire to find ways to improve this process for smaller non-profits. It also resulted in a great deal of goodwill on the part of folks who have not yet been able to meet all the standards. This goodwill is a major asset that could be used to shape future analytical projects and perhaps can be part of future outreach to smaller non-profits.

One other common theme throughout these interviews was the understanding that there were both real and perceived barriers to greater inclusion of smaller nonprofits and solutions are needed to tackle both.

Perceived Barriers Identified in Interviews

In the course of our interviews there were some barriers to expand smaller nonprofit participation identified that we categorized as common misconceptions. Some interviewees

explained their own perceptions prior to engaging in the process and talked about how they came to believe that these were false. Here are the five most common that came up in the course of this process:

- “CRC is just for larger organizations”
- “The process costs too much money and takes up too much staff time”
- “The review process is only for organizations who have been told by funders that they must get certified”
- “Certification is extremely difficult to achieve”
- “If we try to achieve certification and fail to meet the standards it will hurt us with funders if the word got out”

These barriers/misconceptions are detrimental and must be overcome in order to expand small nonprofit participation in the review and certification process.

Some of these misperceptions about CRC and the certification process come from many years of media messages. Others come from a general misunderstanding of the process. However, these perceptions have developed and it is clear that a conscious effort to address these directly with the existing small nonprofit community would be beneficial in both the short and long-term. A short description of the average cost, time needed, and success rate for small nonprofits would be useful for addressing misinformation. This could be available in a printed brochure or on the web and it could form the basis of conversations over the phone or in person with leaders of smaller organizations.

For example, one item that came up frequently was the cost. It is not well known that there is a sliding scale and a \$100 minimum fee for the very smallest. One interviewee noted that

it was not clear on the website of CRC or in their initial call to CRC that there was the \$100 option.

A short term approach to this perceived barrier could be a letter/email/social media message to a select number of non-profits that would test the effectiveness of letting them know directly that it is only \$100 for smaller organizations. This test could determine if the addressing of this concern results in an increased number of inquiries and if these inquiries lead ultimately to additional partnerships with the Council.

Another example is the misperception that CRC is only for larger groups with lots of staff. We recommend that “trusted” individuals could be key by providing testimonials on the value of this service to all sizes and shapes of nonprofits.

There are a number of “LinkedIn groups” and other social media/on-line places where nonprofits talk with each other about a wide range of issues. We have found it effective to solicit ideas and suggestions for this report from these sources and believe that they could be incorporated into a longer-term outreach strategy. A list of some suggested social media outlets that the Council could make more extensive use of is included in Appendix Three.

Beyond having clear information to address these perceived barriers, there could be an aggressive approach to “re-branding” CRC that could replace some of these misconceptions. For example, the recent expanding of CRC’s work from not only being a service for donors (“watchdog”) to providing more direct assistance to nonprofits (“guide dog”) may be an excellent opportunity for re-positioning in the media. This could be as simple and low budget as a standard media outreach campaign or as elaborate as a major “re-branding” project.

We recommend the conscious use of the concept of “partnership” in a way that is comparable to how CRC successfully “partners” with donors. This concept can be developed in ways that changes the perception from “judging” to “providing guidance” and “helping achieve goals.”

One of the most valuable resources available to CRC for any media outreach or branding efforts are the many leaders of small nonprofits who have completed the certification process and who speak passionately about how this has helped their organization and created a better, more sustainable and healthier workplace. These “satisfied customers” can be powerful voices if their comments can be captured via text, audio or video and used creatively on the CRC website or in targeted advertising/outreach. This approach can be organized along the lines of a “trusted voices” campaign with a near total reliance on social media – thereby avoiding any significant budgetary expenditure.

One thing we discovered is that to the extent that there are misconceptions about CRC and/or the review process it is largely among staff and not at the board level. Board members were largely unaware of the CRC and therefore did not often have preconceptions. It was striking how receptive board members were to the notion that they could have fewer worries about exposure to certain problems as a board member if their organization got assistance from CRC through the review process. At a minimum, it could provide information on areas of potential risk and this is much better than being “blind-sided” at some point in time.

Actual Barriers

In addition to the perceived barriers that are based on misconceptions there are real challenges to small nonprofits meeting the CRC standards. Some smaller organizations have

been able to successfully tackle these while others have not. Three major areas of concern emerged from the interviews along with a number of excellent suggestions and recommendations.

1) Process

To complete the CRC process takes a significant commitment of staff and/or leadership by the organization. Some nonprofits interviewed addressed this challenge by hiring an outside consultant to oversee the review process. However, in most cases smaller nonprofits do not have the funds to hire extra staff. Also, in some cases the nonprofits felt they needed to get legal review of some aspect of the process or of their answers to specific questions and this added a significant cost. In one case this additional cost led to serious questioning by the organization's board of directors about the cost/benefit analysis. There is no getting around the fact that this process takes time. Based on our interviews it appears that in some instances smaller nonprofits can tap outside sources of expert help. In the interviews with nonprofit leaders there were a number of individuals who had a very positive experience working with an intern or other "outside" individual to help complete this process. In several cases the organizations had an AmeriCorps volunteer take on the project. In two instances a board member took on the major oversight tasks. These were mostly very small organizations with only one or very few staff. In other instances, the interviewee believed that the information requested is so specific and internal they did not believe it would be useful to have an "outside" person helping.

One specific idea emerged from the interview with a leader in the nonprofit Legal Corp they had the idea of partnering with CRC to provide direct assistance to interested nonprofits of third year law students interested in nonprofit law under the supervision of Legal Corp volunteer

lawyers. We believe this approach could be very effective in addressing some the workload challenge as well as a cost effective way to obtain any legal advice that was desired by staff or board members.

The formal mission of Legal Corp includes working with smaller nonprofits, those with less than \$750,000 in annual revenue. This is an overlap with CRC's focus on smaller nonprofits. Legal Corp currently has over 400 pro-bono lawyers from mostly larger law firms and they also work with number of law schools to involve their students in providing supervised one-on-one assistance to nonprofits. In conversations with Legal Corp leadership this idea of working with smaller nonprofits to help them successfully complete the CRC review process sparked high interest and they welcome further conversations to explore how this might work.

2) Standards

For a number of nonprofits there were specific standards that were very difficult to meet. The most common one, not surprising given the recent economic crisis, was the requirement of positive net balances. Everyone interviewed agreed with the general view that it was important to keep high and consistent standards but perhaps the interpretation/application of these to smaller organizations could be considered from other perspectives. One suggestion was the creation of a "small nonprofit advisory" committee or group for deeper consideration of these issues. Nonprofits that have successfully met CRC standards would be the most helpful in discussing how this process could be adjusted to reach an even broader audience.

One common suggestion was to have copies of sample policies available that were specifically tailored for smaller non-profits. While most everyone interviewed highly praised the customer service of CRC staff several interviewees stated that sometimes the "sample policies"

circulated to help groups meet some aspect of the standards were appropriate for larger non-profits but not so useful for small organizations.

There are some standards that simply do not work for some groups. For example, a number of the groups we interviewed were international in their focus/work and did not believe that their board of directors would ever meet the current standard in this regard.

Another suggestion made was the idea of making the renewal process more integrated with and “built upon” the initial application process. Specifics included making it possible to reference prior posted policy documents that had not changed over the previous three years and making allowances for the timeframe to enable smaller groups to be able to handle the sometimes unpredictable “ebb and flow” of the changing work demands. One person who had recently completed the renewal process suggested a shift to a five-year renewal timeframe.

3) Value Proposition

There are costs to the review process, both money and time, and there are costs involved in making the changes needed to meet the standards in order to receive certification. The ultimate decision by a small non-profit to go through the process and to make needed improvements to meet standards requires a good understanding of the cost/benefit ratio and a belief that the benefits over the long-term outweigh the short-term costs.

The example of the Bremer Foundation makes it clear to grantees that they were providing extra funding to the Charities Review Council to ensure that assistance was available to help smaller groups successfully complete the process of certification was mentioned as one way to make the value proposition relatively clear. The positive reaction by several interviewees

to the success of this specific action by the Bremer Foundation is a sign that it would be valuable for the Council to ask other funders to consider this step.

Another immediate opportunity that was mentioned by two interviewees is that the new President of the Minnesota Council of Foundations comes from a funding organization that put a high emphasis on supporting smaller nonprofits and on establishing a relationship with grantees that included a high expectation of accountability and transparency. There may be a number of opportunities for collaboration between the COF and CRC during the coming years but a very specific suggestion was to use this change in leadership as an opening for developing a coordinated messaging among foundations that would encourage more MN foundations to adopt Bremer's approach.

In terms of the value proposition, the fact that the Council does not yet have much of a presence on Wikipedia should be an area that's addressed. This is an opportunity to define the Council in a forward looking way with an emphasis on the full range of services and benefits to the whole community. It also is a danger in that someone else can define CRC in a negative or limited way. We recommend taking the steps to address the need for a presence on Wikipedia.

A number of important Minnesota-based non-profits already promote their certification by the CRC in their Wikipedia postings, indicating their belief in the value proposition. A review of this approach and an organized promotion of this among all CRC certified groups would expand the understanding of this option to a broad audience. The listing of groups who reference CRC in their Wikipedia postings is at:

http://en.wikipedia.org/wiki/Special:Search/Charities_review_council

Another example of a place for further promotion of the value proposition is the “Minnesota Attorney General’s Nonprofit Organization Resource Guide.” It lists CRC as a resource for donors, but not as a “Training and Technical Assistance Provider” for nonprofits. This could be easily addressed by contacting the Attorney General’s office and asking that in future addition the Council be listed as a resource for nonprofits as well as for donors.⁴

CONCLUSION and RECOMMENDATIONS

At this moment, many small nonprofits do not operate in ways that would meet the standards set by the Council. However, some groups we spoke with did not know that the Council works with nonprofits to help them meet the standards. Our recommendation for addressing this issue is for a much more aggressive promotion of the assistance that is available via social media being followed by nonprofit leaders, staff, and board members.

There was a great appreciation of the recent round of meetings held around the state by CRC to gather input on standards but there was also a belief that this may be some element of what is being perceived as “mission creep” and that this could push some groups to seek certification from another source, for example GuideStar’s Charity Navigator and the BBB.

One other concern from two groups is that the difficult economic times of the past few years will make it very difficult for them to be certified when they come up for renewal soon. It

⁴ <http://www.ag.state.mn.us/Charities/Forms/NonProfitResources.pdf>

has been a very hard period for some that are otherwise well managed so this can be a real barrier that could become, unfortunately, a perceived barrier on a much larger scale.

Without exception interviewees welcomed this chance to provide feedback and some suggested that CRC might consider a randomly selected sub-group of recent successful certifications as a cohort for interviewing after completion.

It was observed that since it was the best nonprofits that stepped up for certification it was a bit of “preaching to the choir” and that finding ways to reach and assist the nonprofits that were lagging significantly needed to be a priority in the long run. One suggestion was to find a way to change the overall climate to one where it is just assumed that all well-managed nonprofits would be certified and that this would take something of a PR/Branding campaign but they believed it could be done.

The growth of other certifications was cited as a concern. One group had achieved Charity Navigator certification and this seemed to satisfy funders. Two groups are being required to use the Cultural Data Project forms and believed that this would come to dominate and suggested that CRC should try to be more in alignment with these other systems to help reduce the workload that may seem duplicative or redundant. Three interviewees suggested greater alignment with the 990 reporting process but one that used the 990 short-form suggested that this was not an easy or perhaps appropriate alignment for the very smallest of organizations.

One suggestion was to take a close look at the certification process used in some other fields, like sustainability, for clues on how these could be adapted without compromising high standards to include smaller entities. For example, in the Forest Stewardship Council forest management certification process there are “points” given within each major areas (roughly

equivalent to the 27 standards) and the total number of points all together are the determining factor on full-certification, conditional, or denied. This allows for some groups who simply do not operate in ways that make it possible for them to meet some standards completely to still receive the recognition for their excellent overall management.

It appears that there is growing interest in better management generally in the nonprofit sector and this includes diverse elements including ethical conduct, financial stability, diversity, and broader concern with the commons. This needs to be nourished, of course, but it has many implications for how CRC can help more nonprofits along the way.

There is growing awareness among smaller nonprofits of alternatives to CRC accreditation. Sometimes this comes about due to suggestions made by funders and sometimes by random conversations with other nonprofits. Sometimes it is the result of outreach by other organizations or social media contacts. However this happens there is clearly a growing competition in the nonprofit certification arena and this will be a factor in how CRC approaches the future. Adapting to this new circumstance will be crucial and the area that seems most “ripe” for expansion and growth is among smaller nonprofits and it is also the place where the most need can be demonstrated for strengthening the sector as a whole.

There is no “silver bullet” but there are many excellent ideas already developed in the minds of many of the successful non-profits that have completed the CRC certification process recently and they are willing to take a portion of their precious time (and that is the most precious commodity in a small nonprofit) to share these with CRC. That is both a tribute to their respect for CRC and a signal of their belief that some things can be improved in ways that can help others. Both of these – the respect for CRC and the willingness to help others unforeseen –

is a tribute to both the great staff of the CRC and to the values of those attracted to nonprofit leadership and participation in the CRC process.

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APPENDICES A

Minnesota's Non-Profit Landscape

There is no single source of data on non-profits in Minnesota. However, it is possible to describe in general terms the current non-profit “landscape” by drawing on a number of different information sources. Within this “landscape” it is possible to separate them by size on a limited basis through “data-matching” between major lists.

Following are some of the major publically available information sources.

Office of the Secretary of State

There are currently 26,863 active Minnesota Nonprofit Corporations filed with the Office of the Secretary of State.

It is possible to get a list of all of these active Minnesota Nonprofit Corporations by placing a “bulk order request” with the Business Services Division of the Office of the Secretary of State. The information on these non-profits that is available consists of all data associated with the record. The cost for the full dataset is \$900. This can be updated monthly for \$100.

For more information: <http://mblsportal.sos.state.mn.us/>

Office of the Attorney General

Non-profit corporations and other charitable groups raising funds in Minnesota and expending more than \$25,000 per year are required to file an annual report with the Office of the Attorney General. On the website of the Attorney General this requirement is explained as being largely for the benefit of donors in the following way;

“By making certain information available to the public, the law seeks to ensure that donors or prospective donors are well informed and protected from misrepresentation and fraud, and that funds held for public purposes are protected. Such protections encourage informed charitable giving.”

For more information: <http://www.ag.state.mn.us/Charities/CharitySearch.asp>

ProPublica

ProPublica is an independent, non-profit 501c3 organization that supports the work of investigative journalists. Their work includes providing background documents to help make investigative reporting more effective. They have created one of the most user-friendly directories of non-profits with over 12,000 listings in Minnesota. Their public database makes it possible to sort out the 501c3 non-profits and to rank them by financial size.

For more info: <http://projects.propublica.org/nonprofits/>

Minnesota Council of Non-Profits

Non-profits of all sizes can voluntarily join the Minnesota Council of Non-Profits. Their list of members with some limited information is available by special arrangement.

From more information: <http://www.minnesotanonprofits.org/>

Guidestar

GuideStar is a national service that provides access to financial and other data on non-profits around the country, including Minnesota. Their current State of Minnesota list contains only 501(c)(3) public charities, and totals over 23,500 groups. The number of total organizations in Minnesota contained in their database (36,556) contains all nonprofit organizations registered with the IRS (c3, c4, etc.) in Minnesota, not just the 501(c)(3) public charities.

GuideStar maintains its own database of PDFs and digitized nonprofit information from a variety of sources. They receive information primarily from the IRS Forms 990, IRS Business Master File and Publication 78. They do not incorporate information from the State Attorney General's Office nor from the Secretary of State. They currently charge a flat fee of \$500 to purchase their entire Minnesota state list.

For more information: <http://www.guidestar.org>