

Newsletter

ISRAELI CENTER FOR THIRD SECTOR RESEARCH

GUILFORD GLAZER FACULTY OF BUSINESS AND MANAGEMENT

BEN-GURION UNIVERSITY OF THE NEGEV

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ICTR's 14th Annual Spring Conference: Management Practices and Management Training in the Third Sector - Between Business and Social Conceptions

Recent years have seen a long and heated competition over prominence in the management of nonprofit organizations and the training of future nonprofit leaders between business and social notions. On one side are those who view the future leadership of the third sector as predominantly socially oriented, and on the other side are those who favor a business

approach, stressing marketing, financial management and other business practices.

This year's conference will look at this debate with two plenary sessions. In the conference keynote lecture, Prof. Roseanne Mirabella, Associate Professor of Political Science

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The Third Sector and the Financial Crisis: Can we do more with less?

Dr. Hagai Katz and Hila Yogev-Keren

Following the financial crisis which begun in 2008, changes took place in the working environment of Nonprofit Organizations. To examine how the organizations dealt with the drop in income on the one hand, and the growth in service demand triggered by the crisis on the other hand, ICTR performed a two-phase study of the sector's organizations response to the crisis. The first phase, at the beginning of the crisis in 2009, investigated the organizations response to the funding

uncertainty and the impact of the crisis on their stability and capacity. As the crisis continued to unfold, we followed up with a second survey to examine how it is influencing the organizations in Israel.

The situation in many countries was similar to that of Israel: third sector organizations saw demand for services rise, especially for social services but also services in health and education, as their revenues declined due to the

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Director's Column

Dr. Hagai Katz

Another new academic year has begun, and business (if one may borrow the term) is as usual at ICTR. In the past few weeks we have published a new report, a continuation of a previous research on the Financial Crisis and the Israeli nonprofit sector. The research was published in digital format only, and is free to download, as part of ICTR's policy to conserve the environment and reduce costs, and provide access to our work to the widest audience possible.

We are also in the midst of various studies, on the involvement of young persons in civil society, on corporate social responsibility, and on the nonprofit employment market. These studies will be completed throughout the year and will also be made publicly available.

A highlight of ICTR's activity is our Spring Conference, which as it annually does, will take place in March, this year at the Ben-Gurion University Campus. In our 14th conference we will debate rivaling approaches towards management and training in the Third Sector, especially focusing on the tensions between the business and social conceptions of how nonprofit management and the training third sector leaders should be. I am delighted and honored to have as our keynote speaker, Prof. Roseanne Mirabella from Seton Hall University, ARNOVA's President Elect, and one of the leading experts on management education in the third sector, and a prominent speaker on the "Best Place" debate over management training for the Sector. A session on the Financial and Ethical Dilemmas of financial management

in the Third Sector will mark our new long term collaboration with Excellence-Nessuah, one of Israel's leading investment houses, which specializes in the nonprofit market. A session on Corporate Social Responsibility will present our findings from a new study of publicly traded firms, led by Inbal Abbou.

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Business is as usual not only at ICTR, this is also true for the Israeli Third Sector and the political and economic spheres surrounding it. The (re-occurring) current debate is on the repercussions of the economic crisis for Israeli nonprofit organizations, and whether the government is truly willing to come to the aid of these organizations.

In February, 2008 the Government published a declaration of **intentions and a policy statement on relations between sectors in Israel**. This was followed by the formation of the tri-sectoral roundtable, established to strengthen the cooperation, dialog and relationship between the sectors, **increase involvement of civil society in delivering social services, while encouraging dialogue with them before policy decisions are made; and encouraging processes that contribute to the strengthening, professionalism, oversight and transparency of civil society**. The declaration is based on the declared notion of government that views civil society organizations and business enterprises operating to promote public purposes as partners in the effort to build a better Israeli society (Declaration of Intentions, 2008).

When the organizations encountered financial difficulties

due to the economic crisis, the government was pressurized to support the sector, as it did for small and medium sized businesses. The pressure led to several programs, most importantly a support fund, which was budgeted at 200 million Shekels for two years (2009-2010). In 2009 the fund was supposed to allocate 100 million Shekels, but only two-thirds of this budget were allocated, and this too was done very late in the year. The Ministry of Welfare which managed the fund explained this by the small number of organizations that requested financial support and that many were not eligible under the funds criteria, mostly due to not meeting management and overhead requirements. Therefore, out of about 15 thousand active organizations, only 577 sought financial supports from the fund, out of which only 393 provided the necessary documentation requested to check their eligibility. Many organizations complained that the eligibility criteria and requirements, and the complicated application procedures made it impossible for them to apply and receive funding, although they were financially strained and sometimes even on the verge of closing down.

Lately, ignoring previous agreements, the Finance Ministry has announced that it will cut 70% of the 2010 fund. Thus, the fund's budget will be cut to 30 million Shekels. Not surprisingly many organizations protested, among them those who need the help and those who represent others who do.

Ministry of Welfare officials say that they have been conferring with leading researchers and ▶

▶ Director's column

leaders of the sector. This is indeed true for the period of the fund's establishment, but not at the time the cuts were made. According to our research findings (see article in this issue), the cut is worrisome and odd. In our first research on the Sector and the Economic Crisis we have recognized that the Third Sector is heading towards a long financial crisis, which is threatening its stability, its services and its effectiveness. Since the research was done soon after the outbreak of the crisis, it was not clear, due to the severeness of the findings, whether it reflected actual or perceived stress. In a follow-up study we revisited the organizations a year later, and examined the state of the organizations a year later to try to understand how the crisis has influenced them, and how they responded to it.

Our findings are that the concern was indeed justified. Our prediction in the end of 2008 that the crisis will bring considerable financial difficulties was right. Moreover, the organizations were actually overly optimistic about the impact of the

crisis on their finances. A year later, 15% of the organizations which participated in the research either shut down or were considering doing so. However, the research clearly shows the commitment the organizations have for the people they serve, trying to keep the level of services and even expanding them due to the increasing need for their services.

The question arising is for how long can the organizations "do more with less?" Even today we see that some organizations have shut down due to the crisis, many are cutting their workforce and scope of services. It is not an exaggeration to claim that if philanthropic donations do not increase in 2010, followed by additional support from local and central government, organizational demise is inevitable.

Israeli nonprofit organizations are undergoing a long and severe economic and philanthropic crisis, with possible subsequences for their power and activities. Due to the importance and necessity of the services it provides as part of the social safety net, and in light of

the governments' declaration of its intentions to treat the sector as a partner, it would seem proper that the cut in the rescue fund's budget and its rigid eligibility requests be reconsidered. ●

ICTR'S 14th Annual Spring Conference

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at Seton Hall University and the President Elect of ARNOVA, will look into the "Best Place" debate over the differences in of nonprofit management training. In a second session, designed in collaboration with the Excellence Nessuah investment house, we will discuss financial and ethical dilemmas of managing nonprofit finances and investment decisions by nonprofit organizations.

In a third plenary session we will reveal our findings from a new study of the management of corporate social responsibility in Israeli publicly traded firms. As in the past, the conference will also feature parallel sessions in which scholars, students and practitioners from different academic institutions and from prominent third sector organizations will present new research on the third sector in Israel. ●

ICTR Congratulates

Mr. Giora Rosen

Editor of the Red Line Series
at the Kibbutz HaMeuchad
Publishing House
on his appointment as

**Executive Director of Israeli
Civic Leadership Association**

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The Third Sector and the Financial Crisis: Can we do more with less?

decreasing funding from private donors and the public sector. This is what was found, for example, in a report published by the National Council of Nonprofits in the US in 2009. The report shows that more than a third of the organizations experienced cuts to their budget. They also show that the cutback in government support was more problematic than the decline of income from private donors and foundations. The report estimated that nonprofits will continue to feel a double pressure of growing demand for services along with

a decline in income. Similarly, the Center for Civil Society Studies at Johns Hopkins University (Salamon, Geller and Spence, 2009), found that 83% of the organizations in their Listening Posts project are under severe economic pressure. Approximately 40% of them described the difficulties as being severe.

Passive response

In an international symposium held in the Center for Social Investment at Heidelberg University, findings from various

countries converged to show similar responses by nonprofit organizations: Mostly responses were reactive and passive in nature - reduction of wages, freezing of wages and dismissal of workers, shutting down existing programs, delaying the beginning of new programs, and the reduction or cancellation of services. Many organizations relied on financial reserves, or went into debt. Often the decision making was characterized by a "trash can effect": the crisis seems like the ultimate chance – not to innovate, but to get rid of programs and team members which are not effective or are not required anymore. Some of the actions taken were more proactive, such as adding volunteers to make up for the reduction in paid workers, attempting to diversify funding sources and entrepreneurship. In Israel and Iceland a growth in advocacy activity was noted, in Los Angeles and Ireland increased cooperation between organizations was reported.

Researchers and lecturers



Avital Schlanger

Avital Schlanger has been a Researcher at ICTR, and a lecturer at the Nonprofit Management program at the Guilford Glazer Faculty of Business and Management for the past few years. She taught our nonprofit management practicum course, and was involved in our study on foundations. She is now performing a qualitative study of young social entrepreneurs.

The effect of the crisis on Israeli Non Profit organizations

In Israel the economic crisis brought about a reduction of government funding and a decline in income from philanthropy. Due to the downturn experienced by Israeli businesses, many decided to stop altogether or dramatically reduce corporate giving. Giving from Jewish Federations was hurt by a decline in local giving and increased local spending on Jewish community needs. The Madoff scam caused various Jewish Foundations to disappear or to severely reduce giving.

Findings of our first survey showed that soon after the beginning of the crisis 81% of the organizations experienced financial difficulties, 51% reported a worsening in ▶

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The Third Sector and the Financial Crisis: Can we do more with less?

their financial situation during 2008, of them 12% had a severe decline in income. At the same time, over half of the organizations reported a rise in expenditure, and 15% had simultaneously both a cut in income and a growth in expenditure, resulting in severe financial stress. One in seven organizations considered shutting down, and 63% foresaw a decline in income during the following year, of them 34% predicted the decline will be extreme. The falling income was due to reduction or discontinuation of allocations or donations, fluctuations in the dollar-shekel exchange rates, and a growth in operational costs. After thirty years of relatively fast growth of the Israeli third sector it seemed that a significant decline in size and strength of the Israeli Third

Sector was looming (Katz and Yogev, 2009).

Momentary alarm or a real problem?

The survey which was carried out a short while after the crisis begun, made us wonder whether the organizations were in real dire straits or was this no more than a panic reaction to the uncertainty of the times. To answer this question we carried out a second survey, a year later. The survey examined the state of 146 organizations of the organizations which participated in the first phase. Our findings from the second survey clearly show that the concerns caused by the first survey were justified. The findings reflected a real problem, and not just anxiety due to uncertainty brought on by

the crisis. The situation as we see it from the current survey is that the Israeli Third Sector is facing a severe economic and philanthropic crisis, with consequences to its behavior and its capacity.

A year and a half into the crisis, the number of organizations that reported a decline in their financial situation are double those who reported financial improvement. 45% reported that their financial situation has deteriorated in an average of 30%. In fact, the organizations were optimistic concerning their ability to face the crisis, when we compare their predictions in 2009 to what actually happened to them by 2010. The number of organizations who reported financial hardship in 2010 is almost double the number organizations which ▶

Researchers and lecturers



Dr. Uzi Sasson

Dr. Uzi Sasson teaches Volunteer Management in the Nonprofit Management Program at the Guilford Glazer Faculty of Business and Management. He is also in the midst of a study of the social engagement of teens.

Dr. Uzi Sasson's doctorate is in Administration and Leadership in the Public and Third Sector from the University of Indiana. According to Dr. Sasson, the program he attended has a strong applied approach: "the focus of the program was to teach leadership in a doctoral framework to administrators working in a host of areas in the public and Third Sector. The program was taught in small groups of 20 students, some were CEO's, presidents and vice presidents of organizations, and most were older than me, which allowed me to learn from experience of prominent leaders of the public and third sectors in Pennsylvania". Dr. Uzi Sasson gained his experience in Volunteering while working and volunteering in several volunteer frameworks for teens in Pittsburg and Ann Arbor, where he initiated a program for increasing teen participation and volunteering in the community.

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The Third Sector and the Financial Crisis: Can we do more with less?

estimated that they will have a problem overcoming the crisis a year before. These findings strengthen our understanding that the organizations' evaluation of their situation was not mere panic, but rather an undervaluation of their situation.

Our first survey data showed that one in seven organizations were on the verge of shutting down: 13% had reported that they were considering completely shutting down the organization. In 2010 this inclination has lessened, but is joined by 4% of the organizations who have already shut down or are currently in the process. Hence, in 2010 15% of the organizations surveyed have either closed down or were considering doing so.

In comparison to a the year before, the organizations' income flow has slowed down. More than half reported a drop in total income (57%), of 30% in average. These data are higher than those reported in 2009, in which only 44% reported a reduction in income. Analyzing the source of revenue declines, we note that the financial crisis in the third sector can be described as mainly a philanthropic crisis – 74% of the organizations reported a drop of 30% in income deriving from philanthropy. Yet the decrease is not from philanthropy alone, but also from local and national government coffers: a third of the organizations reported an average of 52% drop in income from

government. Income from sale of service is the only type of funding that more organizations reported a rise in (29%), as opposed to the number who reported a reduction (25%). The significance of the reduction in income is of course the undermining of the economic stability of the organizations.

The survey clearly shows that the size of the organization influences its ability to withstand the crisis, and that it affects small and large organizations differently: only small or mid-size organizations shut down, were in the midst of closing or were considering doing so. The ramifications of small organizations shutting down are significant, since they are the sector's avant-garde, ▶

Call for proposals

Doctoral Research Scholarship

Ph.D. candidates writing their dissertation on Israel's Third Sector or Civil society are invited to apply for ICTR's annual Doctoral Research Scholarship.

The NIS 5,000 scholarship will be awarded at ICTR's 14th Annual Spring Conference, March 15, 2011, at the Ben-Gurion University of the Negev Campus, Beersheba, Israel.

Eligible applicants are:

- Students enrolled in an institution of higher education in Israel or abroad, from any relevant discipline
- Students whose dissertation proposal is approved by the proper authority in their university
- Israeli citizens

Applications are accepted until December 18th, 2010.

For application forms please contact ICTR staff:

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The Third Sector and the Financial Crisis: Can we do more with less?

being easily able to reorient to new needs, demonstrate creativity and entrepreneurship (Kramer, 1988). These organizations are often involved deeply in advocacy, representing marginalized groups, who pay the highest price in times of crisis.

Doing more with Less?

The economic crisis has impacted the citizens as well, increasing the number of people seeking services. Almost half of the organizations surveyed reported growth in demand for services. Yet, our data show that despite what seems to be a growing demand for services, the reduction in the scope of activities and the number of customers served is minimal. The survey portrays a situation in which the organizations are trying to do "more with less", this paradox is apparent when one looks at the scope of employment. In almost a third of the organizations there was a decrease in the number of employees. On the average,

these organizations lost a fifth of their workforce. The growth in the number of volunteers during the past year only partially offset this decrease.

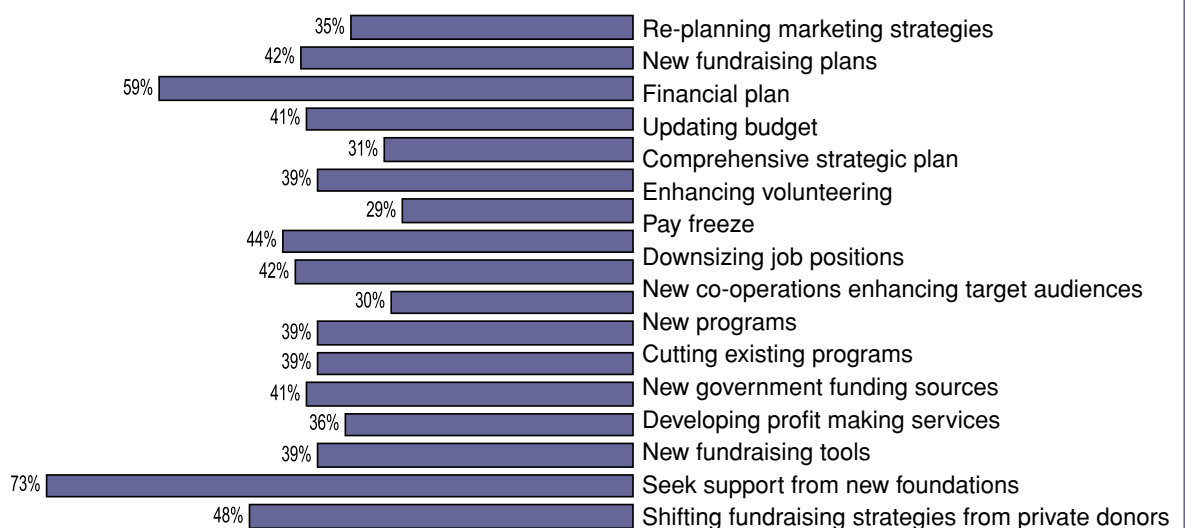
Responding to the crisis

How did the organizations respond to the situation? The chart shows the major strategies that they used. Organizations sought fundraising from new individuals (48%) and foundations (73%), and tried new fundraising tactics (39%), and 41% searched for new channels of government funding. The attempts to tap these traditional sources of income seem particularly irrational, noting the sharp decline in both philanthropy and government support.

The second phase of this study confirms the first phase conclusions that the crisis will bring considerable economic difficulties to Israeli nonprofits. Our findings and especially the comparison between the first and second surveys show that organizations

find it difficult to foresee the future and prepare themselves with preventive measures. The question that arises is how long the organizations can "do more with less", raising serious concern over the seemingly inevitable result. It is difficult to estimate how long the organizations can survive in this scenario, and there is legitimate concern whether their devotion will cause them to spin to their demise. The difficulties can have far reaching consequences. These organizations serve populations the mostly don't have alternatives in other frameworks. The weakening of the organizations will in turn weaken their constituents. Additionally, the smaller organizations, which are having the hardest time in this crisis, play an important role in generating social innovation and promoting social change, and their demise will hamper Israeli society's ability to develop new services, identify new social problem and offer new solutions. ●

Actions taken by the organizations in response to the financial crisis



Idealistic Communities: The New Phenomenon of Young Communities in Israel

Shelly Sharon and Dr. Hagai Katz

In recent years, the media and public opinion critically portray young people in Israel as hedonistic and self centered. Yet the same age group is often found in a completely different context, one which is constantly growing, which is made up of young people who are actively taking part in the community and society. Many of them partner with Third Sector and civil society organizations to advance different social agendas. One of the most remarkable manifestation of young persons' social engagement are communities of young people (aged up to 35) who choose to live in peripheral and underprivileged communities and influence Israeli society from below.

In Israel there are dozens of communities of young people settling in the countries geo-social periphery. These groups live in communal settings with a collective interest in promoting a social mission. They vary across ideology, religiosity, levels of financial collectiveness and level of involvement in the commune's social mission.

This research, supported by the Yad Hanadiv (Rothschild) Foundation, is a first attempt to illuminate the different facets of the phenomenon, providing answers to questions such as the motivations behind these communities, their challenges and their communal lifestyle. The research is qualitative, including in depth interviews with leaders of the communities and focus groups with community members. This article presents our primary insights from the research.

The creation of a community

Not many would dare leave the comfort of their family, friends and life style behind in order to move where quality of life is resolutely lower, to pursue their ideals. The communities included in our research are located in distressed inner city neighborhoods in Tel-Aviv, Haifa, Beersheba, Jerusalem, Afula and Beit-Shemesh. None of the founders and members we interviewed were native residents of the neighborhoods they chose to relocate to, and all had similar missions and values – life in a community characterized by solidarity and mutual dependence, beyond that of the nuclear family, and deep concern for the future of Israeli society.

Incubators and the social mission

A salient common denominator of the communities in our study was an experience in a value-based incubator which has driven them towards this type of living. The stories of the establishment of these communities highlight the role of youth movements as incubators for social activism and engagement. Socialist youth movements, religious youth movements, pre-military prep programs and others, all contribute to, preserve and develop the relevant values among their members. These values, supported by an organizational framework, drive the graduates of these youth organizations to choose to live in communal settings which stress the importance of immersing in the

local communities and providing a response to cultural, social, educational and other needs.

Despite the ideological differences between the communities, particularly between those from socialist background and those with religious motivations, similarities can be found between them. Both types of communities emphasize dialogue. While they differ on the source of their mission, a Jewish one versus a national mission, they learn from one another on the communal lifestyle and on community activities. Their communal living patterns can be placed on a continuum between private and communal life, allowing a life closer to a host of people who share the same values and commitment to giving to the community and society.

The circles of community

While 'community' is an abstract term, for our interviewees the communities' boundaries are defined phenomenology. The community members we interviewed described it as a personal definition "one defines himself as a member of the community". Community life is described as the highest value, and as an "enabling space", "drive", and as "a choice of a non-mainstream life style, but an inclusive one". In order to become a community member you first have to choose this sort of life style and identify with the values that it embodies.

The research shows that the community consists of communal concentric circles. The first is made up of the entrepreneurial ▶

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Idealistic communities: the new phenomenon of young communities in Israel

nucleus. Each community which we sampled is the brainchild of 2-5 people. In the next circle are the community members, the people that join the communal life, fully obligated to the community's mission – these are all active members of the community which have a role in its projects, in different capacities, from management to volunteer roles. Each of the members carries an equal weight in the decision making about the life and work of the community. In the final circle are local community residents who participate in the activities, either as active participants or merely as recipients.

Belonging to the community involves a strong element of personal choice, part of a continuous self-awareness process, alongside the processes of community building. It appears that the members of the community live an ongoing life of self examination, while the community remains flexible and contains these changes. The issues that concern the members in the building of their personal identities are the levels of economic-financial sharing, the attendance of their children in the local education system or an external one, communal versus decentralized living, etc. When everyday life is determined

by a large group of people, the individual inevitably pays a price. However, the value of this price is in the eye of the beholder. For the community members, the community is a higher value, and they discuss their life choices through democratic dialogue, and reach shared solutions.

Social change

Communal life is seen as an alternative life style, but one that is not derived from antagonism to society. Communal living and the services that they provide to the surrounding residents are different than the work done by nonprofit organizations, which do not demand a total commitment to a given life style. But, communal living causes social change, which can be defined as a grassroots activity of civil society. Yet, some of the members wouldn't accept such a tag. They do not see themselves as part of the Third Sector, and they clearly distinguish between social activities done by nonprofit organizations that are specifically there to follow a social mission. For them, the social mission is a product of the communal life and not its motivation.

Future of the communities

The research shows that the communities have the

characteristics of a sustainable phenomenon. A major common value found in all of the communities is the central role that the family plays. The combination of the family in the present and future is evident in all the communities, as a part of the community dialogue and its life style. Additionally, all the communities we studied want to grow, not only from natural growth, and it seems that this is indeed happening, though gradually. The aspiration to enlarge the community is not without risks. Bringing in new members may disrupt the ideological consensus in the group. The risk of diluting the ideological foundation of the community is defused by the process of personal choice required for joining the community. Another question that arises is whether the probability of producing additional communities is greater in the secular or religious sectors, and the continuing role to be played by the ideological incubators. Despite all of this, communities motivated by social change make a strong social movement that despite internal differences has many shared traits that can turn the diverse communities into a combined force for social change. ●

SAVE THE DATE!**The 14th Annual Conference****Tuesday, March 15, 2011****Marcus Family Campus, Ben-Gurion University Of The Negev**

Adopting a Professional Approach to Nonprofit Financial Management

Gal Maharshak

In the corporate sector, financial management is in the heart of the management process. In nonprofit management, it is not considered a major discipline or a substantial specialization, despite the increasing importance of the organizations to Israeli society and the substantial growth in activity and therefore in the funds managed by Third Sector organizations in Israel.

In 2009 the total revenue of the Third Sector was NIS 98 Billion, 54% came from government, 29% from sale of services, 16% from public and corporate donations, and 1% came from interest and assets (CBS, 2010). The number of employees in the Third Sector exceeded 369,000 in 2008, which amount to 13% of the total number of employed persons in Israel. In the corporate sector managing such a considerable portion of the economy would require a large number of financial professionals.

The management of nonprofit funds requires responsible and highly skilled managers for two major reasons: similar to the corporate sector, finances are a crucial component in keeping the organizations stable and active, and soliciting donations from the state, foundations and private philanthropists makes the nonprofit organizations a trustee of the funds, ethically responsible for their management on behalf of the causes and the populations for which they were raised.

The Madoff scandal and the 2008 global financial crisis

intensified the importance of proper management of funds in nonprofit organizations, under the legal restrictions which define the composition of the investment and its risk factor. Furthermore, the global economic crisis caused the reduction of funding due to several causes:

- **Donors' wealth has been reduced – and thus funds donated downsized,**
- **changes in the US Dollar-Israeli Shekel exchange rates caused a drop in income,**
- **and the value of donor investment portfolios and assets dropped.**

Preserving value

More than one Billion US Dollars are donated from abroad to Israel annually, an additional two Billion Shekels are donated locally, thus donations make up for 16% of the total revenues of the Israeli Third Sector. These funds have been growing, in accordance with the growth of the Third Sector in the past 30 years, and require the organizations to examine carefully the mechanisms which are used to monitor and guard the value of these funds.

Financial Management of nonprofit entities and endowments requires knowledge and professional expertise, responsibility, conservatism and responsible administration.

The number of organizations that use and rely on professional advice, by either recruiting board members from the financial world or through professional counseling, is increasing along

with the rising scope of their funds.

The financial crisis exposed many organizations to the necessity of professionalizing their financial management, and drew a clear line between those who knew how to manage their funds and those who did not. Today, many understand the importance of implementing professional finance management tools which were considered only relevant to the corporate sector. As a fund manager who has been working with Third Sector organizations for a number of years, I predict that this process will accelerate in the coming years.

The growing complexity of the nonprofit financial market

As a funds manager working with business and nonprofits alike, the major difference I see in between the two sectors is that the corporations' objective is to create profit for its owner, while the objective of the nonprofit organizations is to use its capital to realize a value-driven mission. The role of the financial management is also aimed at different goals: the corporate manager will use every available tool to leverage his resources to maximize the firm's profit, whereas the nonprofit manager will skillfully take advantage of all the resources at his disposal to maximize the spending capacity of the organization, to increase and optimize the organization's impact on its social, political or cultural environment. ▶

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Adopting a Professional Approach to Nonprofit Financial Management

My responsibility, and that of my counterparts in nonprofit organizations, to maintain and conserve the value of the organizations' resources, is far more serious than it is in a business corporation. The price of failure in a nonprofit organization is much heavier: immediate downsizing of workforce, leading to the reduction of services, leading to failure in achieving goals and missions. All of which directly impede the organization's efforts to help

distressed populations, whether it is an advocacy group or a human service organization.

In the past, a major capacity that was required of nonprofit managers was proximity and access to decision makers in the public sector. Today it is commonly thought that in addition, significant business skills are required: marketing skills, understanding of financing and management processes and the use of business strategies to manage

the organization.

In all of these activities one must stress the ability to handle the funds that are raised for various organizational needs, so that the organization can finance itself in the most effective manner possible, and through these funds, realize its goals and missions.

The financial crisis brought many organizations to the brink of a severe existential crisis. Philanthropic foundations abroad shut down. Donors lost ►

Regulation- the Third Sector

A book of readings, edited by Dr. Nissan Limor

The increase in regulation in western countries and in Israel is an expression of a welfare policy, which is meant to reduce state involvement and responsibility, increasing privatization of primary services which the state operated until recently.

The articles published in this collection were authored by leading experts in regulation, and especially in nonprofit regulation. They provide the reader with theoretical, critical and practical points of view, based on the experiences in Third Sector regulation accumulated throughout the world.

Dr. Nissan Limor is an expert in Third Sector governance. He teaches at both the Hebrew and Ben-Gurion Universities. Formerly he headed the Council for Higher Education, and was the director of the Office of the President of Israel. Dr. Limor is the Chair of the Israeli Standards for the Third Sector Committee.

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Adopting a Professional Approach to Nonprofit Financial Management

sizeable amounts of their wealth, institutions lost large portions of their capital and investments, and consequently many organizations have had to deal with aggressive cutbacks in funding from Israel and abroad.

Many organizations and foundations have been left with funding shortages in their cash flow, both for current and future projects. Undoubtedly, the crisis and its consequences should be 'digested' and it is imperative that the organizations enter a serious learning process in the following issues: effective administration, alternative fundraising sources and especially better financial reserve management.

Developing a nonprofit financial management strategy

Many countries have already understood the necessity of professional nonprofit financial management as being a part of both organizational mission and its management. Many of the organizations in the Western world manage their funds through external investment houses who work together with the organization's investment committee, monitored by the board of directors or trustees.

Globally, the working model for not-for profit organizations and endowment funds is the Charity and Endowment Funds Management model which takes into consideration the organizations' needs, specific guidelines and authorizations to manage the portfolio so that it will match the limitations and characteristics of the organization.

The organizations leading in asset management are academic institutions, whose funds are invested in the markets by external investment houses and through self-management. Approximately 4%-6% of the organizations' budget comes from long term investment earning, thus providing unrestricted funds for the organizations. Especially renowned are US universities who have taken the management of their endowments and assets a few steps forward, and in some cases have established investment funds that work in tandem with external investment houses. Yet, these funds too, after decades of continuous and impressive profits, have reported considerable losses due to the economic crisis. Harvard University's endowment fund lost nearly \$11 Billion US Dollars or 29% of its assets during

the crisis. Yale University, the pioneer in professional investment management, reported a 30% loss in its endowment fund. Stanford University, the third richest US university, reported that its endowment fund has declined from 17 to 12 Billion US Dollars. Brown University's balance too fell by 27%, and George Washington University has lost 18% of its endowment fund.

Managing nonprofit finances in Israel

Investment management of nonprofit organizations in Israel is still far from its counterparts abroad. In many cases, Israeli organizations don't have investment committees, and decisions are made by one or two individuals in the organization without established guidelines. Many of the donations made to Israeli nonprofit organizations are received in US Dollars from Jewish philanthropists in North America. The donations are spent in Shekels, and in most cases due to lack of coherent methodologies, bureaucracy and the lack of a guiding hand, the organizations accrue losses due to fluctuating exchange rates. Furthermore, in many cases the funds are managed as regular ▶

SAVE THE DATE!

The 14th Annual Conference

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Marcus Family Campus, Ben-Gurion University Of The Negev

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Adopting a Professional Approach to Nonprofit Financial Management

bank deposits carrying negligible interest rates, and are eroded due to inflation – the consequences are an avoidable and unnecessary drop in purchasing power due to the attrition of the funds. Professional management could have preserved the original value of these funds and could possibly even augment it.

In Israel too, following global examples, there is a growing understanding among Third Sector organizations that it is imperative to adopt a professional approach to nonprofit financial management, and particularly to managing the organizations' surplus and investments. The time when organizations could manage their finances without an investment policy is long past, and more organizations understand the importance of professionally managing their finances.

To conclude, I would recommend that every organization will examine the administrative aspects needed for managing its funds and investments in order to plan the best possible future financial strategy:

- Establish a professional investment committee to

monitor and oversee the investment performance of the organization's assets and donations. The committee should operate in accordance with investment regulations published by the Nonprofit Department of the Tax Authority.

- Compose an explicit investment policy that is compatible with the purpose of the funds and the period of time they will be invested, with reference to exposure parameters and risk level, permissions to use various financial instruments, clear definition of markets for investment etc.
- Adopt a long-term outlook on assets and divide funds according to needs (immediate, intermediate, long-term, risk spread).
- Adopt a model for thoroughly monitoring the investment process, keeping in mind major parameters such as convening the investment committee every quarter, meticulously examining whether the investment policy matches the market conditions and the financial requirements of the organization, costs, risk and standard deviations.

- Use comparative measures to examine investment performance overtime.

The following are important guidelines to note when selecting an investment firm who will manage the organizations' balance:

- Chose an investment firm with experience in managing public portfolios, and especially one which actively manages nonprofit assets and has an expertise in working with nonprofit organizations.
- Examine how the investments are invested, work out methodologies and monitoring processes over the management of the funds.
- Make sure that there is a debt analysis department. The department analyzes the rating of the companies that the investment officers purchase, providing a tool for ongoing evaluating of credit risk.
- An overview of the analysis department of the investment house, the number of analysts and the existence of a research department. ●