

## **Accountability: The Maturing of the Charitable Sector**

*by Sherry Ferronato*

“We have not passed that subtle line between childhood and adulthood until we move from the passive voice to the active voice - that is; until we have stopped saying “It got lost”, and say, “I lost it.” - Sydney J. Harris (U.S. Journalist).

The process of growing from a child into an adult is all about becoming accountable -- becoming aware of and accepting the positive and negative consequences of one's actions and being responsible to those affected. This is true for individuals, organizations, and even whole societies. It is also true for the charitable sector -- and the recent surge of discussion and activity about accountability in the sector would seem to indicate that it is, indeed, maturing.

In many ways, the sector has had to grow up. With traditional sources of funding in decline, nonprofits have had to find new ways to support themselves. Rising demand for service and an increasing number of charities have forced nonprofits to look beyond themselves and experiment with working together. The complexity of technological, legal, social, and organizational environments has put pressure on nonprofits to advance their competencies. Knowledgeable and sophisticated donors, volunteers, and consumers have demanded that charities account for their actions.

This is not to say that charitable organizations have not been unaccountable to this point. Dr. Susan Phillips, research director for the Panel on Accountability and Governance in the Voluntary Sector (PAGVS), reports that the Panel has found “there is a lot of activity out there [to improve accountability]. Organizations have been creative in grappling with a changing environment and an increasing demand for accountability.”

The Family Caregivers Network (FCN) in Victoria, B.C., for example, started from square one a few years ago, but now has fundamental accountability measures in place. Formed in 1989, FCN was the first organization of its kind in Canada. Unaffiliated with any accrediting body, it got off the ground mainly through the efforts of a committed group of well-meaning volunteers. Lorna Hillman, executive

director, says that in its early years, the organization focused on establishing itself and providing direct service: accountability was not its first concern. “When I started [ in 1992], there weren’t any accountability measures outside of financial reports,” says Hillman. Since then, she has labored to ensure accountability is systematized in the agency.

Larger, established organizations, like the Heart and Stroke Foundation of Canada, (HSFC) are also being challenged to further develop their accountability. “Heart and Stroke Canada has long had strong lines of accountability,” reports Bill Tholl, national executive director. “Our increased emphasis on accountability was internally generated by a recognition of a fundamental ethical responsibility back to donors and volunteers.” He adds that as a national office in a federation, there is a need to justify value for dollars contributed by member foundations, and to provide assurance of benefit to provincial partners. This experience translated into a strong motivator for organizational accountability.

While accountability does exist in the voluntary sector, current accountability measures tend to be piecemeal, inconsistent, ineffective, and lacking integrated structures and systems. Without basic, widely promoted and coordinated standards that are easy to implement, charitable organizations, like many of today’s youth, may be left without appropriate guidance. They may be unaware or confused as to what is expected of them, or exasperated at having to spend so much effort proving themselves.

When a breach in accountability occurs in a charity, it is not typically because a charity sets out to deceive donors, Revenue Canada, service users or the public. Rather, contravention of accountability standards tends to arise from lack of sophistication. As Ed Broadbent , chair of PAGVS, states, “Most problems in governance and accountability in the sector occur not at all through dishonesty or corruption, but through innocent, ordinary people who aren’t experts in management. Overwhelmingly they are good people who don’t have an intuitive grasp of how things need to be set up and structured.”

Voluntary sector organizations are governed by volunteers who sometimes lack the nonprofit management expertise needed in policy-setting and decision-making. Some groups, funded on shoestring budgets, cannot afford to buy the expertise they need or to have staff spend time on administrative tasks at the expense of direct service.

“Time is an issue, because we are so under-resourced,” states Lorna Hillman, who believes that a lack of financial resources, time and expertise are accountability barriers for many small organizations. “If I could be relieved of a lot of the programming, then I would have more time to put into accountability activities.”

Bill Tholl agrees. “One of the potential impediments [to increased accountability] is a non-professional approach to implementing change. We’ve tried to go where the expertise is, either within the organization or in getting expert facilitation to help us to do the right thing.” Tholl adds that the diversity of governance and management expertise among board members can be a barrier. “How do you avoid gravitating to the minimum common denominator, and having a whole board counting pencils for you in the name of accountability?” He says it is necessary to remind people what is a volunteer versus a staff responsibility.

Accountability gaps are not entirely the fault of the nonprofit sector, however. Susan Phillips highlights some of the accountability barriers created by external stakeholders, such as governments, foundations, corporations, funders and donors. Various funders may require the same kinds of accountability information from an agency, but each demands that the data be presented in a different format; she says. Revenue Canada often asks for less-than-meaningful information, which is open to interpretation, and is not presented in user friendly ways. Definitions of fundraising and administration costs on the T-3010, for example, are vague, confusing and inconsistently applied. Time spent on excessive bureaucracy instead of on charitable work is one of the unintended but real results of uncoordinated and ineffective accountability measures. In its discussion paper, *Helping Canadians Help Canadians*, PAGVS made recommendations on how these stakeholders could help to enhance the effectiveness and credibility of the voluntary sector. Foundations and corporations, for instance, could support organizational infrastructure and outcome-based assessments; the federal government could modernize and clarify the charitable registration system, as well as Revenue Canada’s definition of “charity”.

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### **Accountable to Whom ...**

Accountability in the charitable sector is extremely complex and varies from one organization to another.

To clarify a charity's responsibilities, the Panel on Accountability and Governance in the Voluntary Sector suggests considering the questions, "Accountability to whom, for what, and by what means?".

Charities may be accountable to:

- **Clients, Customers, Members, Service Users**
- **Funders and Donors**
- **Volunteers and Staff**
- **Partners**
- **Governments**
- **Professional Associations, Accrediting Bodies, Umbrella Organizations**
- **General Public.**

Not everyone agrees, though, that accountability issues in the charitable sector are a result of innocent mistakes, lack of resources or factors external to the sector. The integrity of the sector has come under fire by an increasing number of critics. Parliamentarian John Bryden, journalist Walter Stewart, and *Maclean's* magazine, for example, have all alleged that the charitable sector is rife with improper and even illegal activity. While these views may be extreme, it is likely that they affect the public's perception of charities.

Recent research conducted by the Angus Reid Group for the Canadian Centre for Philanthropy (CCP) seems to confirm this. This research indicates that the Canadian public knows little about the sector, but generally has a positive outlook towards charitable organizations. A definite trend towards discontent and mistrust exists, however, particularly about fundraising, efficiency and effectiveness. The research also reveals that the main sources of information on which the public bases its opinions include charitable solicitations, personal contacts with charities and, of course, the media.

Susan Phillips warns that this situation could present a dangerous combination for nonprofits. "A lack of public knowledge about the sector, and a media that is keen to sell scandal, together can be deadly," cautions Dr. Phillips. The CCP concludes that it is important for charities to consider how they can communicate better with the public, particularly regarding accountability issues.

Regardless of whether accountability problems among charities are real or imagined, the sector is clearly beginning to face a public perception challenge. While it is a sign of maturity that the sector has taken the initiative to tackle this challenge through such efforts as the PAGVS and the CCP's Ethical Fundraising & Financial Accountability Code, further development is necessary if the sector is to reverse the trend towards public discontent and mistrust.

What can a charitable organization do to shift the tide? A first step is to do an attitude check. In *Managing for Accountability*, (published by Jossey-Bass Inc., 1996) author Kevin P. Kearns advises that "today ... nonprofit organizations cannot say: 'Leave us alone. We are well-intentioned people doing thankless work under difficult circumstances.' Now they must open their doors ... to public scrutiny."

To be prepared for this scrutiny, a charity must ensure that its approach to accountability is proactive rather than reactive. Kearns recommends making accountability a strategic priority. By doing an "accountability audit" to assess and predict threats and opportunities, an organization can target its accountability activities, and thereby maintain some control in a changing environment.

In Victoria, for instance, the FCN has taken a proactive stance to dealing with its major funder. Several years ago the province regionalized its Ministry of Health. Lorna Hillman seized upon this opportunity to negotiate accountability and evaluation mechanisms with the new Capital Health Region, rather than waiting to have potentially meaningless measures dictated to the agency.

HSFC has not waited for a crisis to hit before dealing with accountability issues. "Accountability is a question of making a good organization better," says Bill Tholl. When the organization was reaffirming its federation agreements in 1997, it made sure to address who is responsible and accountable for what, and who has what authority and resources.

When an attitude of openness to increased, proactive accountability permeates an organization, it is well positioned to implement accountability strategies. These strategies necessarily vary from one nonprofit to another. Some will be internally imposed; others will be generated and enforced by government, the public, media or private groups. Some standards will assume the organization is innocent until proven guilty, while others take a guilty until proven innocent approach. The list of existing codes and standards which may guide a charity is piecemeal but lengthy. The key is to select those strategies which are effective, meaningful and achievable for the organization, and then to systematize them into its operations.

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#### **Accountable for What ...**

Nonprofit associations in the U.S.A., including the Minnesota Council of Nonprofits and the Maryland Association of Nonprofit Organizations, have recently developed “standards for excellence”, which require that their members are accountable for performance in:

- **Mission /Values/Program** - a nonprofit should articulate its mission and act in the best interests of achieving its purpose. Its programs must advance its mission and be of high quality. Performance is indicated through such standards as a written mission statement, organizational evaluations and program outcome measures.
- **Governance** - the board is responsible for determining the organization’s mission; establishing management policies; ensuring adequate human and financial resources; monitoring C.E.O. , financial and program results; and ensuring its own effective and ethical performance. Board minutes, by-laws and conflict of interest policies are some signs of governance accountability.
- **Financial Management and Legal Requirements** - a charity is a steward of public funds, and must demonstrate sound financial management, compliance with legal requirements and periodic review of regulatory and risk management concerns. Performance may be measured through budgets, audited financial statements and policies establishing internal controls.

- **Fundraising** - a charity's fundraising programs should be characterized by truthfulness, donor confidentiality and responsible stewardship, and should be consistent with the organization's mission and respectful of donors' interests. Accountability in fundraising may be shown through solicitation materials, professional status of fundraising personnel and fundraising policies/codes of ethics.
- **Human Resources** - a nonprofit's human resource policies must deal fairly with both paid staff and volunteers, and establish clear expectations and meaningful evaluations of them. Personnel policies, training programs and annual performance appraisals are examples of human resource standards.
- **Communications** - a voluntary organization must be transparent, and make information accessible to the public regarding its mission, program activities and finances. Accountability may be assured through its annual reports and other communications and public relations materials.
- **Public Policy** - a nonprofit should represent the interests of those it serves through public education, advocacy on public policy and encouragement of public participation. Education materials, advocacy policies and T-3010 information regarding lobbying activities are some gauges of public policy accountability.

"I found the discussion paper that the PAGVS did to be very helpful. All my board members got a copy of it, and I particularly pinpointed areas of concern to them as trustees. That's something we'll be taking a close look at [soon]," says Lorna Hillman. The FCN, with limited resources, has been creative in implementing accountability strategies: it has used university students for program evaluations and strategic planning, and United Way volunteers for board development. Hillman encourages that accountability is achievable for a small agency by systematizing it and creatively implementing it.

"An easy checklist that says you've done everything that could be reasonably done given our particular kind of organization would be helpful ... like David Letterman's top 10 ways to ensure accountability or the 10 commandments of accountability" says Bill Tholl. Until such time as this exists, however, HSFC focuses its accountability around three activities: spending money where it told donors

and volunteers it would; spending money effectively for research and education and in ways that minimize administrative costs; and reporting back to donors and volunteers on what it did with the money. Tholl emphasizes that accountability activities should be based on values and should not be complex.

To further advance a positive public perception, it is necessary for a nonprofit to communicate its accountability effectively. Andre Picard, *The Globe and Mail's* Quebec Bureau Chief, recently studied the charitable sector on a one year Atkinson Foundation Fellowship. He says his biggest impression was how invisible the sector is despite its breadth. As the only reporter in Canada who covers charities full-time, he is aware of the difficulty charities encounter in having their messages effectively communicated by the media.

His recommendation is that nonprofits must grow up and communicate the message for themselves. "Get out there, educate the public and justify yourself. State, 'Here is why we're important, here is what we're doing well, here is what we're not doing well,' and be willing to debate that."

Picard reassures organizations who are unsure about this degree of disclosure and transparency. "I can't see this doing anything but really serving the sector well. Comparing the way the [charitable] sector operates generally with the way government and corporations operate, it holds up quite well in terms of responsiveness to the public and accountability for its spending. Charities have nothing to hide, and those who have something to hide shouldn't be in business."

The limited resources of the FCN tend to constrain its communication efforts. However, the agency does promote its accountability through its annual report and annual general meeting, and they invite and respond to requests for further information.

HSFC places a high priority on communicating its accountability through its fundraising events and materials, its newsletter, and a 1-888 line. The organization is particularly proud of its award winning Internet web site ([www.hsf.ca](http://www.hsf.ca)) which posts its annual report and, by June 1999, will include question and answer sessions, and a chat room.

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### Accountable by What Means ...

Warren Dow and Roy Crowe of Volunteer Vancouver, in recent papers entitled "What Social Auditing Can Do for Voluntary Organizations" and "The Other Accountability Mechanisms", analyze several existing and emerging devices by which a Canadian charity's accountability can be demonstrated:

- **Governance Procedures of the Board of Directors** - ultimately, the board should ensure that internal mechanisms for responsible management are in place. PAGVS, in "Caring Canadians, Giving Canadians" recommends key board tasks for ensuring effective stewardship.
- **Government Regulations and Monitoring Agencies** - such as Revenue Canada's T-3010 information returns, Provincial Societies Acts, Alberta Charitable Fundraising Act. PAGVS proposes a Charity Commission, similar to that of England and Wales, as a future option.
- **Accreditation and Certification Processes** - "intermediary" organizations such as professional bodies, parent or umbrella organizations and other accreditation groups bring standards to bear upon their members.
- **"Whistleblowing" and the Media** - Dow and Crowe refer to employees or directors taking an agency's wrongdoing public as "an accountability mechanism of last resort." The media can hold charities responsible not only by exposing scandal but also through positive coverage of good work.
- **External Watchdog Organizations** - groups independent of the voluntary sector are making it their business to monitor charities on behalf of the public. The Better Business Bureau of Southern Alberta is seeking ways to gather extensive information from nonprofits, which it would provide to the public upon request. BBB's across Canada are looking at similar initiatives.
- **Cyber-Accountability** - the Internet and CD-ROM directories are emerging as new venues through which data on nonprofits' performance is being made accessible to the public. U.S.A. based sites such as Internet Nonprofit Center ([www.nonprofits.org](http://www.nonprofits.org)) post information for potential donors and volunteers including a donor defense kit, their "top 40" charities list and how to evaluate nonprofits.

- **The On-Site Analysis Process of the United Way** - a tool for voluntary self-assessment and regulation, the On-Site Process utilizes an external facilitator to work with the entire organization to analyze its strengths and weaknesses, identify problems and develop an action plan to solve them.
- **Social Auditing** - used to date primarily as a tool for assessing corporate levels of social responsibility, this extensive self-assessment mechanism also has applications in voluntary organizations. This process involves regularly surveying stakeholders on all aspects of an organization's performance, setting up benchmarks, comparing results with similar organizations, establishing new goals and objectives, and creating a "report card" for public disclosure.

Finally, a charity can help turn the tide of public mistrust by participating in opportunities for collective action around accountability. "Organizations need to be working together to get out their joint message," says Susan Phillips. This may involve joint communications, or even banding together to lobby authorities.

The Society for Manitobans with Disabilities, in its response to the PAGVS discussion paper, pointed out that systemic or macro level issues which are major contributors to accountability concerns must be addressed. Issues such as system fragmentation, increasing competition among charities and the high costs of fundraising play a role in public discontent with the charitable sector. Nonprofits may need to join together and lobby to resolve these concerns.

The FCN has created opportunities to ensure meaningful accountability through collective action. Lorna Hillman explains, "We've been trying to organize other health and social service agencies in this region into a sector so that we can have input on evaluation modules ... and also so that we can educate [government funders] about our sector. [We are doing this] so that evaluation becomes a tool to further our goals and objectives and to provide accountability for monies being spent rather than it being used to potentially penalize or pass judgement on whether you're doing a good job or not."

Bill Tholl says that HSFC has joined with other health charities to "work more hand in hand than head to head ... and look at what we can do for ourselves." This involves sharing approaches across

organizations on accountability. For instance, these agencies are looking at how they can generate Revenue Canada T-3010 information which is more relevant, comparable and transparent.

To achieve accountability goals requires cooperation, self-motivation and a good deal of effort. The developmental stage many charities and the sector are at involves taking responsibility of their own volition rather than waiting for the heavy hand of authority to descend. And like every stage of development, new learning, unfamiliar experiences and some struggles are inevitable. Successfully negotiated, however, the sector and its member organizations will emerge from this challenge better equipped to handle the tasks before it.

*This article is one in a series being written by Sherry Ferronato and Jim Campbell, Co-Directors of Big Sisters and Big Brothers of Calgary and Area, as part of the Muttart Foundation Fellowships. The articles explore current issues in the management of nonprofit organizations.*