

The Future of the Nonprofit Sector in China
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Size and growth of the US nonprofit sector

Over the last 50 years, the US nonprofit sector has grown and matured. President Lyndon Johnson's Great Society initiative spawned an array of new social programs that spurred the development of nonprofits to deliver those programs. In the 1970s, with the support of the Ford and Rockefeller Foundations, there was an increased emphasis on sustainability and recognition of the need for good management. The economic boom of the mid-'90s, and the creation of new wealth, further increased the numbers and activities of nonprofit organizations. Within the last ten years, the sector has grown from 1.1 million organizations to over 1.9 million, an increase of over 70%.

The nonprofit sector represents a large segment of the US economy. It is responsible for approximately 12.5% of the GDP, the largest percentage nonprofit GDP of any country, and it employs over 12 million people. The single largest employer in New York City, for example, is NY Presbyterian Health Care System with almost 30,000 employees. In many mid-sized cities, the nonprofit sector is increasingly a major employer and responsible for assuming functions that were once the government's responsibility. The number and size of nonprofit social service agencies, food banks and shelters continues to grow.

With that growth have come many changes. There is an entire nonprofit infrastructure in place, including specialized accounting and legal firms, management consultancies, graduate and undergraduate training programs, specialized publications and executive search firms. The press covers nonprofit organizations closely and nonprofit leaders are often the focus of intense scrutiny.

Americans' attitude toward the nonprofit sector

Most Americans care about maintaining a large and robust civil society and nonprofit organizations are its cornerstone. Over 50% of Americans volunteer for various causes and almost three-quarters donate. Personal contributions are, by far, the nonprofit's largest source of income, some 80%, followed by contributions from corporations, foundations and governments.

Because of citizens' commitment to, and interest in, the sector, there is a demand for transparency and accountability. For example, executive compensation is published and is public knowledge, and the Internal Revenue Service ensures that nonprofits are following their charters and can sanction a nonprofit organization for not obeying the laws.

Nonprofit leadership

The relationship between corporations and nonprofits goes well beyond contributions. Corporations encourage their employees to volunteer, and board service is an expected part of the profile of any aspiring CEO. The boards are self-monitoring and engage in training and evaluation. Mergers, acquisitions, for-profit subsidiaries and complex investment strategies are common in nonprofit organizations and there is an expectation that nonprofits will be run like any other business. Many of the distinctions between the for-profit and nonprofit sectors have blurred. According to one corporate CEO, "What's interesting is that nonprofit organizations are having to act in a much more appropriate business way - to be more focused, more strategic. And many businesses are adopting almost a nonprofit agenda, in terms of defining their mission. They are looking at not just the enhancement of profits but at how the business is perceived in the local community."

The paid leadership of nonprofit organizations are often graduates of specialized MBA and MPA programs and nonprofit CEO compensation can range from \$250,000 to well over a million. The positions are attractive and plentiful.

However, the demand for leadership overwhelms the supply of qualified candidates. Indeed, nonprofits are facing a leadership crisis. According to a study conducted by the Bridgespan Group, in the year 2016 there will be a need for an additional 80,000 senior nonprofit managers. There are many factors contributing to this. The number of organizations and the size of senior management teams will increase; an entire generation of leaders will be retiring and many others will leave the sector for other fields. This may seem the ideal situation for a headhunter - plenty of positions to be filled - and it is. However, for nonprofit organizations seeking new leaders, the challenges will be great. Demographic ebb and flow alone has created an alarming dearth of candidates for leadership. According to the Peter Drucker Institute, "Nonprofits across the country, disproportionately run by baby boomers, face a mass exodus of top leadership in the coming decade - a generational shift that could pose a crisis to the industry...."

The effects of this leadership gap are already being felt. Senior level positions go unfilled for months and even years. There are at least 10 art museum directorship positions open at any one time in the United States. With so many open positions it is easier for nonprofit executives to change jobs. Unqualified managers are sometimes promoted to open positions. These are serious problems because without continuity of good management, long-term strategy can suffer and great opportunities can be missed.

The situation in Europe

Since World War II, European nonprofit organizations had been supported almost exclusively by federal and state governments. Perhaps 85% of a typical nonprofit's income came directly from the state - a situation with many similarities to Hong Kong and particularly Mainland China today.

But the nonprofit sector in Europe was roiled by a combination of the EU mandates and the economic crises of the mid '90s. Governments reduced their subsidies and nonprofits were forced to seek other sources of income. Marketing, pricing, fundraising, customer service and cost cutting were necessary for survival.

Many of the administrators in nonprofit organizations at the time simply did not have these skills.

The shift away from government support created the need for business leaders - not mere bureaucrats - and without the skills of nonprofit business leadership, the sector suffered. The quality of service diminished, organizations filed for bankruptcy, there was high management turnover and CEO positions went unfilled for months if not years.

Today Europe is nurturing the next generation of nonprofit leaders in graduate schools and there is a trend of business leaders transitioning into the paid CEO roles of nonprofit organizations. Nonprofit executives are being recruited from the United States and Australia to CEO positions in Europe. European nonprofits are beginning to resemble those in the United States.

Hong Kong

The nonprofit sector in Hong Kong lies at an interesting midway point between the West and Mainland China. A long history of robust market-oriented economics has positioned it somewhat outside of the government-planned sphere of the Mainland.

There are four distinct categories of nonprofit organizations in Hong Kong that reflect the mixture of Eastern/Western and capitalist/socialist influences: first, there are established institutions like the Li Ka-Shing Foundation, a major family foundation, and the Jockey Club, the third largest foundation in the world; second, there are international brand name NGOs; third, there are hundreds of grassroots organizations dedicated to particular social causes; and, fourth, there are the quasi-governmental organizations.

The established organizations are well-entrenched, well-financed and stable. The others have felt an especially keen need for strong leaders.

There is a rapid increase in the number and size of international NGOs in Hong Kong. ORBIS International and the World Wildlife Fund, and well-known brand name nonprofits like the YMCA or the Red Cross are expanding, causing growing competition for top talent. Compensation in these organizations is rising for CEO and fundraising positions. Organizations are employing search firms to recruit talent. Experienced professionals have their pick of job openings, creating instability among the senior management.

The grassroots organizations are, by and large, run by volunteers whose leaders' training is in the subject matter, not business. As the executive director of one small nonprofit commented, "We know we need to expand to be sustainable, but I am a lawyer, not a manager, and I don't know how to lead that expansion."

Many of these small, social service organizations are not on the government radar and are unable to compete with larger nonprofits for talent in fundraising and leadership. Take the example of one nonprofit leader who has seven years' experience working in four countries and holds a US law degree. He earns HK\$240,000 dollars a year (roughly \$31,000 US), and he is not sure how long he can afford to remain in his position. "Our main issue," according to this executive director, "is sustainability. We need to be able to increase our fundraising but we can't afford a fundraiser. We are thinking of hiring someone for six months to see if they can earn their salary."

The government of Hong Kong creates quasi-nonprofit organizations as a means of improving civil society. It created the Urban Renewal Authority by writing a charter,

appointing senior officials, funding it with HK\$1 billion and monitoring the organization's progress annually. The HK\$21 billion cultural project, the West Kowloon Cultural District Authority (WKCD), is charged with creating a 21-acre district. Throughout Hong Kong the demand for leadership in quasi-governmental organizations is growing. Today there are at least seven important senior arts positions unfilled. Board members are stepping into leadership roles. And for large-scale endeavors like the WKCD, an arts project of unprecedented size and complexity for Hong Kong, the inability to attract and retain leadership is a serious concern. For many senior management positions in Hong Kong, institutions will be required to recruit experienced leaders from abroad who have had experience running complex arts institutions engaged in public-private initiatives.

And the demand for committed and knowledgeable board members is even greater. One senior nonprofit executive commented, "Our boards are made up of many appointed officials who personally don't care much about our activities nor do they understand the role of governance. The board members need training and perhaps a code of conduct so that we can do our job and they can do theirs." For-profit companies have recognized this need: a philanthropy officer from one of the major international banks is seeking nonprofit board training organizations so that they can prepare their senior officers for board positions of nonprofit organizations.

Mainland China

Meanwhile, the nonprofit field in mainland China has exploded over the last ten years. The number of nonprofits increased from 60,000 in 1999 to 150,000 in 2005. Today, there are over 430,000 registered nonprofit organizations in China. The growth is fueled by foundation and corporate support. The Gates Foundation, for example, has undertaken a major initiative to reduce the growth in China's HIV population by pumping funds into local grassroots organizations. Foreign corporations see donations and volunteer activities as a means to improve the civil society and to reach decision makers in government.

Also driving this growth is a fundamental shift in the government's attitude toward nonprofit organizations. A change in the tax laws in 2007 further encouraged corporate contributions. Governments are forming quasi-independent nonprofit organizations and delegating responsibility to them. In Shenzhen, for example, over 100 governmental functions have been relegated to 17 newly formed nonprofit (QUANGO) agencies. As part of a broader modernization plan, cities are building new performing arts centers, museums and science centers. Major US and European cities have museums and arts centers. China is trying to emulate this. However, as one arts leader told me, "Every city in China will have a new performing arts center but there is no programming to put in them, the citizens don't know what takes place inside of an arts center, and there is no one to run them."

Critical Needs

This combination of events is creating a critical need for experienced leaders. Former government officials, who tend to avoid innovation and transparency, run the larger organizations. The grassroots organizations have untrained leaders. Many

NGOs still have their founders in the leadership position and half of the small NGOs have fewer than five paid employees. Furthermore, high wages and strong demand in the corporate sector are discouraging the most talented to enter the nonprofit field.

What can be done?

All nonprofit organizations are resource-starved. They are preoccupied with sustainability, service delivery and meeting needs by investing in new programs and buildings. All of these are pressing concerns. But without leadership, organizations cannot grow and thrive. There are two major steps toward a solution.

First, the importance of leadership must be recognized. While this seems evident, the leadership gap is not yet recognized as a fundamental issue in China.

Second, corporations and foundations need to build capacity and leadership in nonprofit organizations by redirecting some contributions away from service delivery toward job training programs; providing hands-on training to staff to increase business skills; and designating contributions directly to executive compensation to attract and retain talent.

The nonprofit sector is global. Funding, relief efforts, communications and service delivery are no longer defined by cities and countries. Therefore, the search for talent also must be global. In China and Hong Kong, just as in the US, Europe and the Middle East, nonprofit leaders will be in great demand and they will be global executives. Seeking those leaders is critical to the success of the sector.

DHR plans to respond. It is initiating the DHR Asia Nonprofit Practice specifically to address the needs of the Hong Kong and mainland market. To do that, it will add consultants with nonprofit expertise and create formal links with its US Nonprofit Practice. Second, it is encouraging the 30 plus employees in Hong Kong and Shanghai to volunteer and join nonprofit boards. And it will assist in the training of corporate leaders to be effective nonprofit board members by teaming with a board training service provider.

The nonprofit sector in Hong Kong and China are experiencing the same leadership gap that occurs in the United States and Europe. To establish itself fully as a world leader, China will need to improve the quality of life and its civil society. The nonprofit sector will play an important part in this development. With the meteoric increase in the number of nonprofits and the absence of infrastructure and training to meet that gap, the need for leadership will only increase.

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