

## Nonprofit Groups Urged to Follow 33 Fund-Raising and Management Standards

By Marty Michaels

October 18, 2007

*The Chronicle of Philanthropy*

A committee of experts on nonprofit governance and management today issued guidelines designed to help nonprofit groups avoid ethical and legal improprieties.

The report, issued by a committee appointed by Independent Sector, sets forth 33 principles that charities and foundations can use as benchmarks to evaluate their policies for insuring they comply with the law and are monitoring their finances closely. In addition, the guidelines focus on how charities can be certain they are disclosing relevant information to the public, governing their organizations effectively, and conducting ethical fund-raising efforts.

A draft proposal circulated last winter elicited hundreds of comments that Independent Sector, a Washington coalition of approximately 600 charities and foundations, says helped shape the final set of principles, along with studies of more than 50 “self-regulatory systems” used by both nonprofit and for-profit groups.

The draft proposal comprised 29 principles; after reviewing the suggestions it received, the panel added two new principles that deal with codes of ethics and how to manage potential legal risks to the organizations.

The panel added extra weight to its recommendations that charitable groups not pay travel expenses for spouses and others not conducting business and that boards set clear guidelines as to the length of board terms and the number of consecutive terms a member can serve.

Other topics include protection for whistleblowers, board compensation and diversity, loans to board members and executives, “donor intent,” solicitation materials, and the need for policies

that can help a group “determine whether accepting a gift would compromise its ethics, financial circumstances, program focus, or other interests.”

In general, the authors of the report say that “self-regulation begins with good governance,” and that the principles are directed primarily — but not exclusively — at board members and chief executive officers. The onus is on the governing board to ensure that an organization “lives up to its legal and ethical obligations to its donors, consumers, and the public,” says the report.

To critics who questioned how a “one size fits all” approach could meet the needs of the vast array of American nonprofit groups, the report says that the principles should be clear and practical enough to suit a wide variety of organizations, yet flexible enough to allow each group’s board and chief executive “to adapt them to the dictates of that organization’s scope and mission.”

### **Response to Senate**

Independent Sector created the Panel on the Nonprofit Sector in October 2004 at the request of the Senate Finance Committee. The panel, which comprises the leaders of 24 major foundations and charities, advised lawmakers as they forged a package of laws, passed last summer, intended to strengthen the accountability and governance of charitable organizations.

The panel then turned its attention to ways through which nonprofit groups could police their own actions. In spring 2006 it created a 34-member advisory committee on self-regulation led by Joel L. Fleishman, professor of public policy studies and law at Duke University, and Rebecca W. Rimel, president of the Pew Charitable Trusts, in Philadelphia.

Over the past 18 months, the advisory committee analyzed charity laws, accreditation policies, association guidelines, and other examples of self-regulatory activity to come up with the set of guidelines.

The process was at times contentious, with some groups saying that the windows of opportunity to comment on the draft proposal were too short. Moreover, some observers felt that certain

recommendations were too lenient, while others felt the standards should be more stringent.

And some nonprofit officials at the National Committee for Responsive Philanthropy and elsewhere questioned whether self-regulation was the best way to make organizations more accountable, as well as how the principles could be enforced. They suggested that the emphasis should be on shoring up existing legislation and regulations.

The panel takes on these criticisms in the report's introduction, asserting that "the best bulwark against misconduct will always be a well-informed vigilance by members of the nonprofit community themselves."

The introduction also says that while some government regulation will always be necessary, "too heavy a regulatory hand, or too uniform and inflexible a set of legal restraints, could stifle the very creativity and variety that makes nonprofit activity worth protecting and encouraging."

More than 90 private foundations, community foundations, corporate-giving programs, and nonprofit groups have made grants of \$3.5-million total to support the panel's work.

A "reference edition" of the report, "Principles for Good Governance and Ethical Practice: A Guide for Charities and Foundations," is available for download. It provides background materials on each principle, including detailed footnotes, a glossary of terms, summaries of two studies commissioned by the panel, and other information.

*© 2007 The Chronicle of Philanthropy. All rights reserved.*

<http://philanthropy.com/news/updates/index.php?id=3275>