

THE Nonprofit QUARTERLY

An aerial photograph of a ballet company performing on a stage. The ballerinas are wearing white tutus and are captured in various dynamic poses. The stage floor is a deep blue, and the lighting is dramatic, casting long shadows. The overall mood is one of grace and movement.

**When the Show
Must Go On:**
Nonprofits & Adversity

Cohen *on* Detroit's "Grand Bargain"

McCambridge *on* the Stakeholder Revolts of Sweet
Briar College and the San Diego Opera

Cunniffe and Hawkins *on* the Renaissance of the
Nonprofit Arts Sector



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THE Nonprofit QUARTERLY

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by Herrington J. Bryce

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Rick Cohen: May His Memory Be for a Blessing



*“[T]his is your soul.
This is what you are.
This is what your
consciousness has
breathed and lived
on and enjoyed*

*throughout your life—your soul, your immortality,
your life in others. And what now? You have always
been in others and you will remain in others.
And what does it matter to you if later on this is called
your memory? This will be you—the you
that enters the future and becomes a part of it.”*

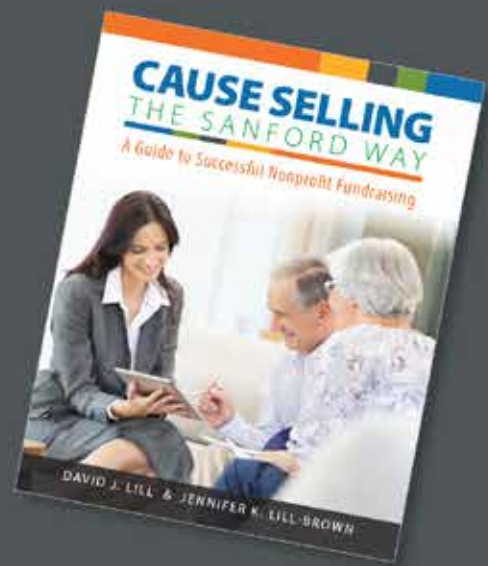
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Welcome

DEAR READERS,
This edition of the *Nonprofit Quarterly* is about the dynamics and experience of bringing something—an organization, a field, even a city—back from a precipice. In some cases, the entities have only barely been walked back from the cliff's edge, and their positions are still unstable; in other cases, they have regained solid ground in a way that has more traction, and have found a decisive direction.

In the organizational cases, there are any number of factors at play—both internal and external. We continue to find remarkable the number of nonprofits that were caught midway through capital-intensive projects that they could not complete during the recession. These kinds of situations were sometimes accidents of timing rather than the result of a lack of due diligence. Projections and plans that were well thought through and might have worked any other time not only did not work but opened up holes in organizations through which assets fell. By definition, though, none of the cases in this edition have come to closure—yet.

In two cases, the institutions were rescued by stakeholders after the boards tried to close them down. In another case, a leadership transition from a founder group of nuns to a more secular team went awry. Relationships with funders, new forms of organization, and many more components combine in these stories to provide much fodder for reflection about organizations you may know and love.

But we have also looked at a couple of larger systems: a field (U.S. arts and culture organizations) and a city (Detroit). The arts piece is a study of the degree to which a perfect storm can hit a large national field almost out of the blue, leaving wreckage in its wake. Still, within the individual organizations and subfields (for example, opera), doomsaying and the seeking of human feet at which to lay blame became common behavior. The article on Detroit is by Rick Cohen, and its depth and detail are rich with lessons for those involved not only in complex municipal interventions but also in all of the smaller component parts of that. Rick passed away in November of this year, and we lovingly dedicate this edition to his memory—we will allow our tribute on page 3 to express what is in our hearts at this time.

In all, this edition is a study in resilience and resourcefulness, albeit not achieved without some measure of pain and crisis. In each case, somewhere along the way people could have given up and left it all behind—and, indeed, in some situations that is the best course to take. But either way, we hope that the discussions within about how these entities not only survived but also found a new path along the way will inform and inspire.





The Nonprofit Ethicist

by Woods Bowman

Situations that raise the conflict-of-interest specter may not always turn out to be illegal but do always raise ethical questions. When in doubt, follow IRS-recommended procedures, your own conflict-of-interest policy, and your gut—the three together should go a long way toward helping you to make the right decision.

Editors' note: Right before Woods Bowman passed away, in July 2015, he presented the Nonprofit Quarterly with a cache of Nonprofit Ethicist columns. This is the second of four batches that we are running in the Quarterly as his parting gift to us all. This quarter's installment is on issues related to conflicts of interest.

DEAR NONPROFIT ETHICIST,
Is it appropriate for an executive director of a nonprofit organization to also serve as a board member of that organization?

Concerned

Dear Concerned,

I don't like it. This arrangement compromises the ability of a board to hold an executive director accountable. It is based on a for-profit model, where board members are duty-bound to represent stockholders. Because officers and directors of corporations are also stockholders, theoretically there is no problem with a CEO being a board member. However, a nonprofit's board has a fiduciary duty to its beneficiaries. I believe that a healthy dialogue between board and staff is the best way to discern the best interests of the unrepresented beneficiaries. A nonprofit CEO sitting on his or her own board, in my opinion, stifles give and take. In a spirit of collegiality, board members would tend to defer to the CEO. I also suspect the practice tends to inflate executive compensation.

*Dear Nonprofit Ethicist,
A local insurance agent who happens*

to sit on our executive committee has offered to head our efforts to increase our charitable gift annuity program. He has a vast knowledge of the product and sees the effect that a strong gift annuity program can have on our organization. However, he has requested a commission for the gift annuities that he brings into the organization. Our current bylaws and policies do not directly address this situation. What would your recommendation be in this situation?

Wondering

Dear Wondering,

It always disturbs me when board members try to make money at their organization's expense, although it is legal (and can be ethical but frequently isn't). Never, ever employ a fundraiser on commission; that arrangement breaches the Association of Fundraising Professionals Code of Ethical Standards. Looking past the threshold issue, this is an obvious conflict-of-interest situation. The IRS recommends procedures for dealing with a conflict of interest (see Appendix A to IRS Form 1023). I will quote the key section:

a. An interested person may make a presentation at the governing board

or committee meeting, but after the presentation, he/she shall leave the meeting during the discussion of, and the vote on, the transaction or arrangement involving the possible conflict of interest.

b. The chairperson of the governing board or committee shall, if appropriate, appoint a disinterested person or committee to investigate alternatives to the proposed transaction or arrangement.

c. After exercising due diligence, the governing board or committee shall determine whether the Organization can obtain with reasonable efforts a more advantageous transaction or arrangement from a person or entity that would not give rise to a conflict of interest.

d. If a more advantageous transaction or arrangement is not reasonably possible under circumstances not producing a conflict of interest, the governing board or committee shall determine by a majority vote of the disinterested directors whether the transaction or arrangement is in the Organization's best interest, and for its own benefit, and whether it is fair and reasonable. In conformity with

the above determination it shall make its decision.

Dear Nonprofit Ethicist,

As a philanthropic advisor, I am sometimes asked by clients for recommendations of worthy nonprofits. In the area of disaster relief, I have often recommended a particular organization whose work and financials I am familiar with and can endorse. This organization recently became a client of my company. Does this present a conflict of interest? If so, must it be disclosed to my company's other clients? Does this need outweigh the need to keep client names confidential? Should I recommend a different organization in the future?

Advice Seeker

Dear Advice Seeker,

Yes, you have a conflict of interest. The degree of conflict depends on how your company organizes its internal affairs, with firewalls and the like. Conflicts are ubiquitous in modern society. The trick is to manage them to achieve a fair result. Informed consent solves many ethical dilemmas, so I recommend disclosure whenever possible, but I always recommend honesty. If you believe that Agency X is the best, you should say so. If this is done in the context of a board meeting, you should follow the IRS recommendations and leave the room after speaking while the others debate and vote.

Dear Nonprofit Ethicist,

My company serves as corporate trustee with four individual trustees of a private foundation. The foundation was established by a couple, long since deceased, from a town that remains a focus of the foundation's giving, along with the broader region. The individual trustees must be residents of the town at the time of their appointment, and all are active in civic affairs. Recently,

one of the trustees ran successfully for selectman in the town. This trustee reviewed his plans in advance with the foundation, and all gave their blessing. He will certainly recuse himself from any votes involving grants to the town for any purpose (something that the foundation has supported in various capacities regularly). For a relatively small community, there is a surprising amount of political maneuvering that has occurred at the selectman level. This trustee is an ideal candidate because he brings integrity and professionalism to the role. Other than the clear responsibility of recusal from votes relating to the town, do you have any suggestions for ensuring that the foundation stays above any political fray and avoids the appearance of conflicts of interest?

Worried

Dear Worried,

I defer to the IRS recommendations. Let this individual make a presentation, but after speaking he should leave the room. Discussion of and the vote on the town's grant application should occur without his presence.

Dear Nonprofit Ethicist,

We are a grantmaking organization that issues grants for health-related organizations within our community. The father of one of our board members is on the board of a local healthcare nonprofit, and has applied for a grant from our organization. The grant request is not within our normal range of grant requirements, but the project this grant would fund could greatly improve our community. Our board member is pushing for us to grant this project, but as it doesn't meet our normal grant requirements, and given the father-son relationship, what would you recommend that we do in this case?

Uncertain

Dear Uncertain,

I worry about the statement that the grant request is "not within our normal range of grant requirements." A host of activities might "greatly benefit" the community, but you cannot finance them all. Follow your conflict-of-interest policy. If you don't already have one in place, nothing you can do will be entirely satisfactory—either ethically or practically. Get a conflict-of-interest policy before the next problem arises.

Dear Nonprofit Ethicist,

If a cotrustee on a grantmaking account is also a representative of a nonprofit receiving funding, we can recognize and employ conflict-of-interest strategies, but conflict of interest will be inherent in the relationship, particularly if this is a long-serving cotrustee and a key nonprofit organization. Are there best practices for cotrustees and fiduciaries to discuss in instances like this (key discussions to have, benchmarks and ratios to review/evaluate, procedures to implement)?

What to Do

Dear What to Do,

You are right, a conflict of interest is inherent in this scenario. There isn't a pat solution that resolves the situation you describe. If you can, add one disinterested cotrustee (or more) so the conflicted trustee can be outvoted if a grant is ill advised. In any case, be sure to treat similar organizations and similar grant proposals evenhandedly.

WOODS BOWMAN was professor emeritus of public service management at DePaul University in Chicago, Illinois.

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Making *the* Most of Stakeholder Revolt: *The Recapturing of the San Diego Opera and Sweet Briar College*

by Ruth McCambridge

Now that organizational stakeholders have access to one another across boundaries that formerly would have kept them apart, opposition to a given leadership's objective can be rallied. More and more, stakeholders are demanding transparency around organizations' decision-making processes, and the standard insular board structure may well become something of the past.

OVER THE PAST FEW YEARS, *NPQ* HAS BEEN tracking nonprofits whose stakeholders rose up to save them after their boards voted to close the doors. They are in a larger field of organizations that have felt the sting of stakeholder rebellions when a board has somehow broken faith with the community it serves. As we watched these situations where an institution is saved, we realized that two of them—Sweet Briar College and the San Diego Opera (SDO)—were remarkably similar. At the point the boards voted to close:

RUTH MCCAMBRIDGE is the *Nonprofit Quarterly's* editor in chief.

- Both organizations had a relatively healthy body of reserves and/or endowment;
- Both had experienced some negative trending in their revenues and revenue drivers;
- Both were in fields where doomsayers were loudly lamenting the death of the genre—in one case, same-sex colleges, and in the other, the opera;
- In both cases, decisions appear to have been made out of the blue, with little or no consultation with stakeholders;
- In both cases, the executive director/president left after a decision was made to save the organization;
- In the case of the San Diego Opera, more than



“Subsequent fractious emergency meetings called to persuade the board to postpone closure and look for options were going nowhere. In a moment of insanity, I challenged the board with a million dollar gift.”

half the board left, and in the case of Sweet Briar College, the entire board was replaced; and

- In both cases, stakeholder groups protesting the decision raised significant money to help retake and remake the organization, but both face a creative challenge in seeking sustainability.

The similarities between the two organizations’ trajectories from near closure to unexpected rebirth led us to take a closer look at how the new boards have handled governance in the context of an empowered network of stakeholders. Four facets of the stories of these two organizations emerged as particularly interesting with respect to transformations of their modes of governance and engagement with their stakeholders/networks: (1) the lead-up to the closures; (2) the donations, and their effect on the stakeholders/networks; (3) how governance changed; and (4) how the networks became integrated into the organizations as they moved forward.

The San Diego Opera

The Lead-Up

Carol Lazier, current chair of the San Diego Opera’s board, was on the board but was not the chair when the vote to close was made—and she describes the SDO’s strange pivot from a position of privilege and prestige to a public declaration of imminent closure.

In some ways, what Lazier describes is an institution that got a little lazy about charting its own path forward during a time of economic and cultural tumult. The SDO was certainly not in trouble artistically. “We had a wonderful opera—in the top ten of opera companies,” she said. “We had very strong staff leadership at the top, and we had a very powerful fundraiser. But we also had a fund called the Kroc Fund, which we could just dip into when we needed to. We weren’t lean, and we didn’t change our business model in time, and eventually we found ourselves running out of money. The board knew we would run out of funds in a year, but we were complacent. We had these great people at the top, and we thought that certainly they would pull the rabbit out of the hat

and raise the money to continue the seasons as we had been planning them.”

But, as she described, “that willingness to follow the few was exactly what ended up creating the chaotic near closure and then its reversal. At some point, a small number of people on the board and in top management decided that we should close rather than make the changes needed to survive. An emergency meeting was called with little notice and no information about what was to be discussed; it was here that the proposal to shut down was put on the table for the first time—and convincingly, with the justification that operas were closing all around us.” According to Lazier, the institution’s leaders stated that “the right thing to do was to pay off debts and future obligations, and close our doors. Death with dignity.”

Apparently blindsided by the force of the argument, the whole board agreed to shut the company down within an hour of the proposal’s being made. “But within twenty-four hours,” said Lazier, “some of us began to think, What have we done? It was like we had gone into mourning, and we were mourning the death of a loved one. People were just kind of numb. We went from understanding we had financial issues to, ‘We’re going to close the company,’ within the blink of an eye.”

Meanwhile, said Lazier, “the community was absolutely furious. We had a great opera company, a cultural jewel, and no one wanted to lose it. We had people who didn’t even go to the opera who were fighting closure, saying, ‘This is not right—this is owned by the public; this is not owned by the small group of people on the inside.’”

The portion of the board who started to regret the decision began pushing for rescinding the vote to close—and a “Save the Opera” online petition campaign was initiated by community supporters. The opera staff and local unions were fighting the closure, and the press was clearly supporting a reconsideration.

The Million-Dollar Gift and the Network

As Lazier described it, “Subsequent fractious emergency meetings called to persuade the

board to postpone closure and look for options were going nowhere. In a moment of insanity, I challenged the board with a million-dollar gift to explore options to avert closure and find a way to move forward.” Several emergency meetings later, after a new financial and operating plan was presented, those who wanted to close the institution resigned and walked out. More resigned in subsequent days, leaving twenty-four of the original fifty-three behind to pick up the pieces. But they had to move on finances immediately. “When those members of the board walked out of the room,” noted Lazier, “we lost about a million bucks in annual gifts, which was pretty scary.”

That moment of insanity, however, was a powerful act of leadership—and, subsequently, a crowdfunding campaign raised \$2.4 million in two weeks to more than match Lazier, in donations from \$10 to \$250,000. “That gave the board the will to move on and fight on.”

The board also got down to brass tacks, and cut the budget by a third—from more than \$17 million to \$11 million; and part of that was made possible by concessions from other local groups that had a stake in the opera’s survival. Lazier explained, “The symphony, the unions—everybody made concessions, enabling us to cut our budget and pull off the season. And, I’ve got to tell you, we had OPERA America behind us and a group of four general directors we phone conferenced with twice a week for months helping us to figure out what we needed to do each step of the way.”

The opera also cut costs, moving from a \$400,000-a-year building into a much cheaper space that Lazier describes as “pretty much a donation from two individuals who were involved with the symphony and who understood how important it was for us to get into office space that made sense. We also legitimately balanced our books last year. We didn’t take any money out of the Kroc Fund. That whole body is still sitting in the bank, and we have a small operating surplus. Revising the business plan takes a careful touch, and we’re not just going to throw things up against the wall and see what sticks. We’re going to really go through this methodically.”

How Governance Has Changed

The San Diego Opera was one of those organizations where having a large number of people on the board was a function of fundraising. You pay x amount of money and you’re on the board, and no one wants to alienate any of those folk with contentious conversations that cause discomfort. But that is certainly not a good *modus operandi* for an organization facing the whitewater of the twenty-first-century cultural organization. And, it was not only the business model that had to change but the governance model, too.

The person who is responsible for implementing that business plan is David Bennett, who, at the time of the SDO’s upheaval, was on the board of OPERA America and was looking at the unfolding chain of events from the outside. He had just watched the demise of the New York City Opera, which, unlike the SDO, did appear to have exhausted all its options. “So, looking at this from the outside, and from sort of the industry perspective,” he said, “it seemed clear that the SDO’s decision had been made without really exhausting or even beginning to investigate some of the other options on the table. There were clearly possibilities that were yet to be explored.” This intrigued Bennett, and was what persuaded him to move across the country from New York; another attractor was the unprecedented community response that he could not recall previously happening in the world of opera.

“In the beginning, there were just one or two voices from the board that questioned the decision, which then very quickly turned into this community-based movement. It was like a flammable substance that suddenly was near a spark and then just very quickly became something else. To see that that kind of energy existed showed me that there was more opportunity than there were challenges.”

And the board had by no means put things on hold during its search for a new general manager. Bennett found the financial situation pretty clear, and the board had already reframed the mission, vision, and core value statements by the time it started doing the search. Thus, the situation was not that of an out-of-touch, confused board looking for an expert savior to lead it out of the

“In the beginning, there were just one or two voices from the board that questioned the decision, which then very quickly turned into this community-based movement. It was like a flammable substance that suddenly was near a spark and then just very quickly became something else.”

Instead of trying to discern the will of the board, Bennett has been spending his time on what he calls a “listening tour.” “One of the things that was clear before was that the company wasn’t very good at listening to the community.”

dark woods. “What I had anticipated doing in terms of programming was clearly in alignment with what the board had already stated,” noted Bennett. “What the board wanted to do to make sure that the company was speaking more relevantly to all of the community was produce all kinds of works of opera—so, many more things that could be a fit under the umbrella of what we call ‘opera,’ and in a variety of venues; and both of those things had never been done in San Diego. And, by attempting to do those two things, the board wanted to reach all of the specific demographic groups that are the subsets of the community of San Diego.”

Instead of trying to discern the will of the board, Bennett has been spending his time on what he calls a “listening tour.” “One of the things that was clear before was that the company wasn’t very good at listening to the community. It was good at telling the community about the value of the kind of opera it produced, but it wasn’t very good at listening to the community about why opera was important to them. And, since the community came forward so strongly and said that opera needs to be preserved, it’s key to me that we go out to the community and listen. So, instead of just throwing things against the wall to see if they stick, we’ll be able to test whether some of the things that we’re planning really have resonance. And, from my experience of running a smaller company in New York City, I’ve learned that a lot of the work that’s being done now—contemporary work and chamber opera—speaks directly to specific current issues, and also to smaller groups—a Latino community or the military community or the LGBT community—and those are all subsets of the larger San Diego community that we hope to engage. So, by doing smaller-scale work in addition to our large grand opera, we hope to have more resonance for these different demographic groups, and become a stronger community asset for all of San Diego.”

The Network Is Pulled Through

As Lazier mentioned, there was much external support from other organizations, as well, and the threads of this network of individuals and organizations have to be pulled through into the

fabric of the organization’s future. “There was a group called the White Knights Committee that was sort of self-formed,” said Bennett, “and it included administrative staff, it included representatives from unions, and it included community stakeholders—and they’re really what was the flame in the fire of community engagement. And within my first couple of weeks, I met with a White Knights representative, who gave me notes on the committees’ thoughts and concerns. And then I had a group meeting with the committee, probably within a month and a half of my arrival—heads of the different groups that were represented within the White Knights. And, as part of our strategic planning exercise, we’ve been doing SWOT analyses with different data points with our board and administrative staff, and with the various community stakeholders. And we also did a SWOT analysis with the White Knights—again, just to try to get their input and data points.”

Bennett isn’t certain of the exact number of people involved in the White Knights. “I met around fifteen or twenty, but I think it’s a much larger group, because it truly was a web made up of, say, an AGMA rep, and then a rep from the stagehand union, and then one person from our costume shop. . . . These sorts of people were coming together with three or five administrative staff—and then it just spread very quickly. So, I don’t know the total number. The group was very involved in the social media aspects of the crowd-funding campaign, too. So, they feel like they are true stakeholders, like they have a voice. And it is very important to me to make sure that we’re keeping them informed. But not just *telling*—*asking* . . . telling and asking, telling and asking, going back and forth, really having a conversation with them.”

It appears that such networks are critical at the point of recovery—critical supports that have to be developed in a new way. For instance, explained Bennett, the opera has long had a donor group called advisory directors—people that give at a certain level and above. But now the SDO is considering how to approach them differently: “I think we may wind up expanding that group and thinking about it more, because

the idea of being an advisor to the SDO has changed over the past year. Previously, their advice was never sought. They were advisors in name only, and they were asked to give a certain amount of money. So, we've had two meetings with them and told them that we want their advice. And, we're beginning to think about how we might expand that group to the point that it becomes an ongoing participatory opportunity to get advice—like the White Knights. With all of these stakeholders, my goal is to take advantage of their energy and interest, and move the company forward in the direction they started when they saved the day. It's a group that has power, because they did something that really made change happen."

Bennett explained that the staff as a whole understands that the new environment has to be treated differently. "So, it's all about leading teams, and leading the idea and the direction, but also being out in the community and talking—writing the gospel, which is actually a lot of fun, I have to say."

Sweet Briar College

The Lead-Up

As mayor of Columbus, Georgia, Teresa Tomlinson knows plenty about governance, and as an alumna of Sweet Briar College, she knows plenty about the school. So, the fact that she is now chair of the board makes some sense, except that the way she ended up in that position included an extended battle between Sweet Briar's board and its stakeholders for the school's survival.

"There was a failure of faith in the mission—probably over about a ten-year period—from what I can tell and have observed since being on the inside. There was a belief at the highest leadership level that women's colleges weren't relevant anymore. A lot of that was coming from generations of administrative leaders and board leaders who were from classes of an earlier date, when Sweet Briar was *the* option because you could not get into the state university system. And, I think that's why, when the battle was engaged, that although we had some stalwart leaders from the earlier class years, the initial thrust of the alumna rebellion against the closure decision came from

the classes of the '80s, the '90s, and the 2000s—and that was for two reasons: One, they had gone to Sweet Briar at a time when all fifty states' university systems allowed women. So, all or most of them had been accepted to other institutions, and they chose Sweet Briar. Sweet Briar was not 'the only option'—it was 'the choice.' So those three decades of alumnae did not understand, and could not relate to, the narrative that the college was no longer marketable. Two, those same three decades of women were either at the pinnacle of their careers or were quickly ascending to the pinnacle of their careers—so the suggestion that the Sweet Briar education was no longer relevant in today's world was utterly unbelievable to those women.

"I would consider myself to be at the height of my career. I'm fifty, I've accomplished a great deal at a high-level position in the particular career I'm in right now, and I trade on my Sweet Briar education every single day—*every single day*. I outwit . . . I outmaneuver challenges that come my way because of the broadening of mind, the academic background, the honing of the intellectual acumen, and the confidence instilled in me by this institution. You will never convince me, nor those other thirty years of women, that you cannot compete and win in the world today with a Sweet Briar education. So, we knew that was a false narrative, and those two facts made the entire conversation a nonstarter for us.

"Then, I think, you had the added component of the failed process. I think had they come out two or three years ago, and said, 'The college is struggling, we're very concerned about trends, we don't like the enrollment numbers, we want to talk with our constituencies about a plan forward, and that might include having to close the college; let's start having forums, let's do a survey'—you know . . . and if they had just gone through the difficult chaotic process, they may have worn us out eventually and been able to move forward with their vision of Sweet Briar College—which was, frankly, to euthanize it. It had served its purpose and we needed to get it closed down in a dignified way that did not ruin its reputation—and that's what they were trying to do. This is not to demonize what they were doing—they really were trying

"There was a belief at the highest leadership level that women's colleges weren't relevant anymore. A lot of that was coming from generations of administrative leaders and board leaders who were from classes of an earlier date, when Sweet Briar was *the* option because you could not get into the state university system."

“Leaders understand that solutions come from the most unlikely place. The solution may come from your perceived ‘enemy’; it may come from those perceived to be uninformed; it nearly always comes out of nowhere. And, that is why inclusiveness is so important.”

to save Sweet Briar’s reputation; because their initial (and I would suggest false) premise was that the college could not go forward, so what was the best plan for closing it in a dignified way.

“I think those things interacted to create this incredible explosion. The fact that their narrative did not ring true to so many people, coupled with a really flawed and highly suspect process, created this incredible consensus of pushback—and you usually don’t have that. You usually have people who don’t have all the information—they can’t rally around a particular theme, and so you’re able to close down or change the organization, because any opposition you may have to that objective is too disjointed.”

The Million-Dollar Gift and the Network

When the board surprised the students, faculty, alumnae, and surrounding community with its decision to close Sweet Briar, it caused a firestorm of protest.

Almost immediately, a copy of a letter from the college president to a donor was released. Months prior, the school had extended an invitation to the donor to give the commencement address. The donor had also executed a million-dollar testamentary gift. The interaction happened a few weeks before the decision to close was made, and the cynicism of the fawning handwritten note, reading, “This is a wonderful thing you have done!,” incensed stakeholders further—and one stakeholder in particular: Teresa Tomlinson, the donor. Tomlinson was resolute in her prior acceptance of the college’s invitation to give the commencement address, during which she blasted the board:

Leaders understand that solutions come from the most unlikely place. The solution may come from your perceived “enemy”; it may come from those perceived to be uninformed; it nearly always comes out of nowhere. And, that is why inclusiveness is so important. The larger you make the conversation, the more impressive the results. Now, there are people out there thinking: “No way. I am not about to tee-up some broad conversation with a bunch of people I do not know to discuss possible solutions

when I know the short list of what is viable.”

I understand that sentiment, but you are going to fail as a leader if you follow it. If your ideas are so good, if your short list so miraculous, then test it against the critical eye of stakeholders.

If you cannot do that, I suggest that you know your motives are not pure. You are not looking for the best solution, you are looking for the solution most comfortable for you. And that, friends, is not leadership.

Meanwhile, a fight was proceeding on multiple fronts. Women took to social media in droves, and the press—including the *Washington Post* and the *Chronicle of Higher Education*, as well as more-local papers—helped amplify the situation nationally. A fundraising campaign was started to sweeten the proposition of keeping the school open. The attorney general was brought into the mix and ended up trying to negotiate a resolution between the parties. The board and its supporters inflamed the crowd by periodically issuing statements implying that the campaign to keep the school open was highly emotional and even near hysterical.

How Governance Has Changed

Apparently, the court disagreed, finally ruling in favor of the stakeholders. It further adopted the parties’ settlement agreement, which provided that the then-current board members would resign. A new board was proposed to the court, and Tomlinson was installed as chair. She commented, “I truly believe that this incident with Sweet Briar College is going to change board governance for educational institutions forever, and it’s going to change alumni associations forever. With board governance now you have mandated silos that require best-practices separation between the running of the institution and the administration of the board—and, of course, what the board members can and can’t do, and their objectives and fiduciary responsibilities. And, if you take those disconnected requirements of the role of the board, you could interpret in that set of disconnections that the board is impotent—just showing up and rubber-stamping the

administration—because the board can't really run anything. And I think a lot of boards feel like the only option to change course decisively is to fire the president, and if they're not ready to get into that cataclysmic fight with the head of their alma mater or institution, they just let it ride.

"Now, coming to the Alumnae Alliance, which is our new incarnation of our prior Alumnae Association—I know that there's been a lot of writing about it along the lines of, 'Oh, they've created a monster, what are they going to do?' I actually don't see it like that at all. I don't. I think there will be a time of transition, when it's going to be rocky—because you're going from the battle to peace time, and that's always a problem, as I just told this government class I was in. You know, for years after World War II, they were pulling people out of the jungles who still thought the war was going on. So, you're going to have this sort of aftermath as people figure out how they fit into this new era. And, we're preparing for that.

"You have to create a process that inhibits standard insular board governance and facilitates a structure that allows your stakeholders to demand engagement yet know where they fit in the decision-making process. And the question is, how are we going to set the expectations for this visioning? We have no definitive decisions for today as to what this or that is going to look like. But, it will necessarily have to be revisited as we evolve in these years after the Great Sweet Briar Revolution."

The Network Is Pulled Through

The Alumnae Alliance will be in service not just to fundraising and helping Sweet Briar to acquire students but also to "do a constant visioning and brainstorming/think-tank activity." As Tomlinson explained, "We already have the structure through the alumnae club system we have in place, and we know who has been in prior leadership and who's in new leadership. Some of the former leadership obviously have turned over with this battle we've gone through, but the current Alumnae Alliance members will be constantly visioning and sending their thoughts forward to the Alumnae Alliance leadership, who then will be digesting it and presenting it to the

board in several different ways. One way—the most formal—will be through a report process. So, the report will come annually—it will be the Sweet Briar Alumnae Visioning and Objectives Report, or something of that nature.

"Thus, the first part of our work is an education effort around what exactly this network will be to Sweet Briar and the board. The network's job will be to survey the alumnae constantly—not just through a standard ten-year-planning type process, in which you hire a consultant and send the alumnae a postcard. Rather, it will be to have the alumnae thinking about the college constantly, and getting their input, their ideas, and their suggested objectives for the college—and then all of that being condensed and coordinated by the leadership of the Alumnae Alliance, who will prepare the report for the board's review and consideration.

"The energy of the school flows through the alumnae, and that was what I tried to speak about in the commencement speech—because I knew I had just one shot. I mean, if you go back to that day and think about the time leading up to that, I knew I had one chance to explain to the world why Sweet Briar is important and different. And it is about the bonds that are built between women in this setting—the bonds that promote the advancement of each through a kind of lifelong network.

"I love the fact that Sweet Briar College—this small women's college—is going to change the way colleges and universities do business from a governance standpoint, from a fundraising standpoint, and from an alumnae-engagement standpoint. That is incredible. And, it's like Moses in a way—the least likely is the one who ends up leading us to a new place. And that's Sweet Briar. It's astonishing to everybody else, but it's so appropriate that Sweet Briar was handed this baton. I don't know if any other institution—older, larger, more esteemed or known—could have done it. It's almost as if the unlikely of them was the one that could do it—and I find that remarkable."

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Staging a Comeback:

How the Nonprofit Arts Sector Has Evolved since the Great Recession

by Eileen Cunniffe and Julie Hawkins

Preexisting conditions made the arts sector especially vulnerable to the recession: undercapitalization, changing audiences, and untenable employment practices. Now that the sector is emerging from its troubles, it must reinvent itself in order to remain a vibrant force in the twenty-first century.

THERE IS AMPLE EVIDENCE TO DEMONSTRATE that nonprofit arts and culture organizations in the United States are rebounding from the Great Recession—albeit more slowly than other parts of the nonprofit sector. The 2014 *National Arts Index* compiled by Americans for the Arts notes that while the overall economic recovery began in 2009, it did not positively affect the arts until 2012.¹ A report from the Urban Institute in 2014 showed that more arts, culture, and humanities nonprofits took the largest hit—proportionately—on revenue during the recession, and also had the largest decrease in total numbers of organizations of any of the subsectors studied.² Two more-recent reports—one from the Nonprofit Finance Fund (NFF), based on a 2015 nationwide

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By their very nature, arts organizations are entities that need to invest in new works and take chances, which means there is an ongoing need for reserve funds—both as “R&D” capital and as a cushion for the projects that don’t succeed artistically and/or financially.

survey of 906 nonprofit arts leaders, the other from the Greater Philadelphia Cultural Alliance, based on data from 5,502 cultural nonprofit organizations in eleven metropolitan areas—highlight some positive trends, as well as continued areas of concern, for the cultural sector.³

Our purpose here is to consider preexisting conditions that made the arts sector particularly vulnerable to the recession, as well as to evaluate actions taken by arts leaders—first to stabilize their organizations, then to experiment with new approaches to delivering their missions. We will begin with three structural weaknesses of the sector that were present, though perhaps not fully understood, before the economy collapsed—the recession exacerbated each of these underlying problems, and in some ways created a sense of urgency around them. We will discuss ways the community has responded to the postrecession landscape. We will end with lingering questions about the future of artmaking organizations.

Structural Weaknesses

Three significant areas of weakness were already at play in the nonprofit arts sector before 2008: (1) arts organizations generally were undercapitalized, with only modest liquid assets available to cover unexpected costs or see them through a rainy day (or rainy five years); (2) audiences and traditional audience behaviors were changing in important ways; and (3) employment practices at both the smallest and the largest cultural institutions were showing signs of strain.

Undercapitalization

For decades, many nonprofit arts organizations operated with zero-based budgets, aiming to break even at the end of each fiscal year. In fact, philanthropic support often hinged on break-even budgeting, and nonprofit arts groups were sometimes penalized by funders if they showed operating surpluses. This dynamic began to shift in the early 2000s, as funders increasingly looked for healthy balance sheets. But many arts groups were not able to adjust their budgeting models or build up operating reserves before the economic downturn, and most did not have a “Plan B” in place. A study commissioned by The Pew

Charitable Trusts, the William Penn Foundation, and leading funders of the arts in the Philadelphia region—and carried out by researchers at TDC—highlighted two key reasons why nonprofit arts groups needed to focus on capitalization:⁴ (1) to avoid the “distracting and debilitating” stresses of working with narrow operating margins or even deficits; and (2) to continue to allow for innovation and experimentation and provide a cushion for artistic risk taking, rather than being “one failure away from closing.” Of course, arts leaders—board and staff—ought to have been asking “what if” questions about slim operating margins all along; and no doubt some were, although they seem to have been in the minority.

By their very nature, arts organizations are entities that need to invest in new works and take chances, which means there is an ongoing need for reserve funds—both as “R&D” capital and as a cushion for the projects that don’t succeed artistically and/or financially. Many arts organizations had to learn this lesson in real time when the recession hit: some saw steep losses in investment income eroding what cushions they had; others were caught midstream in capital campaigns or real-estate investments that floundered; some simply couldn’t keep the lights on, and closed shop. And, since no one knew how long the dark days would last, even those with reserves had to guess at how much spending down was tolerable—and many guessed incorrectly.

Foundations mostly maintained their prior levels of arts funding during the early years of the recession—until investment losses caught up with their giving cycles. Still, the sector had to think differently about capitalization, and do so at a time when just breaking even was harder than ever—virtually all categories of earned and contributed income waned as the recession wore on, and cost-cutting measures meant that many arts groups learned to live with deficits, to defer facilities maintenance, or to make difficult choices that helped the balance sheets but destabilized them in other ways.

Changing Audiences

Another shift that began before the economic downturn was a decline in subscriptions for

performing arts groups and in memberships or dues for other types of cultural organizations. A number of factors were at play: increasing competition from within the growing arts sector for consumers' time and money; a consumer trend toward "à la carte" cultural experiences rather than commitment to full seasons of programming; and declining audiences for traditional arts, like classical music and opera.

Arts groups that historically had done well with subscriptions or memberships could no longer rely on a healthy infusion of up-front earned revenue to cover the costs of presenting a season of performances or year-round exhibitions, or to make payroll and maintain facilities. Newer organizations sometimes attributed the lack of subscriptions to their newness, expecting the tide to turn. The fallout created cash-flow challenges and required higher investments in marketing each performance/event in the hopes of generating single-ticket sales to make up for losses in subscriptions and memberships. And it increased pressure to generate more contributed income, even as grants and donations faltered.

Changing demographics were affecting arts organizations before the recession. For example, older and immigrant populations—among America's fastest-growing—were presenting opportunities and challenges to arts organizations to ensure programming was relevant and accessible to a wider range of people than it may have been historically. Too many arts organizations were not as far ahead of this curve as they ought to have been—meaning that many Americans did not feel represented or welcome at arts institutions, making it easy for them to opt out of cultural experiences during the economic downturn.

Employment Practices—Two Extremes

Like other nonprofits, arts groups tend to be founded by passionate practitioners who invest their time—and often their own money—in testing a concept and then, if it works, slowly building an organization to support the mission. However, it can take a long time—and a great deal of "sweat equity" from underpaid staff and/or unpaid volunteers—before a dance company or an arts education program begins to cover its expenses and

starts paying its workers; even when a nonprofit arts group reaches this point and grows into a larger operation, employees often do not earn a living wage, and much of the work continues to be done by volunteers. Some artists never have a steady job but instead have to cobble together a living working as a contractor on a performance/project basis.

This problem has been well documented. As John Kreidler notes in "Leverage Lost: The Nonprofit Arts in the Post-Ford Era," "[T]he relationship of marketplace influences has always been complicated in the arts [...] by the willingness of American artists and other arts workers to accept deeply discounted compensation for their labor."⁵ The authors of *Forces for Good* and *Uncharitable* note that the long-term tradeoff of low pay is a weaker organization less capable of fulfilling its potential for impact, while those who invest in developing and keeping their strongest personnel through competitive compensation packages are often rewarded with stronger organizational performance.⁶ Yet the model of low pay for labors of love remains a dominant one in the sector, as pressure persists from board members, donors, and others for arts organizations to be as lean as possible, keeping operational, overhead, and personnel costs low.

So, even before the economic downturn, many small to midsize arts organizations were understaffed. When the recession hit, jobs were eliminated, hours were reduced, and salaries were cut to make ends meet. Arts groups did what they could to keep making art and delivering programs, meaning that staff cuts were often in areas like marketing and development—at a time when these "overhead" functions were critical to navigating the rapidly changing external environment.

At the opposite end of the spectrum—in large, well-established cultural institutions like major museums and orchestras—the changing audience behaviors cited above were already making it harder to keep up with increasing operating costs as well as compensation and benefits (including health insurance), especially where labor unions were involved. Top-tier orchestras and opera companies, in particular, struggled through ugly, sometimes protracted labor disputes and the perfect

Top-tier orchestras and opera companies, in particular, struggled through ugly, sometimes protracted labor disputes and the perfect storm of declining audiences, shrinking endowments/reserves, and escalating tensions between artistic leaders and management.

Some of the most innovative work in audience engagement is being done—perhaps out of necessity—in one of the most traditional arts disciplines: opera.

storm of declining audiences, shrinking endowments/reserves, and escalating tensions between artistic leaders and management. Walkouts, lockouts, canceled seasons, bankruptcies, and failures—some at arts organizations that might have seen themselves as “too big to fail” and some that might have happened even without the economic downturn—made headlines throughout the Great Recession.⁷

Creative Responses

As mentioned, the economic recovery did not begin in earnest for the nonprofit cultural community until 2012. Since most of the research on the sector reflects data from no later than the 2012 fiscal year—the latest financial statements and other indicators generally available—we cannot paint a clear picture of the state of the nonprofit arts sector at the end of 2015. We can, however, highlight key trends from the most recent reports—some encouraging, some troubling—and we can point to a number of positive ways the sector has been reinventing itself to remain a vibrant force in twenty-first-century society.

We will focus on two of the liveliest areas of innovation: (1) arts organizations are actively investing in new types of audience engagement strategies and finding ways to demonstrate their value in addressing social issues; and (2) with the continued support/prodding of funders, nonprofit arts organizations and artists are experimenting with new business models and better capitalization.

Audience Engagement Strategies

The *Nonprofit Quarterly* has previously covered many examples of the ways arts groups have been successfully engaging audiences. An article we first published in 2014 included a range of strategies such as earlier curtain times on weeknights, pop-up performances in public spaces, presenting work in unexpected venues, and more interactive offerings.⁸

Among the trends we have seen since then are the following:

- According to Americans for the Arts, “Technology is changing audience engagement and the arts delivery model.”⁹ There is increased use

of technology in audience engagement—with wildly interactive arts experiences like those offered at the Cooper Hewitt, Smithsonian Design Museum, and the Walker Art Center, active social media outreach to promote events (including designated “tweet seats” at some performances), and simulcasts of top-tier opera, dance, and theater performances in movie houses.¹⁰ (It’s worth noting that some of these developments would have happened without the recession, and not all are viewed as “wonderful” by those making art. And, even as arts groups find new ways to track audience responses to their work and engage them in live and virtual conversations, artistic decisions cannot just be given over to the public.)¹¹

- After scaling back on marketing during the recession, arts groups appear to be doubling down on activities intended to build and retain audiences. In the recent NFF survey, 86 percent of participating organizations said that they made meaningful investments in audience engagement during 2014, and 33 percent of those groups cited audience demand for new participatory programs. Of the organizations that invested in audience development, many saw positive results within the first year—in terms of both attendance/ticket sales and an expanding donor base.¹² In his latest book, Michael M. Kaiser suggests that effective marketing—with an emphasis on institutional rather than program-specific marketing—will be a hallmark of any successful twenty-first-century arts organization.¹³
- Some of the most innovative work in audience engagement is being done—perhaps out of necessity—in one of the most traditional arts disciplines: opera. New works (often based on familiar American stories), surprising venues, experimental pieces, and shorter works are among the developments that led *Los Angeles Times* music critic Mark Swed to observe in 2014, “The art form is not standing still. It’s growing, uncontrollably, by leaps and messy bounds.”¹⁴
- Across the country, arts organizations are actively seeking to broaden their relevance, appeal, and reflection of America’s changing

demographics. Arts funders are involved in this effort, too. Both Grantmakers in the Arts and the Ford Foundation have made racial equity an organizational priority, while Holly Sidford's report *Fusing Arts, Culture, and Social Change: High Impact Strategies for Philanthropy* has sparked a great deal of discussion about the ways philanthropic support has affected diverse organizations and audiences in the arts sector.¹⁵ And, as the population continues to shift around them, arts organizations have sought ways to become and stay engaged in communities over time—developing partnerships with civic and social groups and adapting or expanding their programs to better meet the needs and interests of local communities.¹⁶

Artists and arts organizations are increasingly demonstrating their value in solving social problems and inviting people to experience the arts right where they live. The idea of arts in economic development and city planning has roots in urban policy that run a hundred years deep—a trend that continues today in the ever-expanding field of creative placemaking.¹⁷ Since the launch of the National Endowment for the Arts' Our Town initiative in 2010, more than \$75 million has been invested in these types of projects, and funders like The Kresge Foundation and the John S. and James L. Knight Foundation also have invested heavily in creative placemaking.¹⁸ Civic leaders—largely in urban areas but also in rural communities—have welcomed the trend, using it in some cases as an impetus to tackle long-standing issues of revitalization without displacement (i.e., avoiding gentrification). Cities are also embracing the idea of artists working within government.¹⁹ And artists and arts organizations are demonstrating their value in so many other ways—from public art projects to cross-sector collaborations to environmental advocacy—that Americans for the Arts is undertaking a three-year initiative, Transforming America's Communities through the Arts, to demonstrate the multiple values of the arts—for example, in building a creative workforce, preventing crime, serving returning military/veterans, and advancing health and wellness.²⁰

Experimenting with New Business Models

Like Blanche DuBois, artists have always relied on “the kindness of strangers,” and will likely continue to do so. But with the increased attention to capitalization—at least as an aspirational goal—and steep losses in both government and corporate support of the arts, many nonprofit arts organizations are learning to be more self-reliant. Some are actively pursuing capitalization strategies; some are exploring new business models that emphasize earned revenue; others are entering long-term collaborations that involve shared resources (and risks); still others are experimenting with nontraditional approaches to creating and presenting work on a project basis, without creating a 501(c)(3) or aligning with a fiscal sponsor. This last development may be unique to the arts sector, and certainly bears watching. The Knight Foundation and The Philadelphia Cultural Fund are among the funders that no longer require arts grantees to be nonprofits or jump through other hoops to demonstrate their “permanence.”

Slowly—because it takes time to change a business model, to build up operating reserves or risk capital, or to realize the benefits of a strategic alliance—these efforts are bearing fruit. The Greater Philadelphia Cultural Alliance report mentioned earlier takes a deep dive into the nonprofit arts communities of eleven metropolitan regions: the Bay Area, Boston, Chicago, Cleveland, Los Angeles, New York City, Philadelphia, Phoenix, Pittsburgh, the Twin Cities, and Washington, D.C. Collectively, the 5,502 arts groups in the study spend \$13 billion annually, have 906,000 paid and volunteer positions, and serve a collective population of more than 75 million residents—or 23.7 percent of the country. In addition to validating the sector's continued recovery from the recession, the study shows the following from 2009 to 2012, based on trend data available for 2,974 organizations, representing all markets studied except the Twin Cities:²¹

- Revenue was up 7 percent, net assets grew by 7.6 percent, and endowments rose 13 percent;
- Profit margins in aggregate were positive, with a surplus of 3.2 percent in the most recent fiscal year;
- Total attendance was up by 3 percent; and

Artists and arts organizations are increasingly demonstrating their value in solving social problems and inviting people to experience the arts right where they live.

It will take a few more years for the full impact of the Great Recession on the cultural sector to be understood and its lessons clearly articulated. While the dust continues to settle, important questions remain for those of us who work in and support the arts.

- Earned income drove the sector's recovery, increasing 25.4 percent in the three-year period, with admissions, tickets, and tuition representing the single largest source of income, earned or contributed. (The flip side of this finding is that contributed income declined, especially from government sources.)

However, it must be noted that many arts groups are still financially shaky, with more than 40 percent of the organizations discussed in the study reporting deficits in the most recent fiscal year, and 18.7 percent of those groups carrying deficits of more than 10 percent. And, the ever-so-slight growth that was seen in employment was almost entirely in part-time positions.²²

Even as the cultural sector looks to generate more earned income, foundation support remains critical—particularly as arts groups experiment with their business models, explore mergers and collaborations, and, of course, continue to create innovative work. A report published by NFF in October 2015 tracks the impact of thirty-six capital grants focused on institutional capitalization made by The Kresge Foundation Arts and Culture Program between 2010 and 2012;²³ while it's too soon to realize the full impact of these investments, the authors found that “grantee organizations are largely thinking in multi-year cycles and taking great strides to plan for long-term financial health.” Some of the best practices observed include the following:²⁴

- Budgeting for surpluses;
- Developing capital budgets based on systems-replacement plans;
- Planning to create or grow cash reserves;
- Developing policies for these reserves; and
- Asking for flexible reserves as part of capital campaigns.

Across the country, foundations are increasingly pooling funds to provide professional expertise that will allow nonprofits—and not only in the arts—to thoughtfully (and confidentially) explore long-term collaborations, shared spaces, alliances, and mergers. In addition to offering technical support, these new philanthropic entities aim to change nonprofit behaviors, making it perfectly natural to include conversations about potential

long-term alliances in every strategic planning cycle. Boston's Catalyst Fund for Nonprofits, Atlanta's Strategic Restructuring Fund, and Philadelphia's Nonprofit Repositioning Fund are just a few examples of this trend in practice. Cultural institutions have long resisted mergers, but there are many variations on the alliance theme, and smart ones will likely find support from funders.

Lingering Questions

It will take a few more years for the full impact of the Great Recession on the cultural sector to be understood and its lessons clearly articulated. While the dust continues to settle, important questions remain for those of us who work in and support the arts.

1. **Who should be a nonprofit?** In 2001, a study from the RAND Corporation classified arts organizations by mission type: *canon*, those that focus on preserving the important works of an artistic discipline; *creative*, those that develop new works and train artists; and *community*, those where the relationship to community is critical to the artistic process and organizational product.²⁵ As pressure to develop an ever-greater percentage of earned income continues, and scrutiny of the value of nonprofits mounts, arts organizations may increasingly wonder if the nonprofit model is still the right business structure—perhaps mission types will drive new models, along with economic factors. In the meantime, young artists and arts administrators are being taught to carefully weigh their options and not pursue nonprofit status as the default model for making art. The structural employment challenges discussed above—which remain largely unresolved, even if they are not as glaringly obvious as they were a few years ago—will certainly inform this conversation.
2. **Is technology a friend or a foe?** It is, of course, both. Technology allows artists to make art in new ways, to share art globally, and to crowdfund projects and otherwise engage audiences/followers in ways that were unimaginable even a few years ago. Technology can also enhance live arts experiences and drive interaction and collaborative artmaking.

However, technology threatens to become a barrier for many people—especially younger generations—who may miss out on live arts experiences, settling instead for virtual ones. Perhaps the biggest question relating to the arts and technology is whether the cultural sector will be able to make sense of the exponentially increasing amounts of available data—advancing information literacy in ways that will continue to drive audience engagement and better demonstrate impact.

3. **How many arts organizations are too many?**

One of the long-term effects of the recession is that arts funders have become more selective and now set the bar higher for grantees. An in-depth 2014 study by TDC raised questions about the need for “rightsizing” the cultural ecosystem in the Philadelphia area, asking if audiences and funders could sustain the ever-expanding roster of nonprofit arts organizations in the region.²⁶ The findings suggest that well-intentioned donors (and disproportionate amounts of sweat equity) sometimes sustain arts groups that are, perhaps, no longer financially sustainable, and that those resources might be better spent on more financially viable established and emerging arts groups. This is a thorny topic, but one that must be considered—even though it comes with a great big asterisk to emphasize that a balance sheet is only one way to assess the value of an arts organization. And, while that particular report focused on one region’s cultural ecosystem, its implications have resonated across the United States. The question of what the market—any market—can and will support, is hard to dismiss; in the aftermath of the Great Recession, it’s one no arts organization can afford to ignore.

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A City in Remission: Can the "Grand Bargain" Revive Detroit?

by Rick Cohen

As the nation watches, Detroit is attempting to chart an action strategy toward sustainable recovery.

But true civic engagement in the process has been lacking, and longtime Detroiters feel largely disenfranchised and that funded development is targeted toward incoming new residents. As Cohen writes, "Democracy for whom?" might be the appropriate question."

Editors' note: This article was the last that Rick Cohen wrote for the *Nonprofit Quarterly*, and it was one of his most ambitious in its weaving of political, philanthropic, and community intentions, partnerships, and realities. Rick died suddenly just as we were beginning our edit, and we were left with the sad task of doing the best we could without his input—any errors of fact should be put down to the editors, and life's interruptions of this process. That said, this case study of an historic interplay between the sectors to try to save a city, and the intended and unintended consequences that resulted, is sure to become a classic.

DONNA MURRAY-BROWN, CEO OF THE MICHIGAN Nonprofit Association, lives the duality experienced by many Detroiters faced with tough decisions to make for the city's economic recovery. On the one hand, she is a nonprofit executive, a public policy advocate, and—to some extent—a player at the table in the discussions of what Detroit needs to do to recover

RIK COHEN was the *Nonprofit Quarterly's* national correspondent.





In the wake of Detroit's declaration of municipal bankruptcy and complex plan involving state, municipal, and philanthropic resources to escape that bankruptcy, the city still looks and feels to many Detroit residents like it is staggering along a difficult trajectory toward its goal of sustainable revitalization.

from the brink of economic collapse and chart a path toward citywide recovery; on the other hand, she is the daughter of a senior Detroiter whose retirement pension was reduced as one of the components of the partly foundation-funded “grand bargain” that became the blueprint for Detroit’s escape from a prolonged and debilitating bankruptcy. Her father’s perception is that the grand bargain and other elements of Detroit’s rescue involve things “being done *to* him rather than *for* him.”¹

In a way, that is the real challenge of Detroit’s recovery: the contrast between bold, innovative ideas that envision a very different Detroit from the prosperous manufacturing metropolis of half a century ago, and the conditions of longtime residents of the Motor City—a population that is in high majority black, mostly lower income, in many cases unemployed or underemployed, and at risk in the tens of thousands of displacement due to tax foreclosures, mortgage foreclosures, unpaid water bills, and—surprisingly for a city that has huge tracts of vacant, dilapidated buildings—pockets of upscale gentrification. How does Detroit come back from the verge of economic collapse and municipal bankruptcy to devise and implement a future for long-established Detroiters and new residents?

A History of Unrealized Plans and Hopes

In the wake of Detroit’s declaration of municipal bankruptcy and complex plan involving state, municipal, and philanthropic resources to escape that bankruptcy, the city still looks and feels to many Detroit residents like it is staggering along a difficult trajectory toward its goal of sustainable revitalization.

Detroit is the poorest large city in the United States. It has significant unemployment—officially, nearly 13 percent in August 2015, and an unofficial rate that may well be double or triple that, if we take into account people having given up looking for jobs or whose unemployment benefits have expired. It also has significant underemployment, due to the automotive industry’s having shrunk and largely decamped—leaving vast tracts of vacant land and buildings across the 139-square-mile Detroit footprint as an additional

result.² Plans to bring Detroit back from the edge of collapse and despair aren’t new to Detroiters; as the city has slid in population and economic significance over the past few decades, reams of renewal initiatives emerged from public-sector, private-sector, and philanthropic sources, with the aim of jump-starting the community’s flagging socioeconomic dynamic and reversing what seemed to many an inexorable decline.

One such initiative, the waterfront Renaissance Center, aimed to capture residents and business headquarters that were leaving for the suburbs or beyond. During the administration of Mayor Coleman A. Young (1974–94), the Renaissance Center was completed—along with other major projects, including the Detroit People Mover, an elevated train meant to transport people through the Downtown area, and the redevelopment of the Joe Louis Arena, home of the Detroit Red Wings National Hockey League team. (The arena is already outmoded and about to be replaced.) Mayor Dennis W. Archer (1994–2002) launched a variety of community-oriented initiatives (though his major economic achievement for the city may have been his success in making casinos a linchpin of Detroit’s Downtown activity) and, like his predecessor, promoted major sports stadium projects, realized after his term in office (Ford Field, where the National Football League Detroit Lions play, and Comerica Park, home to Major League Baseball’s Detroit Tigers).

Nonetheless, Detroit’s slide continued largely unabated, despite the new sports venues and casinos. And, with the support of business, philanthropy, and the federal government, Detroit hosted other initiatives aimed at neighborhood and citywide renewal. In the early 1990s, Detroit was one of six “urban empowerment zones” meant to benefit from a \$100 million federal grant infusion plus a variety of federal tax incentives, which the city devoted in significant amount to human services needs and issues—notably, community policing and the integration of criminal justice programs and functions.³ Several years after the “urban empowerment zone” designation, an analysis called Detroit’s use of the program “spectacularly unsuccessful” and—notwithstanding a few entities that took advantage of tax incentives

and some of the grant funding—having made, in the words of a *Detroit Free Press* article, “zero difference to most Detroiters.”⁴ This was followed by former mayor Dennis Archer’s Community Reinvestment Strategy, a neighborhood planning process focused on ten cluster areas. Although involving extensive citizen participation through meetings and focus groups, the results were seen as “overly ambitious wish lists of every community in the city,” “not grounded in fiscal reality,” and “presented in a ‘planning vacuum’ with no overall policy framework for physical development outside the downtown area.”⁵

Over the years, the themes undermining Detroit’s efforts to change course have been consistent: weak political leadership; an inability to establish priorities in a large city with multiple neighborhoods in physical and economic tatters; and success in helping some Downtown interests and major redevelopment projects, but with little corollary benefit to neighborhoods and the long-time Detroiters who live there.

Why should Detroiters think the city’s current postbankruptcy status will reverse the long slide toward economic obligation? The challenge is not whether or not the grand bargain proves to be a successful lever that vaults the city government past bankruptcy but rather whether or not the actions of state and local government, nonprofits, and foundations move Detroit into a trajectory of sustainable recovery.

Reflections on a Grand Bargain: Challenges of Democracy

Detroit’s new path was crafted as much in federal bankruptcy court as in the offices of local government, and overseen by an emergency financial manager appointed by the governor—amid revitalization plans that emerged from foundation-sponsored collaborations and public-private partnerships. This path may have stemmed from the 2014 deal between private foundations, the state government, and the Detroit Institute of Arts (DIA) that became known as the “grand bargain”; but the true bargain wasn’t the one struck by the three dealmakers. Among all the potential creditors that the bankrupt municipal government had to fend off, the most important in a moral and

perhaps legal sense were the retirees who had worked for the police department, the fire department, and other city agencies, paying into pensions they thought were going to support them when they retired. With an infusion of approximately \$366 million from foundations into the bankruptcy settlement (through the artifice of saving the collection of the municipally owned Detroit Institute of Arts from public auction), what resulted was a “haircut” for retirees—a minor reduction of 4.5 percent in the pensions of most general government retirees, the elimination of cost-of-living increases, and a cutback in postretirement health benefits.⁶ Facing the prospect of no resolution to the bankruptcy and unforeseeable litigation to exact money out of a bankrupt city, two-thirds of retirees voted in favor of the deal—essentially waiving their constitutional rights, as Michigan Attorney General Bill Schuette acknowledged.⁷ Through this mechanism, retirees lost much less than other creditors—but, in the words of *Fortune* magazine, “the average pensions in Detroit are so modest that any cuts will surely be painful.”⁸ (The modern-day equivalent to President Reagan’s mythical “welfare queens” is today’s no-less-mythical “retired cops with \$100,000 pensions.”⁹ Like the welfare queen driving a Cadillac, perhaps there exists the occasional retiree basking in a six-figure annual pension; but in Detroit, general retirees receive average annual pensions of \$19,000—those who receive social security—and police and fire retirees receive annual pensions of \$32,000—those who do not.¹⁰)

The grand bargain has been heralded inside and outside of philanthropy as the linchpin of Detroit’s ability to move beyond the stalemate of a prolonged bankruptcy—an unprecedented philanthropic collaboration, albeit crafted by the federal bankruptcy judge, Gerald Rosen, who sketched the mechanisms for inserting foundation money into the deal in a doodle on the back of a legal pad: a sketch with arrows linking the words “art,” “pensions,” “state,” “foundations,” “private sources,” “timeline,” and “how much.”¹¹ But there has been a concurrent background debate within philanthropy about the wisdom of foundations pledging nearly \$400 million

Among all the potential creditors that the bankrupt municipal government had to fend off, the most important in a moral and perhaps legal sense were the retirees [. . .] paying into pensions they thought were going to support them when they retired.

Critics [...] focused significantly on the process of how the deal came together, and cited the backroom dynamic of the negotiations.

Detroit's Fiscal Condition at the Time of the Bankruptcy Declaration in 2013

- \$3.5 billion in underfunded pension liabilities
- \$5.7 billion in other underfunded post-employment benefits
- \$1.13 billion in general obligation liabilities (\$650.7 million in unsecured GO debt and \$479.3 million in secured GO debt)
- \$1.43 billion in pension-related certificates (COPs) of participation liabilities
- \$343.6 million in swap liabilities related to COPs
- Approximately \$6.4 billion in obligations backed by enterprise revenues or otherwise secured
- \$300 million in other liabilities
- \$0.38 of every tax dollar collected by the city going to service legacy costs, debt, and other obligations rather than providing services to Detroiters (expected to grow to almost \$0.65 of every tax dollar by FY2017)
- General fund deficit of \$326.6 million in FY2012 (anticipated to grow to \$1.3 billion by FY2017)
- City government strategies of deferring pension contributions, issuing more long- and short-term debt, borrowing by the city's general fund from other funds, and furloughs and reductions-in-force of municipal employees
- Negative cash flow of \$115.5 million in FY2012
- Summary conclusion: "The City is insolvent"

Source: Letter from Kevyn D. Orr to Governor Richard D. Snyder and Treasurer Andrew Dillon recommending a Chapter 9 bankruptcy filing by the City of Detroit, July 16, 2013, www.michigan.gov/documents/snyder/Detroit_EM_Kevyn_Orr_Chapter_9_Recommendation_427831_7.pdf

dollars to bail the Detroit city government—and, implicitly, the state government, as well—out of obligations taken on by the government. None of the previous or contemporaneous municipal bankruptcies encountered elsewhere in the nation (such as Central Falls, Rhode Island; San Bernardino, California; Stockton, California; Jefferson County, Alabama; and Harrisburg, Pennsylvania) had led to anything like the grand bargain—though, to be fair, none was anywhere near the magnitude of Detroit's Chapter 9 filing.

Critics (who declined to be quoted on the record—partly because of a concern about harming their institutions' relationships with the major foundations that had committed to the grand bargain) focused significantly on the process of how the deal came together, and cited the backroom dynamic of the negotiations—noting that, as one put it, there was a "lack of democracy in the whole process" and not much evidence of the city's own elected officials being substantive participants in the game. One critic acknowledged, however, that while the grand bargain may have been less than democratic, his

own family (which included retired Detroit city employees) was already suffering from a dysfunctional city government that had caused the city to deteriorate into incapacity over the years (with the corrupt 2002–08 administration of Kwame M. Kilpatrick being the final nail in the coffin), and feeling largely disenfranchised.

Rather than looking at Detroit as a *sui generis* implosion, some observers noted that Detroit had been allowed to languish—or was perhaps pushed toward an inexorable decline—by actions of the southeast Michigan region, whose residents worked in Detroit but went home to wealthy suburbs at the end of the day, and by the decisions of the state government, which had starved Detroit of needed state government resources. Surprisingly, perhaps as a reflection of how government and society have changed over the decades, there was little or no blaming of the federal government under the Obama administration, whose posture toward Detroit was not much different from President Gerald Ford's apocryphal "drop dead" denial of federal assistance to New York City in 1975.¹²

Nevertheless, critics within philanthropy also acknowledged the fear that Detroit would become the philanthropic equivalent of Flint, Michigan. Long the focus of the Charles Stewart Mott Foundation, Flint's problems have been endemic, including unemployment, poverty, and large-scale breakdown of municipal services. (Ironically, with respect to the latter, the problem of a contaminated municipal water system led Flint recently to connect to the decrepit and controversial Detroit water system.¹³) Detroit hadn't been working for years—street lights off, police and fire responses slow to nonexistent, garbage pickup intermittent, public facilities visibly and rapidly deteriorating. Even for critics and for foundations that came late to the deal, the grand bargain is recognized as a necessary if synoptic action. Church leaders in Detroit neighborhoods, one source said, told their parishioners that the grand bargain might or might not have been a “good deal,” but it was necessary to break the city's governance coma and financial slide.¹⁴

In 2013, in a presentation at the Bradley Center for Philanthropy & Civic Renewal at the Hudson Institute, Tonya Allen, the president and CEO of the Skillman Foundation, declared that “philanthropy has had to step up to fill this void of city leadership and a void of leadership by the civic class.”¹⁵ At that time, perhaps as the grand bargain was first taking shape, Allen advised her fellow philanthropists that “we should not allow ourselves to have undue influence on processes that need to be and ought to be democratically controlled. . . . [In Detroit] we have stepped in entirely too much. We have not only funded it for the public good, then we've advocated where we want it to go and then we also advocate that those decisions go to institutions that we primarily fund. I think that is a fundamental flaw.”¹⁶

Two years later, the Skillman Foundation became one of the funders engaged in the grand bargain. Allen explained that unlike the trajectory of disappointment and failure that had been the norm in Detroit up to the bankruptcy, the grand bargain, regardless of its having been conjured outside of democratic processes, “gave everyone a collective memory of doing something hard and difficult and being successful.” At the

point of the bankruptcy, Detroit had become a “broken municipality,” meaning that its governing apparatus was incapable of functioning for just about anyone. For all the efforts of foundations and nonprofits up to that point, without having a chance for the municipality to function those efforts would be for naught. “If you don't have a working municipality, then none of the investments you make will be sustainable or in fertile ground,” she said.¹⁷

In addition, however, the Skillman Foundation emphasized the importance of the retirees. In her Hudson Institute presentation, Allen cited the modest pension levels, and that 46 percent of the retirees still live in Detroit.¹⁸ Allen appeared to find off-putting the notion that the grand bargain was focused on saving the Detroit Institute of Arts rather than protecting the pensions of retired government workers. Too many seem to talk about the museum as “the most important possession in our municipality,” Allen explained, whereas for the Skillman Foundation “it was really our people. It took us a while to get comfortable with the values of the grand bargain.” It seems, though, that the process resulted in the key institutions engaged in the grand bargain coming to see the importance of trying to keep the Detroit pensions as whole as possible.

To their credit, the foundations in Detroit's grand bargain came to the bankruptcy issues with an “unprecedented urgency and seriousness,” as Silicon Valley Community Foundation CEO Emmett Carson described it, looking at the Detroit dynamic through an outsider's lens.¹⁹ The Detroit issues were not typical, very complicated, and gave foundations such as The Kresge Foundation and the Ford Foundation—the two largest philanthropic contributors to the deal—little or no past experience to draw on for guidance. Carson sees the grand bargain as a great example of “being innovative,” “moving quickly,” and “serving a need”—all characteristics to be celebrated. Will the initial success of the grand bargain—in that it accelerated Detroit's leap out of the stasis of bankruptcy—be a standard fixture in upcoming and future governmental fiscal crises, such as the ongoing troubles in Puerto Rico or the massive pension debt facing the city of Chicago?

Detroit hadn't been working for years—street lights off, police and fire responses slow to nonexistent, garbage pickup intermittent, public facilities visibly and rapidly deteriorating.

No one among Detroit's philanthropic and community leadership minimizes the importance of fixing the schools—indeed, it is viewed as a crucial if not top priority for Detroit's revival.

Reviving Bankrupt Schools

As one bankruptcy took Detroit through its paces, another unfolded. A fiscal manager was in charge of trying to get the Detroit Public Schools (DPS) out of free fall, but without the option of filing a Chapter 9 bankruptcy petition to renegotiate or even wipe out significant portions of the school system's debt. As of 2014, the DPS's own unfunded pension liabilities had reached \$1.2 billion.²⁰ The system's operating deficit as of the beginning of calendar year 2014 was close to \$170 million.²¹

No one among Detroit's philanthropic and community leadership minimizes the importance of fixing the schools—indeed, it is viewed as a crucial if not top priority for Detroit's revival. It isn't as if other cities have found the magic elixir for education that has somehow eluded Detroit, but Detroit's challenges inextricably link education to poverty.

One observer who was very close to DPS challenges suggested that part of the problem—and the expense—of public education in Detroit was that the schools were compelled to do more than educate.²² Children would come to school in need of such basics as food, and even dental care—which would be added to costs, beyond those of other comparable public education systems, that the school system would have to absorb. Like some other cities, Detroit's schools had become something of a competitive free-for-all, with a bevy of charter schools competing with traditional schools for students, and even engaging in aggressive advertising to skim off the cream from those institutions.

Neither Rip Rapson, president and CEO of The Kresge Foundation, nor Laura Trudeau, managing director at Kresge (and fully immersed in the follow-up to the grand bargain), minimize the importance of a DPS solution for Detroit's future—but they recognize that not every foundation can be at the helm of every possible solution. Kresge's emphasis, explained Trudeau, is to work on early childhood education issues—deferring to the Skillman Foundation to take the lead on education issues, added Rapson, with Kresge (and presumably others) prepared to “backfill” where Skillman leads.

If Detroit is to revive and, as part of that process, repopulate, it means creating or reviving a school system that can serve existing and future residents with children, as opposed to watching families leave the city when the challenge of schooling nears. In the aftermath of the grand bargain, two competing visions for the schools have emerged—neither one a panacea, and both with complexities and variations that will make the resolution difficult.

The Skillman Foundation was a prime mover behind the Coalition for the Future of Detroit Schoolchildren, whose thirty-page report was not short on controversy as the body deliberated, with the foundation's CEO Allen serving as one of the Coalition's five cochairmen.²³ The Coalition's report describes a school system in governance chaos—a mix of traditional public schools, charter schools (rubber-stamped by as many as a dozen or so authorizers ranging from the city and the state to Grand Valley State University, Central Michigan University, and even Northern Michigan University—the latter some four hundred miles from Detroit), and twelve of the city's worst-performing schools, administered by the state through the Education Achievement Authority (EAA). The Coalition recognized that “[w]hen so many are in charge, *there is no accountability*” (emphasis in the original).²⁴

To recover from this “Wild West” system of school accountability, as the Coalition described it, the report called for an end to emergency management of the public schools and for a transition of the education system back to local control, with an elected school board. The Coalition calls for returning the oversight of the EAA schools back to the city, as well, and putting the charter schools under a regimen that establishes quality controls where little or none currently exist and limits the ability of authorizers to set up charter schools willy-nilly.

Following the Coalition report, Michigan Governor Rick Snyder announced his own plan for Detroit schools, with some elements that adhere to the Coalition recommendations—notably, an elected school board, but overseeing a new school district, the Detroit Community Schools, in charge of all elements and assets of public education but

for the debt, which would remain with the old Detroit Public Schools.²⁵ That debt would presumably have to be addressed by the state, so essentially this was asking state legislators in Lansing to vote to help the city that many have long seen as a financial albatross. How the new school district would function to bypass future indebtedness and to deal with the costs of educating a low-income, deprived student body isn't clear. But, presumably, this structure would allow school fundraisers to address the problems they face in getting public and private support for the schools without having to encounter the cold shoulder they often get when the acronym "DPS" enters the discussion.

"If we can't fix education, our recovery will be incomplete and short-lived," the Skillman Foundation's Allen said. She pointed out that the charter schools, for example, operate independently of the Detroit Public Schools—some presenting and marketing themselves as autonomous. She noted, however, that the current debates are first and foremost governance ones, with approaches to improving and guaranteeing the quality of education for Detroit school pupils not yet taking center stage in the restructuring of the city's public education. Governance may have to be that necessary first step, because at this point there is no system-wide accountability for educational performance. With some public schools, notably charters, which are in theory parts of public school systems, "we are allowing people with public dollars to act in a private manner and . . . not for the public good," Allen said.

Amid the tours of education reformers who have vaulted charter schools in Detroit into a virtual tie with traditional public schools vis-à-vis the number of pupils they have captured, Allen is raising a different issue—one of returning oversight to the people of Detroit who have long been disenfranchised by the school system and by the city government overall. The Coalition report, perhaps reflecting a Skillman Foundation value, proposes to hold all school types and all school management structures to the same standards of financial transparency—something typically resisted by freewheeling charter schools attempting to function as publicly subsidized private schools.

The grand bargain, whatever its strong points and shortcomings, has returned Detroit to a discussion of something that it gave up on long ago: the recognition that the residents of the city are just as capable of self-governance as anyone else. If Detroit is really going to emerge from bankruptcy, it is a bankruptcy of the public fisc and the public trust that must be overcome.

Restoring Democratic Functions

Why such attention to the role of foundations in "saving" Detroit from the depths of a debilitating bankruptcy? Steve Tobocman, former Michigan state representative and current executive director of Global Detroit, indicated that local government's track record in tackling difficult problems hasn't quite matched the quality of the philanthropic sector's. No one in Detroit philanthropy is of the mind that they have had an unblemished track record themselves, but the devolution of Detroit's governing structures has been a widely recognized issue.

Tobocman indicates that, having reached its nadir with the administration of now-jailed former mayor Kilpatrick, the problem of Detroit's governance crisis was one of ethics. Who could be entrusted to function professionally, reliably, and ethically in confronting Detroit's mammoth economic and neighborhood problems? In Tobocman's opinion, what Detroit needs to do—and in some respects already is doing—as it backs up from collapse, is to rebuild "a new civic infrastructure" at the neighborhood level. He indicated that one step toward that end has been the change in structure of the city council, from at-large to district elections. As that change takes hold in the consciousness of Detroiters, residents will over time begin turning to district council members to press the city to function—and hold the council members accountable when it does not.²⁶

For his part, Mayor Michael Duggan has begun restructuring municipal services to match the district outlines. Coterminous service and governance districts can potentially reenergize Detroiters to take responsibility for a municipal government that has spun centripetally away from their influence. Duggan's approach is, according to some observers, meant to reconnect

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neighborhoods with services and local government with nonprofits. The Coalition's school board recommendations are fundamentally proposals for restoring local control in education—wresting it from the state, from freewheeling charters, and from independent authorizers located across the state. Eventually, with respect to both city hall and the schools, the trajectory of recovery has to involve a revival of local self-governance, else Detroit remain as it has been in its history: a city dominated by corporate interests and their political partners—albeit with a new set of corporate power brokers replacing the automobile-manufacturing elites of the past.

Part of that picture has to be a revival of the nonprofit sector, particularly as regards community-based nonprofits, that includes carrying the voices of communities outside of political processes but to political leaders—for them to listen and learn what the communities want, need, and are prepared to do. What the nonprofit sector is able to do, according to the Michigan Nonprofit Association's Murray-Brown, is to bring the discussion home of Detroit as a divided city. This can be done by courageous community leaders, backed by an organizational infrastructure, who will pursue solutions addressing racial equity.

That requires, says Sarida Scott, executive director of the Community Development Advocates of Detroit (CDAD), real, substantive community engagement, not simply sitting at the table to hear and nod. Prior to and during the grand bargain, there were extensive outreach efforts to bring community people to the table, but many community activists, like Scott, don't appear to be much impressed. Both The Kresge Foundation's Rapson and Global Detroit's Tobocman suggested that one shortcoming in the first rounds of community engagement was an overemphasis on the planning process and a corresponding lower level of attention to engagement around implementation. Planning for the Detroit Future City (DFC), according to Kresge's Trudeau, is now focused on implementation and on establishing DFC as an entity independent of the foundations, and, consequently, more authentically able to emphasize community perspectives and priorities.²⁷

Democratic process is one of the consistent issues that critics of the grand bargain raise. A foundation executive who possesses the same kind of bifurcated identity as Murray-Brown (and like her, with a father who is a pensioner in the city) expressed just that concern about the grand bargain. He cited the oft-repeated charge of Frank Hammer, a former General Motors worker and union activist, that the grand bargain was a "bloodless coup d'état." Because, despite the election of Michael Duggan as mayor, in the post-bargain governance of Detroit the city's finances will be overseen by a nine-member Financial Review Commission appointed by Governor Rick Snyder, in addition to two state officials (the state treasurer and the state budget director) and the president of the Detroit City Council.²⁸ A foundation executive who declined to be identified for this article characterized the commission as "not just undemocratic, but plac[ing] the city and residents in a no-win position," and described community engagement in big foundation-supported initiatives, such as the M-1 light rail line, as an "afterthought."

Detroit foundation executives like Rapson and Trudeau hardly disagree. While they are admittedly retooling their efforts in community engagement, they are not starry-eyed in the slightest or under the misapprehension that their number counts of people attending Detroit Future City planning meetings constitute a revitalization of democracy in Detroit. Moreover, the challenge in large measure comes down to the ability of the nonprofit sector to ensure that it not only is sitting at the table but also is enabled to plan in partnership with city, state, and foundation leaders. Tobocman suspects that, at least for the moment, foundations have not been adequately informing local nonprofits of their contributions to the grand bargain and that they are tapped out for the kind of support community-based nonprofits need in order to be full partners. Whether that holds for the midterm and long-term future remains to be seen; but, to an extent, the grand bargain may have cemented some support for Detroit-based nonprofits from national foundations such as Ford—the grand bargain's largest philanthropic contributor—that will continue for

some time (especially in Ford's case, due to the recent revision of its mission to focus on social justice). There could hardly be a more immediate and poignant case for philanthropic investment in social justice progress than the dynamics of post-grand bargain Detroit; nonetheless, the foundations will need to keep their eye on building up Detroit's tattered nonprofit infrastructure, and the nonprofits will need to be attentive to the foundations' postbargain grantmaking.

Another problem is the precedent the grand bargain sets regarding the role of foundations in society. Writing for the *Detroit News*, Daniel Howes, Robert Snell, and David Shepardson asked, "Could foundation leaders, governed by independent boards hewing to individual missions, persuade their boards of directors to participate in what would amount to a private-sector bailout of the city's pensions? Would the fund drain foundation dollars committed to fighting blight, rebuilding infrastructure and supporting critical social services needs?"²⁹ In his own column, Howes wrote, "Every foundation dollar that goes into a fund designed to protect the DIA by supporting pension obligations for city retirees is a dollar that doesn't go to support downtown redevelopment; to bankroll construction of the M-1 rail line; to finance blight removal and new public safety equipment; to bolster the DIA's annual fund, endowment or both."³⁰ It is a legitimate concern, so long as there is recognition that Detroit's emergence from bankruptcy must address a deficit of democracy as well as deficits in the city's and the school system's operating budgets.

There is always plenty going on to give substance to fears of a "bloodless coup" partnership between corporations, foundations, and the state government. For example, Marti Kopacz, the bankruptcy court's expert on Detroit's financial issues (hired to provide a perspective independent of the emergency manager's and the creditors') was quoted by *Bloomberg Business* as having said in an interview, "As a society, we believe in democracy, but there comes a time when the political machinery simply fails. . . . Once control goes back to the electorate, you are going to run the risk they could elect somebody that is not as capable."³¹ No less disturbing to hard-pressed

Detroiters has been an element of insouciance in the behavior of the executives and governing body of the Detroit Institute of Arts, which was saved from being sold off piecemeal to pay off the city's deficits. In October 2014, the DIA awarded its executives pay raises and bonuses (accompanied by justifications that could only have been received as tone-deaf by a bankrupt city occupied by thousands of retirees whose pensions had been shaved).³² Just as confusing to Detroiters was the news that the DIA was considering auctioning (or "de-accessioning") some paintings—notably, a Vincent van Gogh still life—after the museum had taken the strong position during the bankruptcy proceedings that selling even one piece from its collection in order to satisfy creditors and pensioners would be devastating for the museum's standing and credibility.³³

Remembering True Detroiters in a Regional Context

"Democracy for whom?" might be the appropriate question. Nearly everyone involved one way or another with Detroit's future echoes some of the concerns of the Reverend Charles Williams II of Detroit's Historic King Solomon Baptist Church: that the poverty and unemployment of most longtime Detroiters may not be a high priority for many decision makers.³⁴ For some, the issue isn't poverty per se but the notion that long-term Detroiters do not feel that they have been beneficiaries of the putative revival of the city.

The national press has been focused on the revival of the Midtown area (the stretch of Woodward Avenue north of Detroit, anchored by historic homes plus anchor institutions such as the Detroit Medical Center, Wayne State University, and the Detroit Institute of Arts) and Detroit's Downtown (where Quicken Loans mogul Dan Gilbert has purchased some eighty office buildings at rock-bottom prices as their headquarters, moved thousands of Quicken Loans employees to the area, and stimulated the growth and expansion of IT business ventures). While everyone acknowledges a sense of street life in Midtown and Downtown that hasn't been seen in several decades—including an explosion of restaurants and young white professionals walking their

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“Any sociologist will tell you it is hard being poor. But it’s harder being poor in a poor neighborhood. And harder still being poor in a poor neighborhood in a poor city. And yes, it’s hell to be a poor family, in a poor neighborhood, in a poor city, in a poor state!”

children in strollers or jogging after work along Detroit’s broad thoroughfares—everyone is also aware that Midtown and Downtown are a tiny proportion of Detroit’s physical footprint. The hundreds of thousands of residents who still live in the neighborhoods often feel that the Midtown/Downtown dynamic has left them out—and indeed may not have been intended for them in the first place.

The issue is one of both longtime residents and race, in that Detroit’s longtime population is in large majority black, and the newcomers are not. CDAD’s Scott notes that the Midtown/Downtown revival has sparked a debate over the effects of gentrification and the message it sends to longtime Detroit residents who stayed—some because of a lack of alternatives but others because of their dedication to home and community and a desire to see things through.³⁵ Tobocman views the Downtown and Midtown “environment for the business sector” as “never having been stronger” in his twenty years of working in Detroit; but he says it would be “hard to argue that for the majority of Detroiters who live in low-income neighborhoods there aren’t some significant challenges that exist.”

Both Scott and Tobocman are concerned about divisions among Detroiters—those who are excited by the new commercial and residential development dynamic and those who feel left behind or left out. Scott wonders “how to achieve inclusion and equity without pitting groups against each other—white and black, old and young . . . the new versus the old.” Despite her position as a community advocate arguing for a modification in the grand bargain dynamic that would not further dispossess and disenfranchise long-term Detroiters, Scott expresses a reluctance to “feed into anything that feeds into more division in Detroit.”

The problem goes back to the multiplicity of plans for neighborhood revival that Detroit has witnessed over the years with little evidence that they have had much or any positive effect—except on Midtown. Having grown up in Detroit, John A. Powell, professor at the University of California, Berkeley, and director of the Haas Institute for a Fair & Inclusive Society, knows the challenge and explains it succinctly: “Any sociologist will tell you

it is hard being poor. But it’s harder being poor in a poor neighborhood. And harder still being poor in a poor neighborhood in a poor city. And yes, it’s hell to be a poor family, in a poor neighborhood, in a poor city, in a poor state!”³⁶ His recommended framework for Detroit solutions is aimed fundamentally at the needs of longtime Detroiters:

We need to really understand relationships, not just things in isolation. We cannot focus on transportation or housing, but need to look at the relationship between transportation and housing. Or even between transportation, housing, jobs, and schools.

We have to think of the levers that actually move the system and be very deliberate about making sure that these systems actually benefit marginalized communities. To do that you have to make sure that marginalized communities have a voice and an input.

I’m not talking about redistribution or handouts but about bringing folks into the system in a healthy way, so that they contribute to the health of the system. It is crucial to growing and sustaining opportunity for the entire community.³⁷

Such visions may represent the most difficult challenges for Detroit’s community of nonprofits, foundations, and citizen organizations working toward a fair and just revival for the city. Powell’s framework is straightforward in its elements but difficult to translate into concrete programs and actions, and many see the Gilbert scenario as repopulating vacant buildings with an outsider workforce of Quicken Loans and other IT-industry employees who ideally would end up as residents. Another idea—taking huge tracts of vacant land in Detroit for reuse as urban farming or other alternative uses—has a similarly outsider feel (even if the activities draw and employ some existing Detroiters), particularly with the visible roles of young white entrepreneurs in these urban innovations.

While it may not be evident to external observers reading about the Downtown and Midtown revival that takes up a good chunk of Detroit’s media attention, most insiders recognize the true

need for reviving Detroit by helping and boosting the jobs, incomes, and living conditions of longtime Detroiters. This came up as an issue in a report by Philamplify (an initiative of the National Committee for Responsive Philanthropy [NCRP]) on The Kresge Foundation. A consistent theme in the NCRP recommendations for Kresge addressed a need “to continue recent efforts to forge relationships with neighborhood and non-traditional leaders to develop a more inclusive understanding of potential partners and levers for social change.”³⁸ Understanding the need to reach existing Detroiters is one thing, but the avenues that work are often difficult to discern in the midst of conflicting and sometimes contentious agendas.

Rapson doesn’t dismiss the importance of the Downtown and Midtown revivals, suggesting in fact that they have been “a little kicked around of late” but have created a “street-life vitality” that “sends a different signal to the markets” about the potential of Detroit’s revival. Viewing the challenge of reaching existing Detroiters through the lens of what philanthropy might do, Rapson offers a six-point agenda:

1. “[Try] to create an environment that is conducive to investment in the neighborhoods”;
2. “Reform . . . the public education system”;
3. “Take the M-1 (light rail) system to the next level (to be a regional system) . . . to connect Detroiters to jobs”;
4. Employ a “suite of mechanisms that help accelerate the conversion of blighted and abandoned land”;
5. [Effect] large-scale conversions of blighted and abandoned areas to “mixed-income, mixed-use areas of opportunity . . . places that will attract new and existing residents”; and
6. Revive neighborhood commercial spines that will be places where residents want to live and shop.³⁹

Within those six items, there are two themes that crosscut most of them and may bedevil Detroit’s philanthropic supporters and governmental planners. One is the crafting of specific strategies for the commercial strips of existing

neighborhoods that have not been beneficiaries much or at all of the investment into Downtown. Rapson sees evidence for commercial strip revitalization in efforts already underway along Jefferson Avenue, toward the east side of Detroit; in southwest Detroit, where Latino immigrants have regenerated a sense of neighborhood as place; and along Livernois Avenue, in northwest Detroit, where there are efforts to revive the commercial strip, capturing its old identity as the “Avenue of Fashion.”⁴⁰

It was once somewhat axiomatic that neighborhood development strategies had to focus on the revival of neighborhood housing, after which the lagging dynamics of commercial strip revival would follow. In places such as Detroit and other troubled cities (think Baltimore and Newark), there has been a recognition that the sequence must be reversed—or, if the neighborhoods are to be sustained, the commercial spine must be well supported. Rapson draws on his experience with the Minneapolis Neighborhood Revitalization Program, which made commercial spines essential building blocks of neighborhood plans in areas such as Stevens Square (Nicollet Avenue) and Sheridan (the 13th Avenue corridor). However, the Minneapolis Neighborhood Revitalization Program emerged from a sense of impending decline in Minneapolis’s older, working-class neighborhoods—hardly comparable to the devastation and depopulation of Detroit’s.

Kresge’s Trudeau, and others, cited a broadening appreciation for the need to invest in commercial strips where there is a “critical mass” of activity beginning to emerge—reflected in the visibility of Mayor Duggan’s “Motor City Match,” which awards \$500,000 in grants every quarter to a mix of building owners and business owners in the neighborhoods who are bringing forth business opportunities in need of jump-start capital investment.⁴¹ The first match grants, ranging from \$10,000 to \$100,000, were announced in October of 2015.⁴² (Over a twenty-year period in Minneapolis, from 1991 to 2011, the Minneapolis Neighborhood Revitalization Program invested over \$10 million in commercial strip improvements in neighborhood commercial corridors.⁴³ It isn’t really known what it will take to make a critical investment in

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commercial corridor revival in Detroit’s neighborhoods given that, for most, the conditions and the markets are significantly less stable than were Minneapolis’s a quarter century ago.)

The other crosscutting theme in Rapson’s six-point plan is one of connecting or reconnecting Detroit with the counties of southeast Michigan. The division between the city and the suburbs has been a matter of socioeconomic status and race. It would not be too much of a stretch to suggest that Macomb County, Oakland County, and the parts of Wayne County that are not Detroit may send employees and executives to the General Motors offices at Renaissance Center, but Detroiters have been largely disconnected from jobs in the counties. The breakdown has been symbolically reflected in the structural disconnects between the bus service of the Detroit Department of Transportation (DDOT) and the Suburban Mobility Authority for Regional Transportation.

Critics have dismissed the M-1 light rail line, strongly supported by The Kresge Foundation and by Detroit investor Roger Penske, as a limited kind of streetcar to benefit travelers up and down the Woodward corridor—basically connecting New Center (where the Amtrak station is) to Midtown to Downtown. The connections to the neighborhoods and to the ability of Detroiters to connect to jobs in the suburbs are not immediately evident, giving rise to comparisons of the M-1 system to the relatively little-used Downtown Detroit People Mover (a single-track system reaching a small area of Downtown, originally meant to have some sixty thousand to seventy thousand daily riders—ten times the actual number of users). Rapson and Trudeau are both adamant that if the M-1 is simply a 3.3-mile streetcar, then the plan will have fallen vastly short of what it should do.

The M-1 consortium was able to secure passage of state legislation creating a Regional Transit Authority charged with producing a regional transit plan for Southeast Michigan. Funding for that system must be approved through referenda appearing on the ballots of the region’s four counties. The regional authority has been vested, therefore, with the ability to

tax not just Detroiters, who are already always hit, but also residents of the suburban communities. Rapson and Trudeau believe that regional buy-in will be difficult—hardly a slam dunk with the voters.

The regional dimension of Detroit’s recovery may be the untold story, but it is central to the narrative offered by Kevyn Orr, the Jones Day attorney who was appointed by Michigan governor Rick Snyder as Detroit’s emergency manager for the bankruptcy. The region, Orr notes, was created in a way to be divided by what he called “caste, class, and race,” going back to decisions made by Henry Ford to prevent black employees in his factories from living in suburban Dearborn, restricting those who were able to move from Detroit to residences in Inkster. As the epitome of racial segregation from the wealthy white suburban communities, Detroit found itself over time simply unable to rescue itself.⁴⁴

To Orr, a large part of Detroit’s steps toward recovery has been the strategy of getting the region if not the entire state to commit to Detroit. Among the elements he ticks off as examples of that broader commitment are Governor Snyder’s “all in on Detroit” tactic through the bankruptcy (sometimes against the advice of his advisors and in the face of hostile state legislators) and into the grand bargain, where the state put up a significant sum; the regional water authority being able to build on revenues that are likely to be three-fourths suburban; the M-1 light rail becoming part of a regional system; suburban buy-in to the grand bargain being enabled through the Detroit Institute of Arts; and, notably, participation of private foundations located in the suburbs, like Kresge in Troy, or entirely out of state, as in the case of Ford.

A regional conception of Detroit’s getting through the bankruptcy cements part of the suburban community to Detroit’s future and, as Orr notes, reflects the fact that as southeastern Michigan goes, so goes the state. But maintaining that suburban commitment requires something more than an intellectual appreciation of the symbiotic relationship of city and suburb. Orr outlines a number of factors Detroit needs in order to sustain its revitalization trajectory:

1. **Leadership.** As Detroit declined over the decades, when the city needed (in Orr's words) "sober, honest, visionary leadership," it didn't get it. The sober/honest description is generally the opposite of what happened under now-imprisoned former mayor Kilpatrick. Like Rapson and Trudeau, Orr appears confident in Mayor Michael Duggan, elected as a write-in candidate, who he hopes will bring the kind of sober leadership to Detroit that he believes political leaders brought to Miami after the Liberty City and Overtown disruptions (when many people had written off that city).
2. **Talent.** Orr's reference to talent partly emphasized the institutions such as Kresge, Ford, and others that were "making a bet on the city" and putting their human resource talent, abetted by capital, at the disposal of the city. But the need is for governing talent, too. Detroit's city government has been dysfunctional for so long that many city officials had bought into a governing culture of failure, to the point that things not happening was more reliable and comfortable than the risk of trying to make progress. For Detroit to function competently within the region and with the state, it has to display the competence that so many successive city administrations in Detroit have not.
3. **Transparency.** Orr takes pride in having pushed for "telling the public the true state of affairs" when it came to the reasons for Detroit's slide into bankruptcy and the challenges for clawing a way out. For Detroit residents who have long been fed the fantastical ideas that successive initiatives were "the" answer to the city's problems, Orr's approach was just the opposite: explain exactly how bad things are, let that settle into people's consciousness, and then craft answers that deal with the realities.
4. **Cooperation.** Even within the city, there were multiple bargaining units representing city employees (uncoordinated city agencies and departments), a division between the city council and the mayor's office, and the obvious disconnect with the region. Without the ability to work through the complexities

of the Detroit political and social dynamic, the basis for long-term solutions would be just about impossible.

5. **"The residents who stuck it out."** Orr's point returns the narrative to the central issue of providing help and support for the residents who chose not to leave as the city fell apart around them. In part, the answer for longtime Detroiters is the provision of public safety and health services, public works, parks and recreation, planning and zoning functions, and competent revenue-raising and use—all the core functions that the city had allowed to languish and disintegrate.

That still leaves a city of hundreds of thousands of impoverished people who merit more for their dedication to their neighborhoods than simply basic municipal services. Detroit is replete with residents who, in the absence of competent government, mowed the grass on vacant lots, did their best to pick up trash in public parks, and did what they could to take care of each other when public and private authorities proved themselves unable or unwilling to do so. But a strategy that helps those people as much as the city has jump-started activity in Downtown and Midtown remains elusive—even for most of the key players in this city drama.

Some, like Ponsella Hardaway of the Metropolitan Organizing Strategy Enabling Strength (MOSES), also get the regional dynamic at play. Hardaway did some back-of-the-envelope calculations of employment to point out how many Detroiters are not among the 53,000 or so who live and work in the city, and the 150,000 or so who leave the city for their daily jobs: perhaps 80,000 or more, who are simply unemployed and isolated. She contends that there are jobs in the southeastern Michigan region that Detroiters cannot get because of transportation difficulties and racial barriers. In her view, the challenge is finding equitable development strategies that connect Detroiters to jobs in the region and, to the extent that they emerge from major projects, in the city itself.

Hardaway cites a Wayne State University professor, Peter Hammer, who has written some

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major critiques of shortcomings in the city’s post-bankruptcy “plan of adjustment” that fail to take into consideration issues of race and regionalism. Despite Orr’s contention that the process launched by the grand bargain contains a significant agenda toward regional equity, Hammer wrote, in a critique for the bankruptcy court, “A feasible Plan of Adjustment based on reasonable forecasts and projections must be assessed in light of the City’s history of still unhealed racial conflict and the City’s position within a fractured and segregated regional economy.” He continued:

[A]ny legitimate analysis of the Detroit Bankruptcy and the City’s Plan of Adjustment must be situated in the context of the Three R’s—Race, Regionalism and Reconciliation. . . . I am deeply disappointed by the neglect of these issues in the Expert Report. The Report is a word-searchable pdf document. Nowhere in the document are the words “race,” “racism,” “discrimination” or “segregation.” While the phrase “white paper” appears twice, the phrase[sic] “white flight” does not appear at all. These are the root causes of Detroit’s current financial crisis and yet they are completely absent from the report. The Report looks at the root causes of failures of generic IT Systems, but never once examines the root causes of the fiscal crisis underlying Detroit’s municipal distress. . . .

There is no discussion of an eighty-year history of discrimination, segregation, racial tension and white flight producing a dysfunctional region. There is no discussion of how economic markets nested in a hostile and highly fractured geopolitical space fail to thrive. These are the core forces that produced the Bankruptcy, yet they are not recognized in the Expert Report at all.

One has to try hard *not to see* the effects of these forces on the physical landscape of Southeast Michigan. Detroit is a city where nearly 40% of the population lives below the federal poverty level, yet it sits in a region that is defined by its relative wealth and prosperity. The Michigan Roundtable

and the Kirwan Institute [for the Study of Race and Ethnicity at Ohio State have conducted “opportunity mapping” of the region. “Opportunity,” defined by a metric reflecting the quality of housing, education, employment, health care, transportation, and civil society, can be assessed and given a colored representation on a map of Southeast Michigan. . . . What becomes obvious from the map is that there are high levels of opportunity in the region and low levels of opportunity in the region and that these areas are spatially segregated. One can almost see the outlines of the geopolitical boundaries of Detroit and Pontiac as defining the lowest levels of opportunity in the Region. When one overlies spatial mappings of race on top of the mapping of opportunity, one sees that[sic] a region completely segregated in terms of both race and opportunity. . . . This is the core of what John Powell terms “spatial racism” in modern America. Detroit is ground zero for spatial racism.

Detroit remains one of the most racially and economically segregated regions in the country, yet there is no trace of this realization in the Expert Report.⁴⁵

Hammer’s critique decries the bankruptcy court expert’s (and the city’s) emphasis on buildings and property (including a large commitment to expensive demolitions), and suggests that an investment in human capital is needed: “What would be the economic benefits of investing comparable amounts in people—building human capacity—head start, schools, reducing health disparities, citizen re-entry, job training and economic opportunity?,” he asks. “Even in a narrower economic frame, we need to ask what would be the differential in economic benefits of spending comparable funds in foreclosure relief designed to keep people in their homes, as opposed to demolishing those same homes after the residents have been forced to leave.”⁴⁶

Many of the residents who haven’t left Detroit are seniors. Vincent Tilford, until recently the executive director of Habitat for Humanity Detroit, and now the executive director of the

Luella Hannan Memorial Foundation, speaks with knowledge about older Detroiters because the foundation is an operating one that provides housing and services to seniors in metro Detroit. He explains that many of Detroit's homeowners are seniors, living in homes showing the wear and tear of deferred maintenance and, as public sector retirees in many cases, now living with less income to repair and upgrade their properties. Many are facing tax foreclosures, which, if the city does foreclose or sells tax notes to third parties, will lead to massive displacement of some of the most dedicated and stable residents of the city. Tilford and others describe the city's efforts to provide zero-interest repair loans to older homeowners, but their limited incomes make taking loans difficult.

Moreover, Tilford noted, "When I talk to older adults about the M-1 rail line, they say, 'This wasn't built for us, it was built for other people moving here.'" Perhaps the M-1 and other initiatives are meant to help longtime Detroiters—but if so, Tilford says, "it has to be communicated better and differently."⁴⁷

Both Tilford and the director of the Detroit program of the Local Initiatives Support Corporation, Tahirih Ziegler, observe that there are other dynamics occurring that could further displace rather than help existing Detroit residents. On top of the prospect of a tax foreclosure of tens of thousands of homes, Tilford and Ziegler express concern about rental developments with expiring federal subsidies. If the subsidies are allowed to expire without financial and regulatory intervention by local authorities, "the residents," in Ziegler's words, "will have to move." For a city whose population has been in a free fall for decades, to fail to intervene to stabilize the conditions for those who fought back and stuck it out would be a tragic outcome.

Charting a Course

The fact that the Detroit fiscal vortex has left players scrambling with multiple aspirations and plans but challenges in translating them into action shouldn't be surprising. The expectation that there are easy answers waiting to be discovered goes against logic and history. Societal

problem solving is incremental but hopefully moves toward solutions that in their design and implementation lead to systemic changes. On the ground, the observers who think that the grand bargain might have devoted too much attention to the pension bailout and an elite arts institution are sometimes at a loss to offer concrete next steps except for improvements in process—and solutions that are offered for what ought to happen next are often thin and tentative. The problems of Detroit, even as reflected in the hundreds of pages of the Detroit Future City plan, are large and daunting—so big and so deep-seated, so multifaceted and interrelated, that it is difficult to chart an action strategy that moves the city from the edge of collapse and toward sustainable recovery.

Talking to a variety of philanthropic and non-profit leaders surfaced some clear directions that are often included in official reports but are sometimes hard to discern:

1. **Rebuild the civic infrastructure.** CDAD's Scott complains about the loss of democratic process during the grand bargain negotiations and the postbargain follow-up. Even Rapson and Trudeau recognize that the organizing and outreach process during Kresge's leadership of the Detroit Future City plan and during the grand bargain negotiations needs recalibration. "If the essence [of criticism of the community engagement process] is that over time the community needs to figure out appropriate ways to make its desires known and become involved in a meaningful way in the decision-making process," Rapson said, "I couldn't agree more." The essence of his agreement is that meaningful civic participation has to lead to each "microinitiative" in which the city—and Kresge—are involved, being "infused" by community decision making that is sustainable. Trudeau noted that the next phase of civic engagement in the Detroit Future City effort is the development of an independent entity that is not controlled by or responsible to The Kresge Foundation. They are all struggling with trying to find authentic mechanisms for civic engagement, but the critics feel that community residents—even if included in the multiple meetings convened by the

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foundations—have been the “objects” rather than “subjects” of the participation process. In terms of the city’s and the foundations’ upcoming engagement processes, Trudeau’s recognition that the next stages have to be “more intentional” is obvious.

Nonetheless, behind committees, task forces, and focus groups that may be created to advise components of the Detroit recovery—even if they are given nominal “independence”—must be support for the indigenous community-based organizations that are governed by and represent Detroit’s neighborhoods. That includes groups like MOSES and other community organizing efforts, as well as local community development corporations and human-service advocacy groups. Were it not for community-organizing groups, the plight of the low-income households that were hit by devastating water bills in 2014 and 2015 might not have been noticed or addressed. Part of the challenge of building and sustaining that infrastructure falls to the foundation community, which needs to keep in mind that its commitment to building a civic infrastructure means providing funding for those community-based organizations; and part falls to intermediary organizations, which need to closely monitor the array of groups that are tackling community problems on their own. Too many groups seem to have struggled because they fell into the trap of investing too much of their program portfolios in housing when the housing market was unbelievably weak, and needed to alter their business models. Others have been too small or have been trying to serve shards of neighborhoods—unable to sustain operations, and compelling mergers with stronger groups. The foundations and intermediaries have to be focused on sustaining indigenous organizations that can survive in the long run.

2. **No more funding for Midtown and Downtown.** The revival of the Downtown area, largely financed by business moguls like Dan Gilbert, and the investment in Midtown, attracting a young, “hip” population, needs support—but not from the philanthropic

sector (at least, no longer). The disinvestment by private and public sources in neighborhoods throughout the city needs to be rebalanced and rectified by a major shift back to the neighborhoods. That means bringing municipal government resources such as the city’s Community Development Block Grant (CDBG) program dollars back to neighborhoods, with an eye toward leveraging private capital from banks and foundations. For example, the use of foundation grants to write down the repair costs of existing homeowners who want to engage in home rehabs is necessary, given the very-low-income population of homeowners and renters. Investors in Midtown and Downtown have access to the private capital markets and to federal subsidies that neighborhood people simply do not. As put by Timothy Thorland of Southwest Housing Solutions, one of the recognized well-run community-based organizations, “the private financing market can take care of the financing needs of Midtown and Downtown. It doesn’t have to be the ultimate priority that it was years ago.” He added, “Whether it’s the mayor, Dan Gilbert, or foundation executives, now is the time to invest in neighborhoods.”⁴⁸

3. **Explore commercial strip and anchor institution development strategies.** Rapson’s suggestions for commercial strip revival strategies make sense—not only for neighborhood stabilization but also for business development by Detroiters. Tilford noted that the bulk of the Motor City Match awards did go to businesses created by Detroiters, but the strategy has to expand to include anchor institutions. Think of the Midtown development strategy linked to the presence of anchor institutions such as the Detroit Institute of Arts, Wayne State University, the Henry Ford Hospital, and more. There are anchor institutions that should be seen as nodes for development activity in viable neighborhoods across the city—notably churches and schools. Both schools and churches are important symbols in black communities and should be actively explored as venues

for developing critical masses of investment activity in neighborhoods.

4. **Negotiate community benefits agreements (CBAs).** Hardaway and Scott both point to the possibility of the city's negotiating "community benefits agreements" for major projects that involve the use of public funds. (Scott's organization, CDAD, has been an active advocate for a CBA linked to the proposed construction of a new arena for the Detroit Red Wings.⁴⁹) The argument that the city and developers use is that the market is too fragile to support the imposition of a community benefits agreement. Every city tied to private developers resists exactions, but what would a community benefits agreement require? In a situation like Detroit's, the likely components might include a "first-source hiring requirement" that obligates the developer to look for local residents to fill construction and permanent jobs, if feasible; to provide job training for potential workers; to set aside a portion of commercial space for local businesses; and to contract for local community-based organizations to work with local residents impacted by the developments. Detroit has had discussions of CBAs potentially attached to large-scale projects with significant subsidies, a concept promoted by Rashida Tlaib, a former Michigan state representative, more recently director of the Sugar Law Center for Economic and Social Justice.⁵⁰ The Sugar Law Center, operating with support from the Ford Foundation, Local Initiatives Support Corporation (LISC), and the Equal Justice Center, suggests specifically that the following might be the benefits embedded in a CBA:

- Access to job training and job opportunities created by the project;
- For local small businesses, access to service and supplier contracts for the project;
- Environmental protections from health risks created by construction and project activities, such as diesel exhaust, dust, and others;
- Minimized housing and local business displacement;

- Sustainable practices on the project leading to improved quality of life and empowerment of the local community; and
- Other improvements targeted to the goals of the particular project and needs of the involved community.

If opportunities for CBAs go by the boards because of city government and private developer fears of market weakness, the community loses. CBAs are one way of making sure that Detroit's "off the brink" development generates specific, direct benefits for Detroiters, as opposed to counting on indirect multiplier benefits.

5. **Protect existing residents.** Scott says, "The problem we have in Detroit, people want to use gentrification synonymously with development." The underlying issue is that some of the revitalization dynamic in Detroit could lead to population turbulence and displacement. Pushing more Detroiters out of the city involuntarily—to join those who voluntarily fled the city because of lack of police and fire protection, trash collection, and street lights—is exactly the wrong signal to send to the markets and to the American population. The impending municipal tax foreclosure of an estimated twenty-five thousand properties should be halted. It is no exaggeration to suggest that "mass evictions" of homeowners and tenants could ensue if the tax foreclosures proceed.⁵¹ The continuing dynamic of mortgage foreclosures needs to be stemmed in part with an agreement with lenders and servicers to keep people in their homes. The rental properties that have expiring federal subsidies such as Low-Income Housing Tax Credits should be recapitalized, as Ziegler and Tilford indicated. More broadly, given the likelihood of a potential gentrification dynamic in various subareas, the city needs to work with community development organizations to generate an antidisplacement strategy that will minimize and mitigate displacement pressures on lower-income tenants and homeowners. The alternative is a population outflow that sends the message

Pushing more Detroiters out of the city involuntarily—to join those who voluntarily fled the city because of lack of police and fire protection, trash collection, and street lights—is exactly the wrong signal to send to the markets and to the American population.

As [Steve] Tobocman describes it, “There are 700,000 residents, there are 700,000 Detroit stories—they’re all true and all equally valid.”

that Detroit’s revival will give little or no consideration to the people who have been the courageous mainstays of the community despite their having been let down by dishonest politicians and disinvestment-minded private-sector actors.

6. **Double down on regional contributions.**

Hammer’s analysis that strategies that don’t capture and capitalize on financial support from the region basically let the suburban counties off the hook is quite persuasive. Detroit needs to be thinking about approaching many of its challenges on a regional basis, as opposed to going it alone. That doesn’t absolve Detroit and Detroiters from doing all they can and must do to put the city on the right track, but the mayor and the governor have to be strongly committed to maximizing regional commitments and competition. The pivot has to be to turn the Detroit metro area into “something worth fighting for, rather than fighting over,” to use the words of Bruce Katz and Jennifer Bradley, authors of *The Metropolitan Revolution: How Cities and Metros Are Fixing Our Broken Politics and Fragile Economy*.⁵²

7. **End the messiah complex.** From Kwame Kilpatrick to Dan Gilbert to Michael Duggan—there is a sentiment among some in Detroit that emphasizes the need for a heroic leader who will guide the city out of its morass. Hammer’s letter slams the bankruptcy court’s expert for the report’s “indulgence of the ‘great man’ theory of history.” He contends that because the plan that would take the city out of bankruptcy “fails to identify the root structural causes of the crisis and implement necessary structural reforms, one must invent a hero to single-handedly rescue the City from the current crisis, if there is to be any hope.”⁵³ Duggan frequently gets painted into the “great man” role, particularly by the foundation leaders, who have found him a valued collaborator and competent leader after so many decades of disappointing city hall performance and follow-through. He may be a good mayor, but he is a temporary occupant of the office. Detroit’s long-term sustainable

trajectory toward recovery isn’t going to be solely Duggan’s success or failure, nor the sole responsibility of Gilbert, Penske, or Michael Ilitch, nor Kresge’s Rapson or the Ford Foundation’s Darren Walker. Where Detroit’s recovery is concerned, there is no magic bullet and no magician possessing all the answers.

• • •

The current generation of plans—notably the Detroit Future City plan, guided and supported by The Kresge Foundation—is, in the foundation’s own words, a “framework” for Detroit’s future: identifying potential jobs, alternative uses of vacant land, development of parks and other green spaces, and different conceptions of future neighborhoods in the city.⁵⁴ But, according to Tobocman (with an analysis shared by others), the Detroit Future City process suffered from a “lack of focus on implementation, which has come to haunt them.” When a planning process transitions to implementation, generic agreements reached among diverse parties—even with the extensive outreach mounted by Kresge—fall prey to divisions that might be excited by the potentials and divisions fearful of what might happen to them and their neighbors as a result of forces not under their control.

As Tobocman describes it, “There are 700,000 residents, there are 700,000 Detroit stories—they’re all true and all equally valid.” The one overarching story should be how Detroit’s recovery from decades of misery protects the people most in need. Despite new trendy restaurants, joggers along Woodward Avenue, the “creative class” moving to Midtown, and a young IT workforce taking residence Downtown, if Detroit’s future is one in which the low-income population is displaced due to what might be the nation’s largest municipal tax foreclosure in history, others are penalized with unjustifiably burgeoning water bills, and still others are pushed out by the laissez-faire position that gentrification is an indicator of progress, then Detroit’s turnaround will not be a renaissance story, or even the tale of an historic bargain—that is, unless the bargain were the proverbial pact made with the devil.

Foundation and Corporate Contributions toward Detroit's "Grand Bargain"	
Contributions to Detroit's "Grand Bargain"	Amount Contributed
Ford Foundation	\$125 million
The Kresge Foundation	\$100 million
W. K. Kellogg Foundation	\$40 million
John S. and James L. Knight Foundation	\$30 million
William Davidson Foundation	\$25 million
Community Foundation for Southeast Michigan	\$10 million
Charles Stewart Mott Foundation	\$10 million
Fred A. and Barbara M. Erb Family Foundation	\$10 million
Hudson-Webber Foundation	\$10 million
McGregor Fund	\$6 million
Skillman Foundation**	\$3.5 million
Contributions to the DIA's Commitment to Raise \$100M	Amount Contributed
Ford Motor Company	\$10 million
General Motors/GM Foundation	\$10 million
The Andrew W. Mellon Foundation***	\$10 million
FCA US LLC (formerly Chrysler Group LLC)	\$6 million
A. Paul and Carol C. Schaap Foundation****	\$5 million
J. Paul Getty Trust	\$3 million
Max M. & Marjorie S. Fisher Foundation*****	\$2.5 million

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*The contributions of Ford, Kresge, Kellogg, Knight, Davidson, Community for Southeast Michigan, Mott, Erb, Hudson-Webber, and McGregor will be administered through a new 501(a)(3) supporting organization called the Foundation for Detroit's Future.

**Dedicated to offset healthcare cuts for city retirees in the pension aspect of the bankruptcy.

***\$5 million of the \$10 million is contingent on the Detroit Institute of Arts raising \$100 million.

****Dedicated specifically to helping the Detroit Institute of Arts with its transition to nonprofit status.

*****Dedicated specifically to helping the Detroit Institute of Arts with its transition to nonprofit status.

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Nonprofits *on the* Edge

THE FOLLOWING CASE STUDIES WERE SUBMITTED AS PART OF THE GRADUATE course “Nonprofit Governance and Management,” taught by Dr. Chao Guo, associate professor and Penn Fellow in the School of Social Policy and Practice at the University of Pennsylvania.

The cases represent three different organizations that have come back from the brink of dissolution. Each did it in a different way, and none of them necessarily has an easy road ahead.

With each of these organizations, one could use multiple lenses to analyze what caused them to decline—and it is almost always a combination of factors that impose frailty over time—but in the stories of the comebacks, the levers were clearer. The generators of organizational frailty, however, can outlast an immediate save—hanging around like unwanted spirits waiting to reassert themselves.

In our editors’ commentary on these cases, we have tried to discuss what some of these persistent issues may be. It is important to remember that the symptoms of organizational problems often lie very distant from the problem generator, which may be the organizational culture and belief systems, or the organization’s birth story. In some cases, additionally, the form does not fit the function in the right way, and the function just spits it out.

Understanding organizational dynamics makes for better leadership, and the more curiosity you have about why an organization seems to be in decline, the better. Too many boards and leaders look for the most immediate relief at hand, and this stops a process of inquiry that in the end could create far more enduring strength over time.



Saving *the* August Wilson Center

by Anne Ferola, Jennifer Ginsberg, and Martice Sutton

In order for the August Wilson Center to find its footing, it must emancipate itself from its funder-led leadership and become an independent entity.



Editors' note: *There are two things not referenced in the following case study that appear to be in play vis-à-vis the August Wilson Center. The first has to do with the fractured nature of “ownership” of this organization from its very inception, and the second has to do with a simple problem of timing.*

Regarding ownership, we have seen any number of times the specter-like organizations left behind by philanthropic initiatives—often projects of national foundations. In essence, these are organizations that wouldn't have been started without some significant element of their founding being claimed by a funder. These organizations tend to have a relatively short shelf life, defined largely by the continued support of their patrons. This dynamic may be looked at as an organizational “failure to launch,” and the champions of such organizations are usually external stakeholders trying to think through the problem rationally. This results in a lack of the core energy needed to maintain a central identity.

Regarding timing, we have written often about the disasters that ensued when arts nonprofits made big capital expenditures immediately before the recession or just as it started. In many cases, not only did fundraising falter even when due diligence had been done, but ticket sales fell short of their projections, too. The August Wilson Center's being a new organization located outside of the

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For years, Pittsburgh's African-American citizens explored ways to celebrate and showcase their vibrant community. Many believed the answer lay in the creation of a center—a gathering place—dedicated to African-American culture.

community it primarily represented creates yet another hurdle to overcome in this regard.

The description of the collection of entities now being patched together to manage this organization simply carries forward this unfortunate history. Our guess is that it will be difficult to extricate the organization from its own fractured beginnings and create an independent entity, unless some person or group other than a funder assertively claims it.

THE AUGUST WILSON CENTER (AWC) FOR African American Culture is a nonprofit organization that produces and showcases performing and visual arts to celebrate the contributions of African Americans in Pittsburgh and the United States at large. The center's founders aimed to serve an unmet need for a facility dedicated to black culture; however, despite planning, visionary programming and production, and financial support from major foundations, the August Wilson Center failed to become financially viable. A consortium of private and government funders came to its rescue in 2014, with the hopes of reviving the center from what seemed like an impossible situation.

In many ways, the struggle of the August Wilson Center is not unique. Arts organizations of all types perpetually rely on support from philanthropy and the government to sustain their work. Yet, it has been demonstrated that organizations of color find it particularly difficult to maintain adequate funding. A new paper by the DeVos Institute for Arts Management highlights some of the issues unique to African-American and Latino cultural organizations, and Rick Cohen has written extensively for the *Nonprofit Quarterly* on the struggles of African-American museums. Despite admitting the uneven playing field, Cohen and the DeVos Institute affirm these institutions as “absolutely essential to the American arts ecology”—valuable not just to the communities whose history and culture they safeguard and celebrate but to society as a whole.¹

History

Since the 1920s, Pittsburgh has been a cornerstone of African-American culture—home to

talented and prolific musical, visual, and performing artists. The playwright August Wilson was born into this artistically rich but economically challenged community in 1945, and it would become the center of his best-known and most highly acclaimed works. Wilson chronicled life in the Hill District in his *Century Cycle*—a set of ten plays, each capturing a decade of African-American life in Pittsburgh during the twentieth century.

For years, Pittsburgh's African-American citizens explored ways to celebrate and showcase their vibrant community. Many believed the answer lay in the creation of a center—a gathering place—dedicated to African-American culture. Among the first attempts was the Home-wood Art Museum, which presented community arts programming in various locations but was never able to raise the funds to build a permanent home.

Concurrent with these efforts, Pittsburgh's mainstream cultural institutions attempted to capture the voice and spirit of the city's dynamic African-American community. The Senator John Heinz History Center, for example, regularly mounted exhibitions dedicated to the lives of black Western Pennsylvanians;² and in 2001, the Carnegie Museum of Art acquired the entire archive of famed African-American photographer Charles “Teenie” Harris, and undertook a decade-long project to catalog and curate it for eventual display.³ But Sala Udin, a city councilman who grew up in the Hill District and was a childhood friend of August Wilson's, while not deriding the efforts described them as, simply, “not sufficient.”⁴ August Wilson himself is widely quoted as having said, “Blacks have traditionally had to operate in a situation where whites have set themselves up as the custodians of the black experience.” The African-American community, Udin insisted, needed its own space to showcase its own history and culture: “No other community can do that adequately.”⁵

Building the Center

Then-mayor Tom Murphy agreed. In 1996, he pledged his support for building a center dedicated to African-American culture, and offered assistance through the city's Urban Redevelopment

Authority (URA), which provided land for a new center Downtown, in Pittsburgh's Cultural District. Spanning fourteen square blocks, the District attracts more than two million visitors annually and is home to the Pittsburgh Opera, the Pittsburgh Ballet Theatre, and the Pittsburgh Symphony Orchestra. Although some cautioned against building Downtown, the founders stood firm. Dr. Mona Generett, who joined the AWC board in 2007, agrees that the center "completed our very rich cultural district."⁶ The center's vision, she says, is to enrich and enlighten the culture of the entire Pittsburgh community. To achieve that mission, it must be in the heart of the city—accessible to the greatest number of patrons, regardless of race.⁷

By 2003, the AWC steering committee had hired Neil A. Barclay as president and CEO; set a \$33 million construction budget (though Barclay later admitted it was "picked out of thin air");⁸ received construction grants of \$4 million from The Heinz Endowments and approximately \$15 million from the URA; and selected architect Allison Williams's bold and modern, nautically inspired design for the building.

Participation from the African-American community was vital. Both The Heinz Endowments and Milton and Nancy Washington, cochairs of the capital campaign, established challenge grants to match giving from the African-American community up to \$2 million, thereby leveraging every dollar donated. The heads of Pittsburgh's black churches, often considered the heart of the community, preached generosity for the center and held fundraisers for the building campaign. Despite the fact that Pittsburgh's African-American community comprises only about a quarter of the city and has significant rates of poverty, the challenges were met.⁹

However, a combination of faulty budgeting and unforeseen environmental factors drove up costs before construction even began, and caused significant delays. By the time the August Wilson Center opened, in 2009 (in the midst of the financial crisis), the final cost of the structure and its contents was \$42 million. Construction was completed with an \$11 million loan, secured by the organization's only asset—its building.

The center's multimillion-dollar debt would have made breaking even a struggle even under the best of circumstances; combined with poor marketing and inconsistent programming, it spelled financial disaster. By mid-2010, the center was on its third executive director, and the board and funders began to worry about its viability. Few Pittsburghers were venturing Downtown to support the center, and there were scant resources available for programming and management. "It is based on the mentality of the movie 'Field of Dreams,' that if you build it, they will come. It's a great movie theme, but it's a terrible strategy for operating a place like the Wilson Center," said Dan Martin, dean of the College of Fine Arts at Carnegie Mellon University, describing the tendency for arts venues to lose their way.¹⁰

Financial records show that the organization had run an operating deficit every year from the time it opened its doors.¹¹ If the August Wilson Center could not fund operations, no level of debt service would be feasible. By September 2013, the building was forced into foreclosure. Concluding that the AWC was not viable in its current state, Judith Fitzgerald, the center's conservator, became responsible for the disposition of its assets.¹²

The community rallied. Independent citizens held "Community Conversations" with more than seventy key stakeholders throughout Pittsburgh, encouraging public support to save the center.¹³ African-American Pittsburghers, speaking out in the center's defense, included August Wilson's niece Kimberly Ellis, Reverend Harold Lewis of Calvary Episcopal Church, and Tony Award-winner Billy Porter. A town hall meeting in the Hill District was standing-room-only.¹⁴

Three of Pittsburgh's largest foundations—The Heinz Endowments, the Richard King Mellon Foundation, and the Pittsburgh Foundation—came together, along with support from the city and the county, to pool sufficient funds to purchase the center. Grant Oliphant, director of The Heinz Endowments, considers this kind of effort central to his organization: "[L]et's be clear—every cultural center and arts facility in the country depends on charitable fundraising and donations to survive."¹⁵ In an interview for this article, he added, "Part of the value that

"It is based on the mentality of the movie 'Field of Dreams,' that if you build it, they will come. It's a great movie theme, but it's a terrible strategy for operating a place like the Wilson Center," said Dan Martin, dean of the College of Fine Arts at Carnegie Mellon University, describing the tendency for arts venues to lose their way.

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foundations bring is that they can be a little more courageous.”¹⁶

Significantly, the transaction, which took place in November 2014, cleared all liens on the property. The building emerged free of debt obligations but severed from its original owner, the nonprofit entity called The August Wilson Center for African American Culture. The deed was then transferred to a newly created nonprofit, headed by the leaders of the three foundations. This new ownership structure safeguards the building and land from ever being mortgaged in the future.¹⁷

Vision for the Future

Maxwell King, President and CEO of the Pittsburgh Foundation, is taking the lead during the transition. “During this transitional period, we will work with a range of groups and individuals, locally and nationally, to develop the best possible management practices and highest-quality programming.”¹⁸ The Pittsburgh Cultural Trust, which performs similar functions for a number of arts organizations, is currently under contract to provide management and operations services to the center. According to the Pittsburgh Foundation, the “overarching requirement will be that the programming focus be primarily, though not exclusively, on African American art and culture.”¹⁹

In the future, the center will be run by three entities, with a distinct division of labor.²⁰ In a briefing, Oliphant explained that the plan is to create “two African American–led nonprofits: one to maintain and operate the facility, the other to fill it with dynamic, deeply relevant African-American programming.”²¹

The African-American Cultural Center Board of Directors is in place as the governing board, and currently consists of the three foundation executives, and Michael Polite and Richard W. Taylor—two highly respected African-American members of Pittsburgh’s business community. Recruitment of board members with experience in nonprofit business, facilities management, and finance has progressed slowly and methodically. The plan is to add an additional two to four African-American members in 2016, with King, Oliphant, and Scott Izzo, director of the Mellon Foundation, then rotating off.

Eventually, a separate programming board will be established and staffed with and by leaders in the African-American arts community. Until then, the center is looking to a variety of sources for suggestions. The Pittsburgh Foundation has invited more than sixty local arts and culture groups to develop programs, offering a \$300,000 pool of funds to support their efforts, and The Heinz Endowments has distributed an equal amount to the Cultural Trust for current AWC programming. Judge Joseph K. Williams III chairs August Wilson Center Renewal Inc., a community-driven group that is also offering programming suggestions. “I want to bring it alive,” he said. “I think it will be such a healing vehicle for relationships in [the Pittsburgh] community.”²²

While the process of board-building continues, the August Wilson Center is beginning to come to life once again. Fall programming included the new “Soul Sessions” music series, dance performances by Philadanco and Ailey II, and *The Piano Lesson*, August Wilson’s fourth play and 1990 Pulitzer Prize–winner. On the building’s exterior, the “I Am August” installation showcases 150 portraits of Pittsburgh residents of all races—part of Brazilian photographer Angélica Dass’s ongoing *Humanae* project. According to the Pittsburgh Cultural Trust’s website, “This project, which includes a collection of community stories, performances and events, takes a first step toward a vision for an August Wilson Center that boldly celebrates community in the spirit of the center’s namesake, August Wilson.”

The DeVos Institute’s research is clear: “Arts organizations of color are, in general, much less secure and far smaller than their mainstream counterparts.”²³ Yet the same factors that underlie their frailties, such as the underrepresentation and marginalization of the populations they represent, are precisely those that make support for them so critical. Cohen cites Randall A. Williams and Michael Worth of George Washington University saying that to address this problem African-American cultural institutions require “an internal reorientation of missions and staff, as well as an external infusion of funds and experience.”²⁴

The August Wilson Center is attempting just such a course correction. Its public and private

partners have provided the funding to safeguard its assets and allow a fresh start, and a new board and ownership structure promises to make the best use of directors' diverse management and cultural expertise. But, as Cohen has written, African-American cultural organizations' survival depends on "what they do for and how they connect with their local communities."²⁵ Pittsburgh citizens from every sector have joined forces to give the August Wilson Center a second life. Time will tell if it lives up to its potential.

• • •

As president of the Association of African American Museums and director of African American Programs at the Senator John Heinz History Center, Samuel Black holds a unique perspective on the importance of African-American cultural institutions, as well as their potential shortcomings. Black emphasizes that one of the benefits of a place like the August Wilson Center is that it not only serves the public through programming

but can also be a training ground for African-American young people who aspire to careers in the field of arts and culture.²⁶ Both Cohen and the DeVos Institute point to the overall lack of people of color in the arts management field as one of the main uphill battles these organizations face. Black confirms this scarcity, noting that while African Americans make up a quarter of Pittsburgh's population, they only comprise about 5 percent of employees at the Heinz History Center, and even less at other cultural organizations in the city.

A place like the August Wilson Center shows young people that a career in arts and culture is a possibility, and provides an opportunity to work toward that future. In 2010, the Association of African American Museums (AAAM) held its annual conference in Pittsburgh, at the newly opened August Wilson Center. At the time, it was the group's best-attended conference in a decade, and Black feels the venue was largely responsible for that success: "People wanted to see the August Wilson Center and be engaged with it." It comes as no surprise that the grand 65,000-square-foot

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state-of-the-art facility, designed—according to architect Allison Williams—to represent “power and pride,” would serve as an inspiration to AAAM’s membership.²⁷ And, while its reincarnation story is not yet complete, the August Wilson Center has a chance to inspire a new generation of leaders in the field of African-American arts and culture.

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Rebirth of a Birth Center

by Sara Grawe and Shujia Gu

The Holy Family Services model values mission and passion over systems—of leadership, accountability, and support. But in order to evolve, this organization must find the right balance between passion of purpose and structural integrity that will support its unique needs.

Editors' note: *Just as humans have identifiable phases of development, so do nonprofits. The first of these phases is generally described as very informal. Key leaders are entirely focused on mission and those being served.*

These organizations tend to be very attractive to funders and volunteers. This is when the DNA of the organization is largely established, so that focus makes perfect sense; but at some point, around year three to five, many organizations

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Since its founding,
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begin to understand the need to anticipate problems that may occur as a result of a lack of systems. Not so Holy Family Services. Twenty-three years in, the sisters were convening board meetings only rarely.

Up until 2006, leadership was provided by the sisters, but once they retired, the board looked for new “saviors,” expecting to maintain its habitual lack of involvement once new leadership had been located. As is often the case when a strong founder or founder group leaves, the coleaders hired to replace the nuns failed spectacularly in an atmosphere that did not understand or value systems of accountability. The board was finally forced to step in and take operations leadership for a time before the organization was able to regain its footing.

Some types of organizations tend to stay in a first stage longer than others; faith-based organizations are one of them. Holy Family Services has the added component of being a highly valued community of service—and a highly centered one—meaning that many staff members and volunteers live and work together. The description of the volunteer opportunities are as follows: **“Service Length**—We would like a one year commitment. Other commitment lengths will be considered; **Requirements**—Texas State Licensure for Nurse-Midwives and Registered Nurses. Minimum of a High School education for the other placements; **Financial Arrangement**—Monthly stipend up to \$350, to include food costs. For all: room/board, shared use of a car, health insurance if not presently on a family member or spouse’s insurance and two to four weeks of initial orientation; **Living Arrangements:** Each person has their own room furnished with a bed, dresser, desk, chair, ceiling fan, and wall heater. Window A/C units are available. The kitchen, living room, dining room, chapel, screened patio, and laundry facilities are shared. Large outdoor space with gardens and walks to be enjoyed.”

This, then, is a collectively fueled faith-based organization with a circulating base of volunteers that are at the core of the mission—a model that some might be driven to try to overly formalize in ways that do not support what makes the organization what it is. But if you start from the passion and move outward to systems of accountability

and support—building more systematic leadership succession plans—progress is there to be made. For instance, the case description portrays the buildings in which staff live and work as requiring renovation. This presents the need for a more future-oriented planning process that, while it may be a strain for the organization, presents an opportunity to more fully embrace a structure that fits the organization’s unique needs.

HOLY FAMILY SERVICES (HFS), INC. IS A NON-profit birth center in Weslaco, Texas, along the Texas–Mexico border. It provides women’s healthcare, labor and delivery services, breastfeeding support, and newborn care. The longest-licensed free-standing birth center in Texas, Holy Family first opened in 1983 under the direction of four Catholic sisters: Angela Murdaugh, Mary Thompson, Damien Francois, and Ann Wojtowicz. Holy Family differs from many birth centers in that the majority of services are provided to uninsured or underinsured clients; nearly 80 percent of the patients use Medicaid or fall under the self-pay category.¹ In addition, most of the clinic’s medical providers are volunteers who live on-site. Holy Family’s stated mission is as follows: “To provide maternal and infant care within the context of the family. Services will be rendered in a God-centered atmosphere of compassion and love. Every individual, as God’s creation, has the right to safe, satisfying health care with respect for human dignity and cultural variations. The individual has the right to self-determination, to adequate information, and to achieve participation in all aspects of care.”²

Since its founding, thirty-two years ago, Holy Family has become well known across the United States for serving the healthcare needs of families in the Rio Grande Valley, as well as acting as a unique practice location for healthcare professionals and clinical learning site for student midwives and nurses. But the model birth center faced significant leadership and financial hardships over the past ten years. The founders retired, and three years later the new management was found to be embezzling organization funds. Holy Family came close to

shutting down, but the organization was able to overcome the crisis by focusing on its mission, increasing the level of involvement of the board of directors, and developing a strategic plan for survival.³

Crisis

While under the direction of the sisters, the board held meetings only as often as required to meet the minimum state requirements. These meetings were led by the founding sisters and used as an opportunity to update the board of directors on the status of the birth center, but the board was not largely involved with making decisions or providing oversight.⁴ Leadership was very strong, but it was almost entirely in the hands of the sisters.

When the founding sisters retired—the final sister in 2006—Holy Family entered a time of turbulence. The board hired a clinical director and an operations director to take on coleadership, but the board continued to be largely uninvolved, allowing the new leadership full management of the birth center. The clinical director was responsible for supervising clinical staff and attending births, yet she had poor rapport with patients and staff. Her performance had even resulted in some patients leaving the practice. She was dismissed in 2009.⁵ The clinical director's firing put the birth center at risk of closure, since the center could not properly operate without a birth provider. As a result, the center was not able to accept new clients until a new graduate certified nurse-midwife (CNM) came on board to provide temporary clinical coverage.⁶ (The board of directors then became more involved in the clinical aspect of the organization, due to a state requirement that a Texas-licensed CNM be present at every birth. Two of the board members, who were also CNMs, alternated attending births of clinic patients when provider coverage by a Texas-licensed CNM was otherwise unavailable.⁷) Between FY2008 and FY2009, eight members, including a few sisters and a reverend, left the board.⁸ In September of 2009, "Franciscan nuns came and officially handed over Holy Family," releasing the birth center into the hands of the current staff, volunteers, and board.⁹

In November 2009, while the clinical director position was still vacant, Holy Family staff discovered that the operations director was embezzling large amounts of money from the organization. The embezzlement had been enabled by the operations director's almost wholesale autonomy due to the absence of a clinical director and continued lack of oversight from the board. Staff members discovered the embezzlement when the operations director began exhibiting suspicious behavior: late payments, staff stipends paid in cash, counterfeit checks, late notices for clinic bills, and empty clinic bank accounts.¹⁰ The operations director took nearly \$140,000—over half of the clinic's total 2009 revenue of \$236,221, including program service revenue, grants, and donations. Holy Family ended the year with only \$14,927 in liquid assets, compared to \$141,867 in liquid assets in 2007, prior to the operations director's tenure at Holy Family.¹¹ Staff were prompt in reporting their concerns to the board, and the operations director was summarily dismissed.

Immediately following the embezzlement, the IRS began assessing rapidly escalating penalties, which increased the financial burden on the clinic. Holy Family awaited the results of the trial of the operations director, hoping that the IRS would waive the penalties and require the ex-director to repay the stolen funds. In the meantime, the organization had to come up with a plan to rescue the clinic from closure.

Crisis Management

To address the leadership and financial crises that left both the clinical and operations director roles vacant, Holy Family board members and staff banded together to create a strategic plan. Throughout the crisis, Holy Family had remained mission driven and had continued to meet the needs of patients and fill the voids in administrative duties—all while compiling evidence to use in the trial.¹² The board continued to be more involved in clinical aspects of the organization, and became more involved in operational tasks, too. The board increased its collaboration with staff members, began to meet on a weekly basis, and provided additional oversight to the clinic—in part by bringing in a new board

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member with financial acumen to help address the embezzlement.¹³

The strategic survival plan included multiple approaches. Holy Family implemented cost savings wherever possible—including canceling garbage service for the clinic—which meant that staff had to transport all trash to the landfill.¹⁴ At a staff member's suggestion, the board gave permission to hold a yard sale and “sell everything not nailed to the floor,” including cars and clinic supplies—which helped relieve some of the immediate need for financial resources.¹⁵ (The yard sale was such a success, in fact, that it has become an annual tradition.) In addition, temporary leadership positions were assigned to active staff members until a replacement permanent clinical director could be found.¹⁶ Lastly, to repay the IRS the embezzled funds, Holy Family took out loans from two board members, totaling \$40,000. Of these two loans, one is still in place, with \$16,290 remaining due.¹⁷

Current State

A new director was hired in 2011, and she has brought strong leadership to Holy Family; but the organization is suffering from the results of the board's laissez-faire approach, lack of succession planning/mentoring of new leadership, and minimal oversight. Had the board been actively engaged in strategy formulation for leadership succession before the last founding sister retired, been more involved in the day-to-day operations during the transitional period after hiring new leadership, and made sure that financial systems or safeguards were in place, the embezzlement may not have occurred—or at least may have been discovered and stopped at the onset.

But despite the hardships, Holy Family has been able to recover. It now has strong leadership and a steady supply of providers, and is more financially stable. That stability has gone a long way in helping the organization to heal from the crisis and move forward. Despite strict attention to finances following the embezzlement, the clinical director has had to temporarily defer her own salary on occasion to maintain cash flow as Holy Family continues to recover¹⁸—but the nurse-midwifery fellowship program, so important to

preservation of the birth center's overall mission, is flourishing with supportive leadership; and although the finances have not returned to their pre-embezzlement levels, in 2014 Holy Family was able to initiate a scholarship program to help current employees complete education programs if they commit to continue working at the birth center after graduation.

A Path Forward

Now that Holy Family has strong leadership in place, the focus must shift to the development of a long-term strategy that will allow for sustainability while remaining mission driven. The organization has additional challenges to face ahead, such as maintaining strong leadership, recruiting paid staff, and increasing funding. Devotion to the mission has rewarded Holy Family with sufficient staff and volunteers in the present, and it will be important to maintain the organization's commitment to the mission in the future in order to continue to attract new staff members and volunteers.

But while the mission helps to attract providers and staff, that same mission, which involves serving mostly poor and uninsured patients, results in low reimbursement rates, which makes financial stability more difficult to reach. This means that Holy Family must rely heavily on its volunteers for clinical care. The clinical director and one senior certified nurse-midwife are the only providers who receive a salary; other providers receive a monthly stipend to cover basic necessities. In addition, of the staff who are paid, most are not paid at the market rate.

Another financial challenge centers on Holy Family's real estate. Many of the buildings on Holy Family's property are in need of replacement or renovation. Upkeep of these buildings is critical to the survival of the clinic, both in order to increase the number of clients paying with private insurance—which reimburses higher than Medicaid and self-pay clients—and, as the clinical providers and other volunteers live on-site, to keep the buildings in the shape needed to ensure a steady supply of medical staff. An improved fundraising capacity will likely be necessary in order to obtain the significant moneys the organization will need to improve salaries and ensure

adequate infrastructure. But if Holy Family can take the lessons learned about succession planning, maintaining active board involvement, and providing ongoing mentorship and oversight to the birth center leaders, and move forward with a stronger capacity all around, it should have a good chance of continuing to be the highly valued institution it proved itself to be three decades ago and counting.

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Network as the Form: *Reconfiguring Architecture for Humanity*

by Josh Bevan, Sonja Lengel, and Joseph C. Mester

Architecture for Humanity came close to becoming an intriguing footnote in organizational history. Now that its network has become its new form, this multihub community is poised to carry the original mission into a more resilient future—that is, so long as it maintains its current developmental trajectory.

Editors' note: *In the changeover from the industrial era to the knowledge era, networks have become an increasingly favored form of organization—they can spread an approach and learning quickly among communities of practitioners. In the case of Architecture for Humanity, an attractive idea brought people into conversation and common cause globally—and, when the original “hub” of the hub-and-spoke activity began to fail, the network quickly changed to a multihub system that is less frail but will*

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require careful knitting. As Valdis Krebs describes in “Building Adaptive Communities through Network Weaving” (nonprofitquarterly.org/2005/10/21/building-adaptive-communities-through-network-weaving/), “Now that other hubs are emerging in the network, the various weavers begin to connect to each other, creating a multi-hub community. Not only is this topology less fragile, it is also the best design to minimize the average path length throughout the network—remember, the shorter the hops, the better for work



At the organization's peak, AFH had over sixty of these chapters—each a volunteer branch office that consisted of dues-paying members, with at least one architect in the mix.

flow, information exchange, and knowledge sharing! Information percolates most quickly through a network where the best-connected hubs are all connected to each other. A network with many hubs is also very resilient and cannot be easily dismantled.” But, Krebs cautions, turf or political issues are a real threat to this phase of network development.

FROM 1999 TO 2014, ARCHITECTURE FOR Humanity (AFH) worked in over forty-four countries, built more than two thousand structures, served over two million people, and established nearly sixty chapters of design professionals around the world.¹ Amid this success, AFH’s U.S. headquarters filed for Chapter 7 bankruptcy in January 2015. This case study looks at the origins of, and factors that led to, the “death” of the best-known humanitarian architecture organization in the world. However, it will also reveal that AFH is regenerating via its worldwide network of chapters, which it had begun developing around 2004, and which gathered more formally under the name Architecture for Humanity Chapter Network upon AFH’s closure.²

Origins

In the summer of 1999, Cameron Sinclair, architect and writer, and Kate Stohr, digital media producer, observed a need to aid the refugees returning to war-torn Kosovo, following the withdrawal of Slobodan Milosevic’s Serbian forces brought on by NATO’s political pressure and bombing campaign. Refugees were returning to ruins without adequate housing; AFH was conceived with the goal of providing design solutions to the devastated population. The solutions implemented by AFH came from an open design contest that led to the erection of shelters for the refugees. The success of the Kosovo project led to more projects for AFH, both in the United States and abroad.³

From its modest beginning in Sinclair and Stohr’s three-hundred-square-foot New York apartment, AFH grew by 2011 into a business of thirty-six paid employees and numerous volunteers located in downtown San Francisco.⁴ Its

growth as an organization was not limited to its San Francisco office but also included a confederation of chapters based on an “open-source model of business.”⁵ At the organization’s peak, AFH had over sixty of these chapters—each a volunteer branch office that consisted of dues-paying members, with at least one architect in the mix.

The chapters were independently registered charities that relied upon the corporate entity of AFH for institutional support, which included branding, access to a bank account, online/web support, general liability insurance, and the name recognition of being associated with Architecture for Humanity.⁶ Although AFH provided support, the chapters functioned as autonomous entities, without much communication between headquarters and fellow chapters.⁷ AFH had developed the chapters as a way to maintain the organization’s capacity to manage projects around the globe. The chapters were established to identify local problems and design local solutions, as the organization aimed to provide a combination of grassroots-inspired, socially responsible design that used local expertise to realize projects. Membership and chapter growth flourished in the years before AFH filed for bankruptcy—so much so that in 2011 Sinclair stated that AFH had “built an army” of volunteers and professional designers.⁸

As time progressed, AFH expanded its vision beyond design/build ventures, committing to projects that would function as job stimulation packages for the at-risk communities it served. The organization would send designers to work alongside residents in what AFH considered to be long-term investments of four to five years—compared to the earlier design/build projects of just a few years each. AFH’s efforts in Haiti after the severe 2010 earthquake followed this new vision; in March of that year, AFH headquarters established a field office in the Haitian capital, Port-au-Prince. With this new office, AFH “not only provided architectural services themselves, they also helped to corral the talents of Haitian architects and builders, as well as training and employing hundreds of Haitians to carry out their projects.”⁹ AFH’s inventiveness in Haiti led to the completion of numerous construction projects

between 2010 and 2015 that positively impacted the lives of over a million Haitians.¹⁰

Because AFH was expanding the vision and scope of its work, this caused a strain on its finances. Fundraising was not keeping up with the needs of the organization, which would be the cause of its downfall.

Leadership Change and Financial Challenges

In the midst of success in Haiti, the AFH cofounders Sinclair (also executive director) and Stohr (also advisor to the board of directors) decided to leave the organization. According to a press release published by *Archinect*, Stohr and Sinclair were leaving to “explore new ventures.”¹¹ The release went on to state that Stohr planned to resume her career in media production.¹² Sinclair further explained why he left the organization in an interview with *Dezeen*: “I was trained to be an architect, but I was never expected to be an architect—I was just managing people. [. . .] It became less fun and for me creatively it was not fulfilling at all.”¹³

Before their departures, in 2013, they worked alongside the board to craft a five-year strategic plan.¹⁴ AFH’s leadership articulated the vision that “within five years Architecture for Humanity will plan, design, and build beautiful, sustainable spaces [that] both shelter and inspire—and in doing so, [. . . would] collectively improve the lives of one million people.”¹⁵ The vision was aligned with the organization’s mission: “Building a more sustainable future using the power of design through a global network of building professionals Architecture for Humanity brings planning, design and construction services to communities in need.”¹⁶

Five strategic priorities were enumerated in the plan by AFH leadership as the next steps to bringing the five-year plan to fruition:

1. Ensure design excellence. Because good design builds community equity.
2. Establish lasting community presence. So that we can deepen our impact while continuing to work locally.
3. Grow general fundraising. In order to increase strategic flexibility and decrease risk.

4. Measure and communicate our impact. So that we may position the organization to better attract capital partners and talent.

5. Offer expanded community development services. So that we may better meet the needs of the underserved communities and create more opportunities for great design.¹⁷

The priorities demonstrated the desire for AFH to pursue excellent design and community impact into the foreseeable future; but they also illustrated some of the organization’s weaknesses, such as the inadequate fundraising for general operations and the lack of communication between chapters.

The responsibility of fulfilling the vision outlined in the strategic plan went to Eric Cesal, the executive director appointed by the AFH board to succeed Sinclair. Cesal supported the mission and vision of AFH, as he saw providing assistance to troubled communities, education to at-risk communities, and training and mentorship to empower designers to change the world as key tenets of the organization.¹⁸ Unfortunately, AFH would file for bankruptcy before the conclusion of Cesal’s first year at the helm. According to an interview with *Architectural Record*, Cesal stated that he had entered into the directorship of an organization that was \$2.1 million in debt. He observed that the organization had been borrowing from its “restricted program dollars to fund unrestricted projects.”¹⁹ This internal borrowing created a debt that Cesal and the board saw as insurmountable.

According to AFH’s filings with the IRS, between 2008 and 2013 administrative expenses grew almost fivefold—from \$210,888 to \$1,080,422. And, over the same timespan, fundraising expenses increased more than tenfold—from \$57,492 in 2008 to more than \$592,000 in 2013.²⁰ These increases were aimed at supporting the demands of an expanding international outreach. Additionally, given the organization’s successes in Kosovo, Haiti, Japan, and Rwanda, its desire to respond to natural disasters—events that do not allow for long-term financial planning—likely pressured budgets. Clearly, the founders’ passion was for maximizing social impact. However, when analyzing AFH’s growth over its inaugural decade,

AFH’s leadership articulated the vision that “within five years Architecture for Humanity will plan, design, and build beautiful, sustainable spaces [that] both shelter and inspire—and in doing so, [. . . would] collectively improve the lives of one million people.”

The closure of AFH headquarters in January 2015 led to a flurry of e-mails, tweets, phone calls, and digital meetings between chapters caught completely off guard by the sudden action in San Francisco.

Financial Snapshot, Architecture for Humanity, 2010–13 ²¹				
YEAR	CY 2010	CY 2011	2012*	FY 2013
Total Revenue	\$5,934,202	\$7,172,577	\$5,939,094	\$12,011,838
Total Expenses	\$4,693,203	\$6,611,194	\$3,633,035	\$8,667,036
Net Income	\$1,241,149	\$561,383	\$2,306,059	\$3,344,802
Total Contributions	\$5,704,220	\$6,828,824	\$5,842,239	\$11,718,676
Executive Compensation	\$214,000	\$362,333	\$153,086	\$539,302
Net Assets	\$2,964,008	\$3,525,391	\$5,831,450	\$9,838,962

*In 2012, AFH switched from a calendar budget year to a fiscal budget year. FY 2012 refers to IRS filings relating to the period January 1 to June 30, 2012.

it is crucial to consider how broadening outreach to global networks—a mission that combined design and socioeconomic factors and a seemingly unending queue of constituents requesting assistance—impacted the financial health of the organization. Only about 30 percent of projects proposed to AFH could be accepted due to high demand and limited resources.²²

The table above shows the growth of AFH's net assets year-over-year from 2010 through 2013. This data, however, does not detail the internal financial issues that developed and ultimately led to the organization's bankruptcy and closure. AFH's financials do not overtly reveal the glaring \$2.1 million deficit identified by Cesal, as the overall cash flow hid what appeared to be internal borrowing that hamstrung the organization. Cesal and Sinclair both hinted in separate 2015 interviews that the deficits were the result of unchecked growth that stretched or exhausted resources, leading to this internal borrowing from designated funds. Although Sinclair stated that there hadn't been a deficit during the first fourteen years of AFH, Cesal identified the presence of financial issues as early as 2011, and noted that the debt grew exponentially over 2012 and 2013.²³ Arguably, this debt was the catalyst for the strategic priority of general fundraising identified in the five-year plan.

Reincarnation

The closure of AFH headquarters in January 2015 led to a flurry of e-mails, tweets, phone calls, and

digital meetings between chapters caught completely off guard by the sudden action in San Francisco. The chapters interested in continuing the work of AFH organized an "independent congress" in early February 2015, led by Rachel Starboinsky, managing director of the New York chapter, and Garrett Jacobs, a former codirector of projects at AFH headquarters.²⁴ Out of this congress, a quasi-grassroots collaborative, Architecture for Humanity Chapter Network ("Chapter Network"), was organized, with Jacobs serving as acting chair. In an e-mail to Laura Raskin, writing for *Architectural Record*, Jacobs wrote that Chapter Network was establishing "a transitional steering committee with representatives from every region of the network."²⁵

This collaborative determined that a more diverse approach to bringing "needs based, participatory design" to communities in need was essential. Identifying the desire to move beyond architecture and increase inclusivity in order to encourage business incubation through "collectively mobilized, collaboratively led" partnerships, Chapter Network articulated its early vision for continuing humanitarian design.²⁶ It should be noted that this approach is not a far cry from Sinclair's vision for humanitarian design highlighted in his 2011 TEDxVienna talk.²⁷

Alicia Breck, transition coordinator, was hired in June 2015 with funds from a Curry Stone Foundation grant, to shepherd the new organization through its rebirth.²⁸ According to Breck, the similarities between AFH and the reorganized Chapter

Network are numerous, with the most significant difference being a focus on domestic projects instead of international ones.²⁹ Although the international projects put AFH in the spotlight, the toll those projects took on the organization over the last five years cost it its existence.³⁰ Chapter Network is still in the planning stage, and Breck indicated that the leadership recognizes that the new mission has to look at “how design impacts people,” while placing the organization within the international “public impact design movement.”³¹

Collaboration, transparency, and the provision of open-source information are driving the transition process. This activity is aimed at chapters learning from each other with common project experiences and related challenges across the globe, a technique that was uncommon in the previous relationships between AFH headquarters and chapters. This collaborative effort is further enhanced by a steering committee that considers what aspects of the AFH mission to continue while also establishing structures for long-term governance.³²

Breck sees the reincarnated AFH as an organization geared for cross-sector collaboration. Multidisciplinary impact requires a greater diversity of leadership growing out of architecture and other areas, including community development, economics, and urban planning. The new organization is in the process of renaming and rebranding as it transitions from AFH’s independent chapters to a more collaborative alliance.³³ Chapter Network’s new mission statement, “Foster local grassroots design coalitions to serve communities in need,” defines its direction as a nonprofit focused on impactful design and community development for the public good.³⁴ In an interview for this article, Breck discussed diversifying revenue streams (grants, crowd-sourcing, and matched donations) and breaking from relying primarily on project-specific funding (which AFH had been doing before the bankruptcy), in order to meet Chapter Network’s financial needs. She also identified the need for accountability regarding the organization’s overhead costs.

The movement of Chapter Network from the past toward the future is best summed up by

Jacobs, in an April 2015 interview with Design Build Network: “I am very proud of the resiliency of the chapters to continue on with virtually no support from the headquarters [...] I am also exceedingly impressed with the chapter leaders’ ability to agree on the best path forward. Over the past ten years the chapters have been virtually autonomous, without much contact with one another; now with exuberant energy we are gathering and coming to consensus without much hesitation.”³⁵

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Why Funding Overhead Is Not the Real Issue: The Case to Cover Full Costs

by Claire Knowlton

As the author explains, “By abandoning overhead, we free up limited nonprofit capacity to focus on more important measures. With the coming sector-wide shift toward outcomes-based measurement, this capacity is needed now more than ever.” This article outlines four things each that nonprofits and foundations can do to end the “Doom Loop” of underfunded full costs.

BIG STRIDES HAVE BEEN MADE recently in the acknowledgment that overhead ratios are poor indicators of an organization’s impact or financial efficiency. Although the movement toward outcomes-based measurement offers a promising alternative to understanding impact, very little has been done to truly shift the sector’s understanding of what it takes—or even means—for nonprofits to be financially efficient and adaptable. The myths and misinterpretations of the true full costs of delivering vital programs have contributed to a chronically fragile social infrastructure for our communities.

Now more than ever, as the call to achieve high standards of outcomes-based measurement grows, we must hold ourselves to an equally high standard of understanding nonprofits’ full costs. This article is meant to encourage nonprofit executives and boards to know

and advocate for their full costs, and to urge the philanthropic sector to structure funding with greater consideration for the full context in which its grantees are operating. We look forward to the day when nonprofits and funders have embraced the concept of full costs, which include far more than direct program expenses and so-called “overhead.”

Overhead as a Parental Control

Many foundation leaders now understand that overhead is part of the real, necessary costs of delivering quality programs. Funders large and small have shifted grant strategies to fund overhead. In 2013, Charity Navigator, GuideStar, and the BBB Wise Giving Alliance spoke out against the myth that overhead spending is a meaningful way to evaluate nonprofit performance.¹ Even the federal government, at the end of 2014, began *requiring* federal grants to cover nonprofit overhead costs.

Yet, it seems practice is lagging behind public discourse: In Nonprofit Finance Fund’s Annual State of the Nonprofit Sector Survey 2015, only 7 percent of nonprofits report that foundations always cover the full cost of the projects they fund; while decrying the overhead ratio as a “poor measure of a charity’s performance,” Charity Navigator still includes the overhead ratio as the very first financial performance metric in its evaluation; and the federal government set a pitifully low default overhead reimbursement rate of 10 percent. In other words, funders and watchdogs (and probably even nonprofits themselves) are not “there” yet in recasting overhead as an essential cost of providing services—and we have farther to go than you might think.

Imagine if your personal paycheck were like a restricted grant. Instead of representing your value and level of responsibility in the company, your paycheck

is based on a predetermined line-item budget that details exactly how you can spend your earnings. A portion of your paycheck can be used for rent, some for utilities, but most is earmarked for business attire, transportation to work, and coffee to keep you productive throughout the day. The thinking here is that by tying your paycheck to the expenses that contribute to your work, the company is making sure that you will show up on time, appropriately caffeinated, and properly dressed. It's as if every penny of your paycheck is spent before you cash it.

To some extent, you had a say in your paycheck budget. In fact, you had to present a proposed paycheck budget when you applied for the job. Your friends on the inside said no one who spends more than 20 percent of his or her paycheck on rent has ever been hired. To get the job, you cut your rent line item. That means making do with an efficiency unit above an all-night bowling alley, but it's better than not having a job at all. Some line items were nonnegotiable from the start: As a policy, your company won't pay for haircuts; but that's okay—you can let your hair grow long.

At the end of the year, the company assesses your job performance by comparing your actual spending to the line-item budget. Your spending is carefully scrutinized for fluctuations of 10 percent or more, and your job is in jeopardy if it fluctuates too much. You know this measuring of line-item expenses doesn't say much about the value you created for the company. You are pretty certain you would be more productive if you could just get a good night's sleep, but that would mean moving away from the bowling alley, and that would put you over budget and in danger of being fired.

The company doesn't feel great about measuring your line-item expenses either. They know it's not a great proxy for your productivity, and the truth is they actually

want to pay you based on a true measure of value. Unfortunately, they just aren't sure how valuable you are. They've asked you for the data, but you don't have a system to track it—not to mention, you tend to show up to work a little worse for the wear. You always seem tired and your hair looks rather unkempt. (Don't you know someone who will cut your hair for free? The other employees do.)

If we start to fully fund nonprofits for their day-to-day program *and* overhead expenses, and abandon overhead measurements as a proxy for mission fulfillment and efficiency, it's the equivalent of giving nonprofits control over their paycheck. With the flexibility to manage their own funds they can make better spending decisions—like moving away from the bowling alley, not spending so much on business attire, and finally getting a haircut. Despite the fact that they are spending less on items that “directly support the work” (business attire, coffee) and more on “overhead” (rent, haircuts), the nonprofits can make smarter spending decisions that actually let them produce more value. Without a doubt, this arrangement would be a huge improvement over the status quo.

This is where the conversation has generally stopped—as if we had reached the answer: When nonprofits are able to cover their overhead with flexible funding, they do better work for communities; fund overhead, and we will have the healthy, resilient nonprofit sector we need to make real social change. But in our paycheck example, recall that every month, you spend your entire paycheck down to the penny. After you pay all your expenses—including rent for your new apartment and your monthly haircut—your bank account balance is \$0. You set aside nothing for emergencies, nothing for retirement, nothing to replace your aging car in a few years. You have no savings. You have no safety net.

Herein lies the danger of the focus on funding overhead: we may think we've arrived once nonprofits “gain control of their paycheck,” and forget that resilient nonprofits need a safety net. Nonprofits need to be paid for their *full costs*.

What Will We Gain When We Stop Talking about Overhead?

This article will never provide a clear definition of overhead. Unfortunately, we can't. While overhead is most commonly thought of as the expenses presented as management and general and fundraising functions on Form 990s or audited financial statements, the accounting guidance to determine which expenses belong to which function is so vague that reasonable people make wildly different determinations about how to allocate expenses across functions. What ends up classified as overhead is so open to interpretation, even manipulation, that we cannot provide a useful or consistent definition.

McGroarty Arts Center, where I was executive director from 2005 to 2013, provides an excellent example of just how difficult it is to determine which costs are overhead and which are program. Ceramics students at the small Los Angeles center wanted to raise money for new studio equipment. They created the Annual Ceramics Exhibition and Benefit—a volunteer-driven fundraiser that exhibits curated work of emerging ceramic artists. Is the event a fundraising expense? In some years, the Annual Ceramics Exhibition and Benefit barely breaks even—but the event is so highly mission-aligned and impactful that the center was committed to the event whether or not it made money. So is it a program expense? As the event grew in popularity and artistic reputation, the staff devised ways to capitalize on its momentum. Guided gallery tours are arranged for local schools and senior

centers, and private receptions are held in the evening for the organization's most important donors. Fundraising expense?

The accounting guidance does not tell us how to allocate the Annual Ceramics Exhibition and Benefit expenses across functions. The art center struggled to present the event expenses accurately, treating it as a fundraising expense in some years, a program expense in others. Some years, the art center came up with complicated rationales for allocating a portion of expenses across functions. Each year, the center consulted with tax accountants and auditors. Each year, it was told that its allocation was reasonable. The center would have been better served to allocate the entire event to programs and use its limited staff time on something beneficial to the organization. But the center's leaders desperately wanted to be truthful and abide by the rules.

Nonprofits spend far too many resources attempting to report their functional expenses honestly. Costly time studies and complicated time sheets are used to determine how many hours each staff member spends on programs. Organizations build and maintain complicated accounting structures so every expense can be reported by function. A simple phone bill is recorded in the books as a lengthy journal entry of functional allocations, with back-up detail for the auditor to test at the end of the year. To what end?

The reporting of functional expenses exacerbates the myth that, somehow, nonprofits should be able to operate programs without an administrative structure to manage, measure, and execute. It implies that, by some as-yet-unknown magic, nonprofits should be able to achieve their mission without dedicated and systematic fundraising efforts to pay for it. The attempt to

segregate interwoven and complementary expenses according to the function they serve is an exercise in futility. The truth is, all resources spent by a nonprofit are spent in order to successfully deliver on programs (with obvious exceptions made in cases of fraud). Certainly, not all spending in a nonprofit is efficient; but functional expenses tell us nothing about efficiency.

By abandoning overhead, we free up limited nonprofit capacity to focus on more important measures. With the coming sector-wide shift toward outcomes-based measurement, this capacity is needed now more than ever.

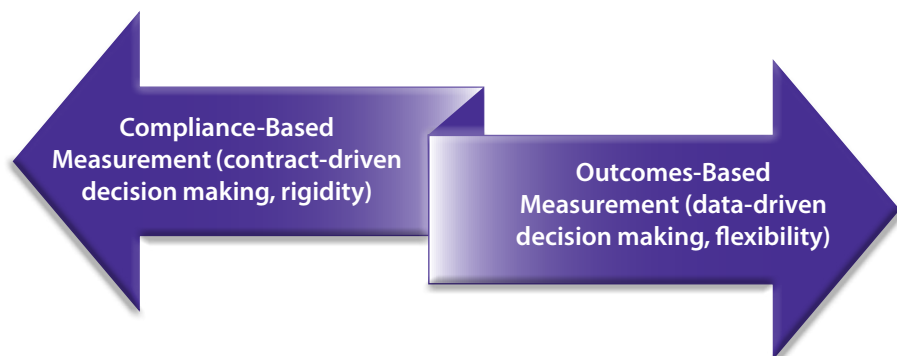
Why We Can't Live above the Bowling Alley Anymore

Remember when you couldn't control your paycheck, so you lived above the bowling alley? It wasn't ideal, but your housing choice allowed you to keep your job. Yes, you were always tired, and that meant you weren't as effective in your work as you could have been, but you weren't measured on your productivity; you were measured on compliance. But what if you were measured on both compliance *and* productivity? What would you have done? The two measurement standards are at odds with each other. You won't be in compliance with your paycheck line-item budget if you move away from the bowling alley. But you certainly won't meet your productivity

measures if you can't sleep well at night. This impossible future is looming for nonprofits—if we don't head it off first.

As the sector moves toward outcomes-based measurement, we have to move away from compliance measures like overhead ratios and restricted budgets. The nonprofit sector can't "live above the bowling alley" *and* be expected to achieve results for its communities. To meet outcomes, organizations must be flexible and make a healthy investment of funds and staff capacity in the systems that allow organizations to track their impact over time. *Outcomes-driven* decision making requires organizations to pivot and shift quickly as the environment around them moves or as new information becomes available; *compliance-driven* decision making requires adherence to rigid rules, even in the face of changing needs. The two are incompatible.

More and more funders are expecting the programs they fund to deliver measurable change or impact. The cost associated with developing, testing, maintaining, and, ultimately, reporting outcomes is terribly expensive, and usually underestimated. When you gained control of your paycheck, you were able to make fluid and smart decisions—like moving away from the bowling alley—without worrying about a poor performance review. Let's be sure nonprofits can do the same.



Full Costs: A Focus on Mission and Outcomes

We've been so distracted by the discussion of whether nonprofits should just be able to pay their day-to-day operating expenses (and how)—including overhead—that we've mostly ignored the need for nonprofits to generate enough surplus to reinvest in the organization's immediate and future health. After revenues are used to pay day-to-day operating expenses, surpluses should pay for:

- Cash to meet liquidity needs like paying bills on time (working capital);
- Cash or liquid investments to protect against reasonable risks and take advantage of new opportunities (reserves);
- New furniture, equipment, or buildings (fixed asset additions); and
- Debt principal repayment.

Full costs include day-to-day operating expenses (both program and overhead expenses) plus a range of balance sheet costs for short-term and long-term needs. Let's use this formula to think about full costs:

Day-to-day operating expenses + working capital + reserves + fixed asset additions + debt principal repayment = full costs

Paying nonprofits their full costs is how we prevent crises and interrupted services for communities and allow leadership to stay focused on mission and outcomes. Anyone who has worked in a cash-constrained nonprofit knows that when a cash-flow crisis hits, mission stops, strategy stops, and all the energies of management and board are diverted to moving up receivables, delaying payables, and securing cash however they can. Appropriate working capital prevents program disruption due to cash flow shortfalls.

Revenue streams in the nonprofit sector can be unpredictable, even fickle.

An organization should not have to pass up an amazing opening to move its mission forward because it can't secure the upfront cash quickly enough. The loss of a major funder should not trigger the immediate, irresponsible shutdown of essential programs. Appropriate reserves allow organizations to respond to opportunities and risks in a strategic and thoughtful way that protects their communities and moves their mission forward. (For any funders worried about an organization becoming dependent on your support, think about whether it has the reserves to reposition itself in the absence of your funding.)

An organization with aging technology loses valuable staff time—and sometimes irreplaceable data—struggling with frustrating work-arounds and inefficiencies. A facility-owning organization with a plumbing emergency will experience significant staff distraction and may have to temporarily suspend activity while the cash can be found to hire the plumbers to make the repairs. It's a safe bet that when the toilets aren't working, neither are the programs.

Used wisely, debt can help an organization fund a capital project or bridge

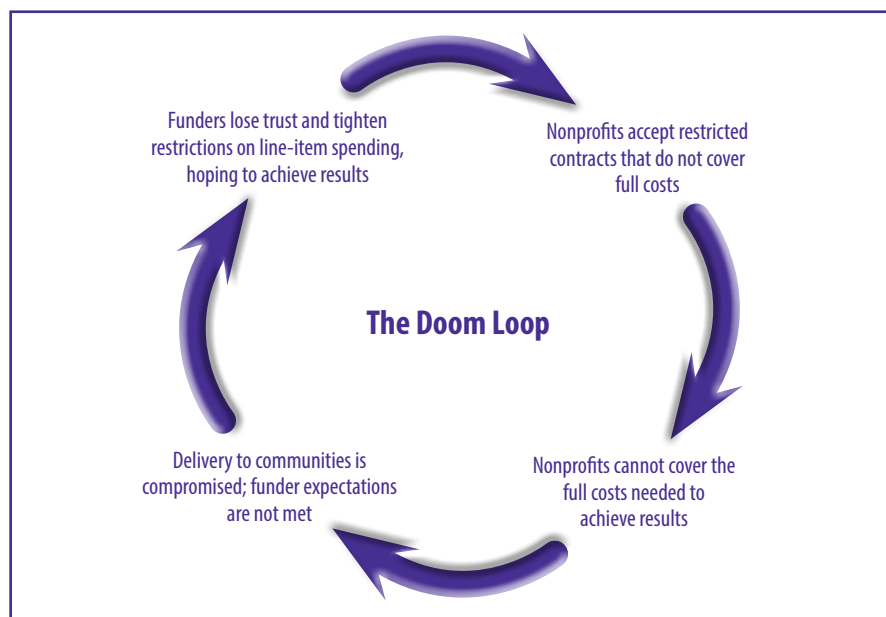
receivables. An organization that falls behind on debt repayment will distract leadership from mission and will struggle to advance its work in the community. An organization can even fold under the weight of its debt, leaving communities without services. Without full cost funding to cover debt principal repayment, an organization cannot keep a long-term commitment to the people it serves.

Communities pay the price when full costs are not met.

The "Doom Loop" of Underfunded Full Costs

Why have so few nonprofits and funders been talking about full costs? Perhaps because many don't know the price tag for their own or their grantees' full costs.

Nonprofit financial capacity—staff time, expertise, and systems—is extremely limited. Overly burdensome reporting requirements use up limited nonprofit financial capacity to manage compliance vis-à-vis: the specific line items the funder requests in the budget; splitting up phone bills according to the amount of time fundraising staff are thought to have spent on calls; checking and rechecking invoices to government



fundings that will be rejected if they contain even a one dollar rounding error. Nonprofits barely have the bandwidth to manage financial compliance, let alone foresighted financial management issues like full cost. And who can blame them? The stakes are high. A compliance error can mean delayed payments or rejected grants. That means people don't get paid. That means communities don't get served.

Existing dynamics in our sector actually discourage transparent reporting of full costs. When it comes to competitive contracting, nonprofits fear they will not be selected for funding if they reveal how expensive it truly is to deliver their intervention, and as a result shy away from asking for full costs. Grants and contracts frequently lock organizations into budgets that were built months or years ago, often with little or no wiggle room to adjust to new opportunities or more efficient ways of operating. The time, energy, and reputation risk to apply for a budget modification isn't worth it. Claw-back clauses, which prohibit organizations from generating surpluses that contribute to balance sheet needs, are common and often accompanied by explicit refusal to pay for budget overruns. Nonprofits can't set aside savings in case of budget overruns, but no one else will pay for them, either. Nonprofits can't win. Dynamics like these mean that only the luckiest organizations cover their day-to-day operating expenses, and all organizations are denied the opportunity to safeguard their communities by paying for balance-sheet needs. They are incentivized to report costs in such a way as to maximize short-term resources for their community, and not in a way that maximizes transparency and feeds longer-term sustainability for the service provider.

The failure to fund full costs has resulted in a cycle of distrust between

nonprofits and funders and, ultimately, puts at risk program delivery to communities: The "Doom Loop" of underfunded full costs.

Four Things Nonprofits Can Do Right Now

1. **Know your full costs.** Set aside some of your limited time to analyze your true costs of operating. Throw compliance out the window for this exercise, and think through the operating realities of your organization. What are your day-to-day expenses? How much cash do you need in the bank at the worst times of the year to pay your bills on time? What funds should you have that can be set aside to maintain your facility, upgrade your technology, or invest in new systems? What risks do you see coming down the road, and what would it take to meet those risks? What opportunities should you take, and how much money would you need to take them? Do you have any debt to repay, and what is your plan for repayment?
2. **Ask for your full costs.** Update your communication and your fundraising pitches to reflect what it truly costs to deliver your interventions and sustain your work over the long term. Change doesn't come cheap. Don't undercut your mission and put your community at risk by asking for less and promising more. Think carefully before accepting contracts with unfunded mandates—those that do not fully pay for themselves. Consider whether adequate flexible funding from other sources will be available to fill in the gap. Avoid borrowing from the future.
3. **Banish the overhead ratio.** Don't use low overhead as a fundraising tool (i.e., no more pitches that \$0.90 of every \$1.00 is spent directly on programs). Don't use it as a management

tool. Don't use it as a proxy for efficiency or effectiveness.

4. **Practice new ways to talk about overhead.** The reality is, most overhead costs are people costs—educated employees who contribute to mission by making sure the organization runs smoothly. Talk about what they do in compelling, specific detail, and how it contributes to mission: "Our counselors do their best work with survivors of domestic violence when they can give each client their full time and attention. That's why the work of our professional HR team is so important. By attracting and retaining effective staff members, ensuring payroll is accurate and on time, managing benefits, and handling proof of counselor qualifications and required training, our HR team lets counselors spend more time with our clients. This results in more clients served and stronger relationships between clients and counselors."

Four Things Foundations Can Do Right Now

1. **Pay for full costs.** Even if you do not provide general operating grants, it is important to recognize that programs draw their fair share of organizational infrastructure. Be sure to fully pay for the costs your grant may impose on nonprofits—including data collection and reporting, convenings and trainings, and a reasonable surplus for liquidity and to address the unexpected. Include a line item in your grant budgets for indirect costs—those costs that are necessary to running the organization and the program but don't increase or decrease in direct relation to the program. Allow grantees to tell you what a reasonable indirect cost is for their organizations; don't prescribe a set percentage.

2. **Create a safe space for nonprofits to ask for their full costs.** You probably have grantees who don't really know their full costs. Nonprofits have a history of underpricing their programs. When they truly unpack the full costs of delivering on mission, they may hesitate to share the information with you for fear of sending you into sticker shock. Communicate openly with your grantees. Give them the opportunity to reset their costs of doing business in the full-cost mindset without losing funding or being perceived as greedy or disingenuous. Provide cover for those nonprofits that are ready to reexamine cost. Publicly announce that your foundation seeks requests that articulate full costs. Open a dialogue if nonprofits come to you with a low number, and

make sure they are not undercutting themselves for fear they will not be funded if their overhead is too high. One conversation is not enough. Continue to reinforce the importance of full costs.

3. **Banish the overhead ratio.** Do not include the overhead ratio in your grantmaking decisions or due diligence process.
4. **Directly support full costs through flexible funding or enterprise-level support.** Remove claw-back clauses from your contracting, and allow nonprofits to keep unspent funds as general operating support. Instead of restricting dollar inputs, measure what the organization achieved by spending grant funds. Provide unrestricted general operating support that allows nonprofits to cover their full costs.

NOTE

1. Charity Navigator, GuideStar, and the BBB Wise Giving Alliance, "The Overhead Myth: Moving toward an Overhead Solution," 2013, Open Letter, overheadmyth.com/.

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Movement-Building Opportunities for Change: Perspectives on Criminal Justice Reform Today

by Margaret Post and Sian ÓFaoláin

As attention turns to the problem of mass incarceration in the United States, it is critical that the knowledge and experience of two oft-overlooked groups be brought in at the leadership level: those who have lived through incarceration, and the families and communities to which they return.

THE ISSUES OF MASS INCARCERATION and criminal justice reform have become increasingly popular in public discourse, with a range of solutions proposed by groups across the political spectrum. However, the knowledge and experience of two essential groups of stakeholders have been overlooked consistently by many of us: (1) the experts who have lived through incarceration themselves, and (2) the families and home communities to which the formerly incarcerated will return. These communities are largely low income and disproportionately consist of people of color—but, as with environmental issues, those communities most directly affected are often excluded from national policy discussions.

Our research and experience working with the Center for Community Change on the issue of mass incarceration show that though great strides have been made to advance criminal justice reforms in the last year, such momentum will not be sustained without the leadership and expertise of people directly impacted

by the system of mass incarceration. Reducing incarceration rates alone is not enough;¹ Viable solutions also require attention to the social and economic impacts in the very communities that have been besieged by high incarceration rates. This calls for both systemic and community-level changes that address the relationships among incarceration, racism, and poverty.

The number of people in prison has skyrocketed over the past four decades, due in large part to the passage and enforcement of the War on Drugs and tough-on-crime laws. Mass incarceration is now recognized as a national issue. Michelle Alexander's 2010 book *The New Jim Crow* raised the salience of a system of racialized mass incarceration—one that disproportionately targets, jails, and disenfranchises African Americans and other people of color. Numerous studies have documented the problem of mass incarceration, including the excessive targeting of people of color, low-income people, and people with low educational attainment.² In recent years, there has

been a rise in groups like Right on Crime and the Coalition for Public Safety that elevate conservative voices on the issue of criminal justice reform. Criminal justice reform was once at the margins of politically viable issues, but today it holds greater prominence in popular discourse, gaining traction with lawmakers and candidates at every level of government. Policies like California's Proposition 47, which reclassified a number of felonies and allowed for releasing people from prison, are also gaining political support and are a promising example of policy choices that have the potential for more holistic benefits. In addition, a number of national advocacy organizations, think tanks, and political formations have had a significant impact on raising the profile of the issue and advancing much-needed reforms within elite policy circles. However, organizations led by formerly incarcerated people and their families do not yet have the power, credibility, and standing within the broader movement that are necessary for sustainable change.

Within this context, the Center for Community Change (CCC) launched an initiative in 2013 focused on removing the barriers to employment for people with conviction histories and, in the long term, bringing more resources and opportunities to the low-income families and communities of color that have been devastated by high rates of incarceration. CCC focuses on community organizing; its mission is to build the power and capacity of low-income people—especially low-income people of color—to change the policies that impact their lives. In this case, the organization aims to support a national movement that will improve the well-being of individuals with conviction histories, and the well-being of their families and communities. Making the links among incarceration, poverty, and employment is central to CCC's theory of change.

To better understand the state of the movement and to inform CCC's strategy, we invited grassroots leaders from partner organizations and national leaders in criminal justice reform to discuss the dynamics of the national environment for ending mass incarceration.³ The findings from these interviews offer a view into the development and evolution of the national movement to end mass incarceration from the perspective of these grassroots organizers—many of whom are directly affected by mass incarceration—as well as the national leaders and experts who are shaping a national conversation about how to fundamentally change the system. This article focuses on the implications of these findings for the social sector, given the increased public support for addressing mass incarceration. We first discuss the interview findings as they relate to the state of the movement and its opportunities and challenges, and then we explore the role of directly impacted people and the connection between race and poverty in the current movement.

State of the Movement

Respondents agreed that there is a growing movement for criminal justice reform but that it is not yet strong enough to break through and create lasting change vis-à-vis the problem of mass incarceration.⁴ Respondents identified three primary factors indicating that some movement exists: (1) the issue has gained greater public interest and attention recently from both Republican and Democratic lawmakers; (2) an increasing number of organizations are involved in criminal justice reform; and (3) the movement has made progress in raising awareness of issues related to criminal justice and mass incarceration, including barriers to reentry and collateral sanctions. These factors are opportunities for greater mobilization. Respondents viewed the openness on the Right to confronting mass incarceration as a positive political opportunity matched with greater cultural awareness of the racialized system of mass incarceration. The emerging Black Lives Matter movement, which has galvanized an upsurge of activism focused squarely on the injustices of police brutality and excessive use of force, is also viewed as an opportunity for broadening the engagement of people who may also be directly impacted by the criminal justice system. Positive advancements in drug policy and sentencing reforms as well as increased attention on addiction as a public health problem were also recognized as notable shifts in the national environment. Finally, increasing support from major philanthropies and a growing number of organizations focused on criminal justice reform issues were highlighted as indicators that the movement is generating greater vitality.

The criminal justice reform leaders and organizers that we interviewed are optimistic about the potential for significant change to the system of mass incarceration. However, the movement does

not have the power and strength needed to make a substantial impact, according to respondents. We found that the wide array of issues within the field of criminal justice reform inhibits coordination and cohesion of social sector organizations working for change, especially with respect to supporting and connecting grassroots organizations with each other and to national campaigns. For example, any number of groups and foundations may be working on one issue (or a combination of issues) related to policing practices, due-process and sentencing laws, prison and jail conditions, the effects of incarceration on children and other family members, and the plethora of collateral sanctions and bans on services that people face when coming home. Yet, there is little continuity across such initiatives that can aggregate for scalable impact, especially in those low-income communities most directly affected by high rates of incarceration. While there are concerns about the capacity and coordination among local and national organizations, the grassroots organizers and national leaders we interviewed agreed that this is a “tipping point moment” in which the pieces of a broader movement for change are coming together.

Opportunities

National attention to mass incarceration has seen a marked increase in the last five years, and there is a new conversation about what can be done to end the inhumane conditions of the U.S. prison system. Just as *The New Jim Crow* focused attention on the conditions of a racialized system of mass incarceration, prominent activists like Bryan Stevenson of the Equal Justice Initiative and Sister Helen Prejean of the Ministry against the Death Penalty expose the system's injustices as they steadfastly pursue greater fairness for incarcerated individuals. At the policy level, juvenile justice reforms

over the last decade have, in part, set the stage for a broader focus on adult incarceration.⁵ More recently, reform efforts under the leadership of (now former) U.S. Attorney General Eric Holder were aimed at reducing existing inmate populations, revising federal sentencing guidelines, and elevating a wider public dialogue and federal action on viable levers for criminal justice reforms.⁶ The passage of California's Proposition 47 in 2014 set a new precedent for state policy change that provides opportunities for resentencing and reclassification of low-level crimes, as well as the reinvestment of funds into drug treatment, mental health services, and other supports for victims, high-risk youth, and formerly incarcerated individuals.⁷ Similarly, the surge of local, state, and private sector activity to change hiring practices for people with criminal records demonstrates new momentum for policy reforms and the possibility of federal action.⁸

Our interview respondents find these to be notable developments that have led to the current moment. They are encouraged by the groundswell of national attention. They also emphasize the importance of state and local reforms beyond national initiatives, indicating that such bottom-up strategies within states and localities offer the potential for significant and measurable change. Our analysis indicates that these local and state reforms must go beyond reducing incarceration rates to addressing the social and economic impact of historically high rates of incarceration. Investments in reforms must also be investments in restoring communities.

Challenges

While there is consensus that the rate of mass incarceration is too high and that its impacts are acutely felt in the poorest communities, there is wide debate about how to proceed. There is limited

coordination among national and local organizations, and even less coordination between groups that specifically address criminal justice and those that address the well-being and future development of low-income communities more comprehensively. Private interests and the prison lobby are significant oppositional forces that respondents feel impede progress. The federal government itself is sending messages that are confusing—trumpeting reform while marketing new prisons as job-development strategies in low-income rural communities. All of this requires much greater alignment—but, despite new interest from foundations and increasing bipartisan support, the field is underresourced and lacks consistent funding mechanisms for supporting local and state organizing, grassroots capacity building, and policy advocacy. This lack of funding especially impacts the political muscle of grassroots organizations: without capacity for effective strategy implementation, local campaigns, leadership development of directly impacted people, and communications, such organizations are limited in their ability to realize the policy gains necessary for movement success. Finally, public discourse about race and racial disparities is critical to advancing the movement, yet it is steeped in historical racism and underlying stereotypes about the formerly incarcerated and others who are affected by the criminal justice system. Such challenges are exacerbated by the lack of a unified message and broad-based and organized constituencies that drive reform agendas forward.

Race and Criminal Justice Reform

The interview findings also revealed a tension about the role of race in the movement. For instance, studies consistently show racial disparities throughout the system—from arrest and sentencing to outcomes upon release. Advocates use

these statistics in their work to highlight the disproportionate impact on communities of color.

During the time these interviews were conducted, the racial justice movement under the banner of Black Lives Matter gained significant momentum. It is centered explicitly on black people and the intersecting forms of oppression they face. Since the police killing in August 2014 of Michael Brown, Jr., in Ferguson, Missouri, individual cases of police killings of unarmed black men, women, and children have spurred discussion about state violence—including militarization, lack of accountability, and the criminalization of low-income communities of color. Beyond policing issues, the Black Lives Matter framing of state violence has created an opening for movement leaders to speak more directly about race and systemic racism in the criminal justice system.

For example, the Movement for Black Lives that convened in Cleveland, Ohio, on July 23 through 26, 2015, brought together over one thousand leaders, activists, and organizers with an eye toward building relationships and developing collective strategies.⁹ One of the key principles of the convening and the movement is that all black lives matter—whether incarcerated, formerly incarcerated, or otherwise marginalized. Such examples demonstrate that the Black Lives Matter movement is an integral dimension of the movement to end mass incarceration and create an inclusive frame that puts front and center issues of race and gender. Many respondents were hopeful about the potential for the Black Lives Matter movement to catalyze further openings for building momentum among key constituencies and mobilizing for change from the grassroots level.

On the other hand, some respondents shied away from explicitly discussing race in approaches to criminal justice

advocacy, stating that it is not politically viable to put race at the center of the strategy. They explored how framing the issues around the financial costs to local, state, and federal governments may garner more political support for reform, as evidenced by the active role of the Right in federal- and state-level reform efforts. But while a cost-savings frame may be politically expedient at the moment, in the long term a financial case for reform serves to advance right-wing and corporate interests for profit-driven, cost-effective measures that continue to keep people of color and low-income people under correctional control by the state.

In this period in which reform has become more bipartisan, we are seeing an increase in private investment in alternatives to incarceration such as ankle-bracelet surveillance technology, and mechanisms that shift costs from the state onto families such as fines and for-profit probation services.¹⁰ From the perspective of reducing costs to the state and reducing the number of people in prison, these efforts might look like a move in the right direction. However, from a moral perspective, the cost-reduction frame allows for new ways of commodifying the lives of poor people and people of color. Just like privatizing prison systems, these alternatives perpetuate incarceration of these populations. It is a revolving door from for-profit prisons to for-profit monitoring to for-profit probation and then back in the door again when the marginalized, once-incarcerated are unable to pay fines for probation and other “services.”

We need reform solutions that address the root causes of how low-income people and people of color, particularly black people, are criminalized, impoverished, and have their entire communities controlled by the justice system. This requires a critical racial-justice analysis

of how racism, exploitation, poverty, and criminalization connect to the current debates on criminal justice reform. The leadership of directly impacted people is one way to sharpen the collective analysis of the role of race in the criminal justice system, using personal experiences of discrimination and criminalization to make a moral claim for the need for reform.

Role of Directly Impacted People

The engagement and leadership of directly impacted people in the movement for criminal-justice reform present both opportunities and challenges. Respondents agreed that directly impacted people are already involved in criminal-justice reform currently as spokespeople, stakeholders, and advocates, especially in local campaigns—but that they are not driving the policy agenda and thus have limited political power and influence in the current debates about criminal justice reform. Respondents unanimously supported the notion that directly impacted people have an important role to play and are necessary for building a national movement. Indeed, they believe directly impacted leaders are a crucial, untapped resource for sustaining the movement.

But respondents’ perceptions about roles for directly impacted people also revealed tensions around exactly what types of engagement by directly impacted people are necessary for sustaining the movement. Even with opportunities for engaging in local organizing, their participation has tended to be peripheral to the major decision making and strategy development of reform initiatives. The majority of respondents who were national leaders felt that directly impacted people should simply share their stories and serve as spokespeople in advocacy campaigns. The national leaders who spoke about more significant roles for directly impacted people emphasized

the need to amplify the expertise, leadership, and presence of those affected by the system. Despite this awareness that directly impacted people are not involved adequately in the movement’s leadership, respondents had scant ideas about how best to facilitate greater leadership roles. Where only a few national leaders and experts discussed specific roles beyond storytelling, the majority of grassroots leaders felt that they had much more to contribute beyond their stories. They described their contributions to the movement as using experiential knowledge of the system to develop advocacy and organizing strategies, recruiting and training other directly impacted people for action, growing the base for the movement, and developing leaders.

Grassroots leaders and community-based organizations working with formerly incarcerated people, people with conviction histories, and their families face a number of very real challenges in their work. Interviews with CCC’s partner organizations suggest that there are unique challenges involved in working with individuals coming home from prison—for example, unstable contact information, the need to provide direct services to meet immediate material needs like safe housing and employment, and the investment of time and energy in supporting and developing directly impacted leaders. Respondents also noted an imbalance in funding for groups led by directly impacted people, and a bias toward well-established organizations with larger capacities to lead criminal-justice-reform campaigns.

An example of the leadership role directly impacted people can take is the Ban the Box campaign. Many applications for employment, public assistance, and social services ask applicants to check a box if they have ever been convicted of a crime. The campaign was conceptualized by formerly incarcerated people

from All of Us or None, a membership-based project of Legal Services for Prisoners with Children in the Bay Area. The campaign focused on fair hiring has gained tremendous momentum over the last few years, winning policies in over one hundred local jurisdictions, eighteen states, and large corporations like Target Corporation and Koch Industries.¹¹ Although this type of policy campaign undoubtedly requires the skills of lawyers, policy-makers, and advocates, it was formerly incarcerated people facing employment discrimination based on their conviction histories who devised the strategy. They understood it as a strategic campaign in the arc of a longer movement to restore their full rights and citizenship. This effort exemplifies the vision of people most impacted by the issues: it both addresses the immediate needs for employment and access to services and builds toward a longer-term fight for full citizenship and economic stability.

Another example is the newly expanded Formerly Incarcerated and Convicted People and Families Movement, a national coalition led by directly impacted people across the country. This coalition understands that families—whether biological or chosen—serve time along with their incarcerated loved ones, and are affected by that incarceration in particular ways. This coalition's platform goes beyond a single issue. Its aim has been to address the many ways communities are impacted, while also being politically strategic in a coordinated effort of direct action and advocacy toward pressuring President Obama to issue an executive order to “Ban the Box.” This mix of long-term movement building and advancing of current campaign opportunities is a promising mark of an effort led by directly impacted people. In fact, President Obama's announcement in early November that he is taking steps to “Ban the Box” for

federal jobs speaks volumes to the culture and policy change driven by directly affected people.

Implications

Directly impacted people have been central to successful social movements throughout history. Individuals who were formerly incarcerated, people with a conviction history, and people whose loved ones have been in prison or jail have the experiential knowledge and expertise, interest, and energy to participate in movement building in fuller and more meaningful ways. However, there is clearly a gap between grassroots movement building and the philanthropic and national advocacy arenas that fund and drive strategy; while efforts to reform criminal justice nationally have shown remarkable progress, they have remained largely in the hands of national advocates. It is essential that such divisions be addressed for the movement to be viable and sustainable.

Fragmentation between national advocacy organizations and locally based, member-driven grassroots organizations is not a new phenomenon. The divisions we see today are symptomatic of an age-old problem in the practice of movement building (as characteristically seen in the environmental justice movement). Important scholarly debates explore the forces and implications of declining member-driven organizations in light of the proliferation of staff-led advocacy organizations. Such debates, however, offer little direction for navigating what Jeffrey Berry calls the “advocacy explosion” that has by and large isolated the participation of grassroots leaders.¹² This “unequal political voice” has wide-ranging effects on the strength of democracy. Even among national intermediary institutions that seek to advance social and economic justice, questions abound about the authentic

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representation of core constituencies.¹³

Decades of innovation in civic renewal, citizen participation, and community organizing (as documented by scholars) suggest that “citizen-centered” politics can promote deliberative, collaborative, multisector, and cross-racial processes that transform everyday politics from the local to the national.¹⁴ These approaches are central to bridging the gap between national advocates for criminal justice reform and directly impacted communities. Our data and experience indicate that directly affected individuals should serve in multiple roles beyond spokespeople and storytellers—such as organizers and strategists—to advance the movement. People who live the reality of incarceration every day best understand that working on siloed issues does a disservice to movement building. They are able to envision alternatives that have broader community impact. They can explain the turmoil created when a mother loses her parental rights while in prison and then is banned from accessing affordable housing and food stamps when she comes home. They know the economic hardship of how the job skills taught in prisons funnel people into low-paying sectors where they do not make a living wage even if they can get hired. They understand how being racially profiled by a police officer can lead to deportation or another arrest. Such lived experiences not only inform policy choices that reduce incarceration but also can fuel more holistic and sustainable changes.

Call to Action

The current national environment for criminal justice reform presents many opportunities for advancing an agenda that can reduce incarceration and address its impacts on families and communities. Yet, the lack of cohesion, consistent resources, and a strong organizational infrastructure may limit the

movement’s ability to achieve change. Respondents generally feel that now is a critical time for strengthening the infrastructure, building momentum, and bringing the movement to scale. As many directly impacted organizers will say, they do this work so that they can determine their own futures and not be forever labeled as someone else’s client.

What practices can we bring into our organizations, foundations, and communities to recognize the expertise of formerly incarcerated organizers and community leaders? Social sector organizations that are looking for ways to support and advance criminal justice reforms rooted in long-term social and economic solutions can draw from the lessons found in the interviews we conducted. Three key opportunities emerge for practitioners to engage the leadership of directly impacted people: (1) foundations and donors at all levels should develop funding strategies that build grassroots capacity, develop the leadership of impacted people, and promote organizing campaigns at the local and state level; (2) advocates and strategists at the federal level should engage in dialogue and action with formerly incarcerated leaders and grassroots activists, and identify opportunities in their work that increase the leadership and participation of directly impacted people; and (3) practitioners of all types should develop movement frames for reform that reflect the lived realities of those who are directly affected by the criminal justice system, including explicit discussions about the intersections with race, gender, gender identity, and poverty.

NOTES

1. This research was conducted as part of a developmental and participatory evaluation with the Center for Community Change. The evaluation findings are used to inform the Center’s strategy and decision making. Over the last two years, the Center has

collaborated with grassroots partner organizations that work with the formerly incarcerated to support a national movement that engages directly impacted people in criminal justice reform.

2. Committee on Causes and Consequences of High Rates of Incarceration and Committee on Law and Justice, Division of Behavioral and Social Sciences and Education, National Research Council, *The Growth of Incarceration in the United States: Exploring Causes and Consequences*, Jeremy Travis, Bruce Western, and Steve Redburn, eds. (Washington, DC: The National Academies Press, 2014).

3. In October 2014 and June 2015, we conducted a series of interviews in which we asked respondents to provide their perspective on the state of the national movement to end mass incarceration. We asked respondents to describe what they see as the opportunities and challenges in the field, as well as strategies for advancing the movement. Interview respondents included eighteen grassroots organizers from CCC partner organizations and twenty national leaders, funders, policy experts, and scholars.

4. On a scale of 1 (no movement) to 3 (significant movement), the average closed-ended score among the national leaders and experts was 2.35.

5. For example, in 2005, the Supreme Court abolished the death penalty for persons under age eighteen in *Roper v. Simmons*. In 2012, two Supreme Court cases marked a victory for reformers in the decisions *Jackson v. Hobbs* and *Miller v. Alabama*, both ruling against mandatory juvenile life without parole sentencing. See, for example, Center for Children’s Law and Policy, “Juvenile Life Without Parole (JLWOP),” www.cclp.org/jlwop.php.

6. For a critique of the Justice Reinvestment Initiative, another signature initiative of the Holder administration, see James Austin et al., *Ending Mass Incarceration: Charting a New Justice Reinvestment* (Washington, DC: The Sentencing Project, 2013).

7. *Proposition 47 Overview* (Oakland, CA:

Californians for Safety and Justice, January 28, 2015).

8. Maurice Emsellem and Michelle N. Rodriguez, *Advancing a Federal Fair Chance Hiring Agenda: Background Check Reforms in Over 100 Cities, Counties, and States Pave the Way for Presidential Action* (New York: National Employment Law Project, January 2015). See also, for example, *Over 100 Localities and States Pave the Way for Federal Action* (Oakland, CA: PICO National Network, January 2, 2014).

9. Sian ÓFaoláin participated in the Movement for Black Lives gathering. For more information, see Amanda Teuscher, "The Inclusive Strength of #BlackLivesMatter," *American Prospect*, August 2, 2015.

10. Sarah Stillman, "Get Out of Jail, Inc.," *New Yorker*, June 23, 2014, www.newyorker.com/magazine/2014/06/23/get-out-of-jail-inc.

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12. Jeffrey M. Berry, *The Interest Group Society*, 3rd ed. (New York: Longman, 1997).

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13. Kay Lehman Schlozman, Sidney Verba, and Henry E. Brady, *The Unheavenly Chorus: Unequal Political Voice and the Broken Promise of American Democracy* (Princeton, NJ: Princeton University Press, 2012). Robert D. Herman and David O. Renz recognize the powerful role that many national nonprofit advocacy organizations play in policy-making today, yet question organizational strategies of "representing the underrepresented." They ask: "If money tends to come from one economic/social group to serve the interests of another economic/social group, how can there be assurance that those constituency interests are being adequately understood and represented?" ("In Whose Interest: Do National Nonprofit Advocacy Organizations Represent the Under-represented?" *Nonprofit Quarterly*, June 21, 2006, nonprofitquarterly.org/2006/06/21/in-whose-interest-do-national-nonprofit-advocacy-organizations-represent-the-under-represented/.) See also Harry C. Boyte and Nancy N. Kari, *Building America: The Democratic Promise of Public Work* (Philadelphia: Temple University Press, 1996); *Transforming the City: Community Organizing and the Challenge of Political Change*, Marion Orr, ed. (Lawrence, KA: University Press of Kansas, 2007); and Cynthia M. Gibson, *Citizens at the Center: A New Approach to Civic Engagement* (Washington, DC: Case Foundation, 2006).

14. See Sirianni and Friedman, *Civic Innovation in America*; Boyte and Kari, *Building America*; Orr, *Transforming the City*; and Gibson, *Citizens at the Center*.

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The Public's Trust in Nonprofit Organizations: The Role of Relationship Marketing and Management

by Herrington J. Bryce

Our transactions with our stakeholders must be carefully managed if we are to maintain public trust. Here the author offers five core nonprofit-public transactional relationships that, depending on how they are managed, can impair or improve the public trust, and outlines key concepts in relationship marketing that can be used to help restore trust once it has been lost.

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NONPROFIT SCHOLARS AND MANAGERS generally recognize that nonprofits need the public's trust for legitimacy, for effectiveness, and for nonfinancial as well as financial support. Yet, a complete literature search uncovers no operational or managerial definition of the public's trust in these organizations. This article offers a conceptualization of the "public trust" that is applicable to nonprofit organizations, touches on what relationship marketing theory says about restoring that trust once corrective action has been taken, and identifies the managerial actions that might impair that trust. It also offers an operational guide in tabular form on the meaning, management, and marketing of the public trust in nonprofit organizations.

This article argues that the public's positive or negative experiences in core transactions with an organization may be the principal bases for the impairment or improvement of the public trust. It identifies five core nonprofit-public transactions:

- Contracting, particularly for charitable services;
- Soliciting and receiving charitable contributions;
- Exercising custody over assets for the benefit of society;
- Employing the organization's social capital for the public's benefit; and
- Promising mission commitment and adherence.

These transactions distinguish nonprofits from firms. Breakdowns in these transactions are likely to be significant enough

to have meaningful consequences and reverberate throughout the organizational structure.

The impact of an impairment of the public's trust in one or more of these transactions may spill over and impair the trust in the organization as a whole. In the same way, a relationship message to cure the effects of a transactional impairment might have a positive spill-over to the organization. Thus, the greatest favorable impact will be achieved when the concepts and messages apply positively to both the transaction and the organization.

At least six antecedents or conditions can modify the favorable impact of any relationship marketing message (including the most contrite) by a nonprofit organization:

- The organization's exposure and depth of involvement in the transaction;
- The content, channel, and method of message transmittal;
- The nature of the market in which the organization operates;
- The organization's goodwill and the cost-benefit of restoration;
- The nature and depth of the damage and continued public risk; and
- The properties of the product or service suffering trust impairment.

Concepts of the Public Trust in the Nonprofit Organization

The literature on trust, social capital, and nonprofit or voluntary organizations primarily views the nonprofit as an incubator of trust for its own internal cohesion. This draws from organizational theory.¹ Another approach views the nonprofit as fostering trust for the benefit of civil society.² The present article examines the nonprofit not as an incubator or creator of trust, but as being functionally dependent upon the public's trust for fulfilling its mission. This calls for a different logic.

The relationship between the nonprofit and the public can be framed as the reciprocity of expectations. Piotr Sztompka phrases it as a wager that the other party will perform as expected.³ Diego Gambetta expresses it as the expectation or probability that the other party will perform.⁴ This article posits the nonprofit-public relationship leading to mutual expectations as follows:

- Nonprofits are chartered to perform the public services in their missions;
- In exchange for these services, the public promises tax benefits and makes donations to nonprofits;
- Violations of public expectations, based on the nonprofit's promise in its mission and for which the tax benefits are given, may cause the loss of public trust;
- The nonprofit management desires to

restore that trust, saving the core relationship and its benefits—particularly tax exemption;

- To do this, the nonprofit managers will take corrective measures and craft a restorative message to the public; and,
- In so doing, relationship marketing concepts should be considered.

Another way of describing this relationship is principal-agent, where the nonprofit (the agent) serves a public purpose—the public being the principal—in exchange for tax benefits.⁵ In principal-agent relationships, there is the question of whether the principal (the public) can trust the agent (the nonprofit) to act on its behalf as promised. The operative trusts are trust of specific performance as agreed and custodial trust over the assets the public invested in and which are held by the nonprofit so that it may perform as agreed in its mission.

In agency theory, an agent is hired partly because the principal needs to rely on the discretion of the agent if information is asymmetric—the agent has superior or timelier information. If so, trust also relates to the confidence the principal places in the agent's intelligence and discretionary choices—that is, given the competing exigencies, the nonprofit management will make the “right” decision on behalf of the public it serves. As Mark Granovetter notes, trust is the confidence that others will do the right thing even with incentives to the contrary.⁶

Kenneth Arrow's concept of trust in nonprofits is grounded in a concept of congruence of interest—A can trust B because A and B have a similar interest, purpose, or orientation.⁷ Thus, individuals create organizations and become clients to assure that their preferences are attended to and not subordinated. Put another way, the asymmetry in the information between the producer and the client and the need for the client to

rely on the producer lead to the creation and perpetuation of a relationship with a nonprofit organization unburdened by profit needs or, as Avner Ben-Ner and Theresa Van Hoomissen note, by the control of outsiders.⁸ This type of relationship implies a trust based on performance—that is, producing the good containing the particular attributes when the content cannot be readily or reasonably verified by the user.

The public's trust in an organization reflects the organization's projection of itself. This includes its cognitive image⁹ or its social capital (shared goals, norms, values, and networks).¹⁰ Social capital can project itself as a nonprofit's sociological brand.¹¹ In their study of relationship marketing, Robert Morgan and Shelby Hunt found a positive correlation between shared values, communication, and trust.¹² This provides empirical support to Arrow's “common interest.” Trust is dependent in part on the success with which shared values and common interests are projected or communicated. As noted in the *Westminster Dictionary of Christian Ethics*, “In the broad sense, trust is the expectation that the other will act in accord with his or her presentation of self; in the narrow sense, it is the expectation that the other will act morally.”¹³

Social capital trust connects to identity trust. A trusts B because A and B share a common identity (and all that implies in terms of goals, norms, values, experiences, and expectations) or because A identifies him- or herself with an organization or purpose that B trusts.¹⁴ Therefore, identity trust points to the element of trust in nonprofits that is not necessarily utilitarian or calculating but is what the organization represents as itself. The product of this relationship is its contribution to identity, including prestige, social standing, and identity from affiliation.

George Akerlof and Rachel Kranton link identity with the sociological content of an organization and how it projects itself.¹⁵ They argue that individuals choose schools congruent with their identities, and schools in turn modify identities to reflect and represent the schools' sociological content. This implies that the social capital that an organization projects induces the public to enter into certain relationships with it, i.e., become a student or member. Depending upon the strength of the ties¹⁶ and the amount of organizational control, conformity, and personal acculturation,¹⁷ individual members incorporate and reflect the organization's social capital (values, rules, norms, goals) and are transformed into signals (representatives) of the organization's content.

Trust in social capital and its reflection in the identities of those exposed to it take on special relevance for nonprofits that are membership groups—including religious or faith groups and fraternal associations. Their members choose them and their members reflect them. This signals trustworthiness.¹⁸ Thus, identity through symbols, mannerisms, names, badges, and uniforms may reflect the underlying social capital and the trust it merits.

Trust in a mission derives from a shared interest expressed between the organization's mission and a public need, unlike a contract in which the interest of one party is compensation and the other is performance. Russell Hardin refers to this as encapsulated trust—A trusts B because B encapsulates A's needs.¹⁹ The public may trust an organization because the organization declares that its exclusive purpose or mission is to serve a need the public wishes served. Several organizations may encapsulate the same mission, but they may use different social capital in doing so. Thus, trust in the mission is conceptually different

from trust in the social capital or trust in contracts.

Based on the above, seven concepts of the public trust are relevant to the nonprofit-public relationship and to this article:

- Expectation-performance trust, as in a contract;
- Custodial trust over assets;
- Decision-making or discretionary trust;
- Trust arising from asymmetric information;
- Trust related to social capital;
- Trust related to mission; and
- Identity trust, incorporated here as a signal of the organization's social capital.

Concepts of a Restorative Message Applicable to a Nonprofit

Scholarship shows that relationship marketing—based on social exchange where the rewards are not always pecuniary—applies to nonprofit organizations.²⁰ Accordingly, the nonprofit literature emphasizes gaining, maintaining, and restoring public trust through ethical codes, transparency, and accountability.²¹

Regina Herzlinger sees the public's trust in nonprofits as restorable by the quality of information and oversight rendered.²² Richard Petty, John Cacioppo, and David Schumann suggest that the quality of the information (rather than the messenger) may be important.²³ The nonprofit literature focuses on the Internal Revenue Service's Form 990 (which is the annual report of nonprofits analogous in detail and spirit to the Form 10-K of public firms), to which the spirit (but not the letter) of Sarbanes-Oxley has always applied.

In their work on relationship marketing, Morgan and Hunt find that enduring relationships are based on a bilateral and utilitarian commitment (each party has a need the other can satisfy and each can

rely on the other).²⁴ Thus, relationship marketing implies that the restoration of the public's trust is facilitated by a demonstrated mutual need and performance reliability valuable to both parties.

Further, James Faircloth finds that the responsiveness of the public to marketing messages by nonprofits is influenced by "brand personality," "brand image," and "brand awareness."²⁵ Beverly Venable et al. find that, in charitable giving, integrity is an important aspect of "brand personality."²⁶ These studies imply that the restorative message of Morgan and Hunt may be strengthened by an organization's invoking its brand personality (social capital) and its integrity (if any is left after the impairment) in addition to its mission as it encapsulates a need of society.

In sum, relationship marketing theory and research imply that a message to restore the public's trust in the nonprofit through bilateral need and utility (particularly per Morgan and Hunt) may state: why and how the organization serves a continued valuable public need; why the organization needs the support of the public to serve that need; why the public's trust is needed by the organization to satisfy that public need; and the organization's capacity, integrity, history, and readiness to meet its promises.

Five Core Transactions (Relationships) as Bases of the Public Trust

A trust relationship is neither unconditional nor risk free.²⁷ It contains the risk and uncertainty that expectations will not always be fully met. Gambetta²⁸ and Niklas Luhmann²⁹ see trust as important when the parties feel at risk, vulnerable, and uncertain—i.e., when one party knows that it is possible to be disappointed by another and that the situation could be avoided but proceeds nevertheless.³⁰ Accordingly, trust is consequential in nontrivial, core transactions subject to risks of impairment.

Following are the five core transactional relationships, each containing one or more of the six trusts to which the organization is exposed. A transaction is described, then the types of trusts implicit in it are discussed, followed by the types of managerial actions that could impair the trust, and, finally, by what relationship marketing implies are the concepts to be included in a message to restore the public's trust.

1. Contracting

The two most important earnings transactions for nonprofits are (1) program-related revenues, such as government contracts and tuition or hospital fees for individuals (which account for 72 percent of all revenues of 501(c)(3)s, the largest group of nonprofits); and (2) donations or contributions (accounting for another 22 percent).³¹

A performance contract is an agreement between two (or more) parties in which one (the principal) expects a specific performance from the other (the agent) for compensation. Contracts establish the promises, terms, expectations, and remedies of voluntary relationships.³² The research on performance contracting with nonprofits argues that contracts with them tend to be less specified and so require more trust.³³

In general, contracts require some level of trust.³⁴ Eli Bukspan writes, "Trust is the notion underlying the fulfillment of promises and expectations in a contract;" and, "The concept of trust is latent in every contract."³⁵ Some trust is important even in a specified contract, because:

- It is impossible to completely foresee all future relevant occurrences affecting performance or to fully anticipate changes in the expectations or capabilities of the parties;
- Contracts always have implied meanings subject to various enforceable interpretations;

- Enforceable contracts, except in the case of real estate, do not have to be written, and parties are subject to different recollections;
- By its principal-agent nature, contracts are ways in which people invest discretionary powers in others, partly because of lack of information or capability; and
- The parties to a contract are frequently in nonequivalent power positions.

In performance contracting, the connection between the two parties is based on expectations of specific performance as promised—i.e., trust is connected to performance and expectations.³⁶ Hence, trust may be impaired when an operating unit of the organization fails to perform as it contracted, and the affected cannot be fully compensated for the failure. From this perspective, the nonprofit's message to restore trust must demonstrate an improved reliability—a capability to meet or exceed the specific needs of the public; and if for some reason it fails, the public can recover its cost.

Contracts with strong charitable contents are different from other contracts because the full organizational cost may not be covered even by the contracting party (such as the government, as mandated by state and federal requirements for nonprofit acute care hospitals for the indigent)³⁷—and therefore must be subsidized by other revenues such as gifts and donations; or because prices cannot be charged to those who benefit; or because the outcome is for the public's welfare. These contracts, as cited earlier, may also be less specified. It follows that the choice of a nonprofit as a contractor is not merely because the contract is unspecified but also because the nonprofit's social capital and mission are specified and the organization is expected (trusted) to honor them in the contracting relationship.

Thus, in social contracting, trust can be impaired by performance below expectations; by performance inconsistent with the mission; by poor discretionary decisions because of being unspecified; and by withholding or misrepresenting the social capital (the values, networks, goals, and norms of the nonprofit) that may have induced the contract relationship.

Given the contract performance impairment, a restorative message in an ordinary performance contract based on relationship marketing may emphasize improvements in the ability to perform and meet expectations connected to the specific public needs. However, with a charitable contract, the nonprofit has two audiences—the other party to the contract and the beneficiary public. It needs the former for financial support and the latter for involvement and acceptance. To the latter it needs to emphasize a mutual, encapsulated commitment to its mission and the congruence of its social capital (its brand offering) with the public need. To the other party to the contract it also needs to emphasize its ability and willingness to perform under the contract and to make the right discretionary choices, consistent with the contract terms and objectives.

2. Soliciting and Receiving Charitable Contributions

The Financial Accounting Standard Board's (FASB) Statement of Financial Accounting Standards No. 116 (June 1993) requires that nonprofits distinguish between unrestricted, restricted, and temporarily restricted gifts. This distinction is significant in understanding the public's trust in nonprofits from the perspective of giving, the ways that trust can be impaired through slight changes in solicitation marketing, and the nature of the restorative message that might apply.

Studying charitable donations, Cagla Okten and Burton Weisbrod found that donors respond to the perceived cost, called the “price effect,” which dampens their desire to donate, and to the information contained in the solicitation, called the “information effect,” which increases donations.³⁸ Faircloth found that the organization’s brand, as information, can be effective in eliciting donations.³⁹

This implies that trust in making donations is based (partly at least) on representation—how the organization represents itself to the public in its purpose (mission) and social capital (brand). With a donation, a donor expects no quid pro quo, only the satisfaction that the donation is used for the purpose given.⁴⁰ With a contract, the motive is to get something specific in return. Hence, the principal in a contract has an incentive to be sure of the organization’s ability to perform and to assess the cost of performance—including the cost of performance failure and the cost of verifying actual performance.

In general, a donor does not seek—and the organization may or may not make—a promise of specific performance. The donor relies on a broad promise, has little incentive to check, and often does not. The organization is under no obligation to report details as to how the individual contribution was used. Thus, trust that induces this transaction relies upon the organization’s representation of its purpose (mission) and social capital—the organization’s commitment, beliefs, values, and norms, particularly as communicated through the fundraising solicitations.

This trust may be impaired operationally by performance inconsistent with the organization’s mission or social capital—the donor’s inducement for giving. Through the solicitation process, trust impairment may occur because of the misrepresentation of the mission or

social capital or specifically by deception. In the case of deception, the issue is not only the impairment of public trust but also the commission of an unlawful act, in which case a restorative message will not suffice.

In *Madigan v. Telemarketing Associates, Inc.*, the U.S. Supreme Court affirmed the rights of states to bring action against deceptive fundraising.⁴¹ Deception includes misrepresentation of the mission, the purpose of the solicitation, its tax deductibility, the amount that will be used for the program purpose for which solicitation is being made, and the connection between the fundraising agency and the organization for which it is collecting.

The Distinction between Unrestricted and Restricted Donations as Trust Transactions

When donors make a gift, unless they specify a purpose for which the gift is to be used, they are presumed by law and accounting procedures (FASB 116) to be making a gift to the general fund of the organization—i.e., an unrestricted gift. The use of the gift is at management’s discretion. In this case, trust is vested in that discretion. The donor is saying, in effect, “I trust that you will make the best decision about how this donation is to be used in fulfilling your mission, which I support.” This kind of trust is highly permissive. It is impaired by acts such as embezzlement, spending on prohibited purposes such as politics, and unresponsiveness to public needs consistent with the organization’s mission.

Thus, the meaning of trust for a donor to the general, unrestricted fund of an organization is based substantially on the confidence that his or her contribution will be used for a general purpose that the organization represents in its mission. “I give to you because you supply blood to the sick, help communities, provide communications between our service people

and their families, help the victims of disasters—any disaster—and I want to help in your effort as you see fit.” This is distinctly different from “I give because you represent yourself to be helping the victims of this particular earthquake and I want to help them too.” The first is general-fund, unrestricted giving, and the money is used at the broad discretion of the organization within the scope of its mission. The second is a restricted gift—to the specific event mentioned—and must be treated so legally and in the organization’s accounting statements.

In the case of a gift to the general fund, trust is impaired by discretionary decisions that are deemed bad due to misuse of funds or violation of mission or social capital representation by the organization (or its representative). This type of trust is not necessarily built on a forward-looking statement—what the organization plans to do with the donation. The donor is relying mostly (but not necessarily exclusively) on backward-looking statements of what the organization has done in the past. Thus, this kind of trust is based on the organization’s established goodwill, past performance, personality, integrity, and image (brand and social capital).

In the case of a restricted gift, the donor states the purposes for which the gift is to be used. The donor may restrict use until some time has elapsed or an event has occurred (a temporary restriction). In either case, the donations are allocated to specific funds for accounting, legal, and operating purposes. The organization’s discretionary powers are confined to these purposes. Trust is impaired by management’s use of the funds for other purposes even if within the organization’s mission. Thus, the more specific the purpose, the more trust depends upon the donor’s confidence that the organization can and will meet the donor’s request—i.e., trust that

the organization will perform specifically as promised.

This trust is forward looking and relies on foresight. It relies on the ability to anticipate and provide for contingencies. It is impaired by the inability to do so or by going contrary to the donor's stipulation even if within the mission of the organization or even if foresight was wrong. Permanent restrictions cannot be removed or modified by discretion of management. Only the donor, its representative, or a court through a *cy pres* decision (one that permits the nonprofit as custodian to vacate a donor restriction) can do so, as explained in Section 413 of the Uniform Trust Code as applied across states.

Failing such authorization, the restoration of this kind of public trust may require that the donations be returned with a simple message: "We can't meet the terms you specify, but we have other use for the money and seek your permission to do so. If you prefer, we shall return the funds." The restorative message in restricted giving impairment must almost always give the donor (or the donor's representative) the option to recall the contribution, and appeal to the donor or representative to give the organization the permission to use the funds to fulfill a public need in its mission. Such a message is necessary, but only technically sufficient.

The Case of Disasters and the American Red Cross

Following the Katrina disaster, in 2005, the American Red Cross (ARC) heard objections from the public and from state attorneys general for misdirecting donations given for specific disaster relief in their respective states.

During a disaster, nonprofits make appeals for donations. However, many donors do not specify a purpose for which the donations should be directed.

Yet, the donor may be presuming to be making a gift restricted to the specific disaster victims. A conflict arises because, by terms of FASB 116 cited above, the organization is not normally required to consider the gift as restricted unless the donor specifies. It has the incentive to consider it a general fund gift because that gives the organization the broadest discretion, including funding a reserve or capacity for the next disaster.

Trust is impaired here not by deception but by representation. Compare the messages "give to the ARC to help the Katrina victims" and "give to the Katrina victims by donating to the ARC." The first is a gift to the organization; the second is a restricted gift to the specific victims. The Internal Revenue Code, Section 1.170A-13, distinguishes these as a gift "for the use of" and a gift "for," and may treat them differently (as decided in *Davis v. United States*, 1990).

Operationally, giving to the ARC so that it may help Katrina victims implies enabling the ARC through its operating capacity to help the Katrina victims. Operating capacity exists because of previous or future financing; therefore, such a message implies that something less than 100 percent would go to the victims. The second statement implies that the ARC is merely a direct conduit. However, this is an unsustainable position over the long run unless operating capacity is otherwise subsidized. To date, the ARC receives no such subsidy to cover its standing costs, although it receives overhead coverage in individual contracts due to specific events. Even volunteer cost is not zero, since a firm is the recruiter and screener of these ARC volunteers, who must be fed and housed.

While other nonprofits respond to disasters voluntarily, the ARC is compelled to do so by terms of its charter, granted by the U.S. Congress in 1900. Under those terms, the ARC—a D.C.

nonprofit, tax-exempt under Section 501(c)(3) of the Internal Revenue Code—also became a federal independent agency with specific responsibilities for responding to, anticipating, preparing for, preventing, and minimizing the effects of disasters. To do this, it relies on its portfolio earnings, public contributions, and specific, almost concurrent, disaster contracts with the government.

Having a ready infrastructure is not a complete option. As Justices Anthony Scalia and Clarence Thomas opined in *Madigan v. Telemarketing Associates, Inc.* (an unrelated case), high expenses are not indicators of "break of promise," because, as they note, donors should expect that part of their donations would go to cover organizational costs. This is what the ARC claims to have done in one case—to have upgraded its system.

The ARC experiences exemplify the utility of a relationship marketing message to build public trust in a sustaining relationship that requires quick response (both by the organization and its public supporters) by explaining: its mission; its solicitation and needs for funds for infrastructure and quick response capabilities; the roles it plays in the community and is committed to on behalf of the public in its time of need; why it needs the public support; and the merit of trust in its discretion.

3. Exercising Custody over Assets for the Benefit of Society

Custodial trust is recognized in nonprofit law, governance, and financial management, because all nonprofits are composed of, hold, and operate social assets for the benefit of a group or society.⁴² The key in custodial trust is the exercise of prudence or care with respect to assets. Those in whom custodial trust is invested are required to make decisions to preserve, accumulate, grow, and make custodial assets available to fulfill a mission

when needed. Thus, custodial trust is grounded in the discretionary decision making of management. This discretion naturally tends toward conserving and augmenting, while discretionary contract trust tends toward spending to meet or exceed expectations.

Custodial trust can be impaired by imprudence, negligence, lack of due diligence, self-dealing, using the assets for transactions prohibited by the terms of the trust, being reckless, and the wasting of the organization's assets as described in the Uniform Trust Code of the National Conference of Commissioners on Uniform State Laws, 2005.

Custodial trust can also be impaired because management is inactive, incompetent, uninformed, or uninvolved—all reflecting its inability to act prudently. Consequently, restoring custodial trust is usually not sensitive to concepts of existing brand personality, integrity, history, and the like, because the loss of custodial trust is almost always traceable to that which exists or existed. In most states, a dysfunctional management as described can cause an involuntary dissolution of the organization by the state attorney general as provided for in the Corporation Code of California Article 14, Sections 6510–6519. Custodial trust can also be impaired by good intentions, such as imprudently overspending in response to public pressures.

Custodial trust can be impaired by disagreements about what constitutes prudence—making the right discretionary choice in discharging custody. In 2002, the Hershey Foundation Trust, which has custody of what was then a \$5.9 billion dollar endowment to finance the Milton Hershey School for disadvantaged children, announced that in order to diversify the portfolio and increase its returns it was going to sell its shares of the Hershey Food Corporation—of which it is the largest holder. It got an offer of

\$12 billion from the William Wrigley Corporation of Chicago. The Pennsylvania State Attorney General and the Hershey community went to court, denouncing the impact of the sale on the community. The Trust withdrew the offer to sell.

A relationship-marketing message for restoring custodial trust can communicate: changes in management's prudence, philosophy, responsiveness, and competence; a discussion as to how the changes may address future public needs by the encapsulation of that need in the nonprofit's mission; and a reason for trusting the new order—its competence, commitment, integrity, and relevance to the public's needs and discretionary decision making. This is enhanced by transparency, public involvement, and public accountability.

4. Employing the Organization's Social Capital for the Public's Benefit

Aside from contracts and contributions, an organization's social capital may be the basis of a specific transactional relationship, such as recruiting congregants, members, clients, or students. Social capital attracts persons intending to participate in it or benefit from it through the organization's activities, networks, or products.⁴³ Aside from recruiting, this trust can be impaired when—in negotiating, inviting, or discharging a transaction—the organization's unit or members misrepresent its social capital, abuse it, or withhold it after it was offered.

The July 15, 2006 edition of the *Washington Post* ran an article by Nate Herpich, called “Kosher Meat Plant Accused of Abuses.” The story, which originally appeared in the newspaper *The Forward*, is about action being taken by some Jewish religious groups against a Jewish-owned meat processor that was selling meat claimed to be kosher but which allegedly was being processed

without the human dignity and animal compassion required to be kosher. Here we see the encapsulation of interest (mission) but the probable violation of the social capital—the norms and objectives of kosher food processing.

A message for restoring public trust in the social capital of an organization when it is impaired can include: differentiating the organization from the offender or offending transaction; separating the organization from the event or the person (disassociate, suspend, or expel); and clarifying and affirming the value of the social capital to a public need.

5. Promising Mission Commitment and Adherence

Adrian Sargeant and Stephen Lee find that a principal motivation for giving is the congruence between the values of the donor and the mission of the organization.⁴⁴ Unlike trust in the social capital of an organization, trust derived from the mission is rooted in a promise to perform, not in the content of the performance. The mission is a statement of a broad and more unspecified promise than the specific performance or charitable contract. It describes the broad activity class (analogous to a firm's Standard Industrial Classification Code) in which the organization agrees to work in exchange for tax exemption, and not the details of what it will do or how.

Sharon Oster states that mission statements create bounded expectations.⁴⁵ Yet, since mission statements are broad to allow adaptation, there is abundant room for misunderstanding.⁴⁶ The impairment of trust in the mission can come from its violation, disputes over suitability of transactions, or because operations were inconsistent with the promise of a mission. In May 2006, the IRS revoked the tax-exempt status of forty-one credit counselors, claiming they violated a nonprofit purpose.

In 2005, Champion County, Illinois, revoked the property tax exemption of a Catholic hospital, claiming that its debt collection policy was too aggressive to fulfill its charitable mission. In 2004, the IRS opened an investigation into the Nature Conservancy because of alleged self-dealing by its directors in the organization's real estate transactions.

Invoking the organization's image, personality, and recent history could be ineffective in restoring trust impaired by systemic mission violation, because these factors are easily linked to the trust-impairing behavior. The impairment of trust due to the violation of mission may require changes in management, in managerial philosophy, and one or more forms of reorganization, including divestiture. For example, in 2000, the National Association of Securities Dealers (NASD), a nonprofit, sold the NASDAQ (the over-the-counter market quotation system) subsequent to publicity pointing to the potential conflict between owning this operation and the organization's mission to regulate capital market transactions in the public's interest.

A relationship marketing message to restore the public's trust in a mission can contain: why the need encapsulated in the mission or the organization is of importance to the public; why and how the new management or organizational form will serve that need; why and how the support and cooperation of the public is important in meeting that goal; why the public should believe that the "new" is more reliable and committed; and the organization's capacity and readiness to meet its promises through these changes.

Constraints on Restoring the Public Trust

While relationship marketing concepts can help in restoring trust, one message will not fit all situations. Consequently,

managers must tailor them to their specific circumstances.

Scholarship has found that commitment is dependent upon trust; corporate image depends upon trust; loyalty to brands (our analogy to social capital) depends upon trust; trust is a principal motivator in rational exchanges; and the credibility of advertising depends upon the credibility of the firm being advertised.⁴⁷ The syllogistic implication is that trust begets commitment and loyalty. It also begets the motivation to enter, maintain, and accept a message to restore a relationship—implying that trust may be its own antecedent. Thus, organizations that have managed the public trust poorly are less able to call upon it in a restorative message. The success of a restorative message depends upon other antecedents as well. Following are six of these antecedents.

1. The Organization's Involvement and Risk Exposure

While all nonprofits are not equally exposed to core transactions, all have an exposure to the impairment of mission trust, custodial trust, and social capital trust. These are embedded in the very nature of being nonprofit.

Nonprofits that have sizeable endowments or earned-income portfolios, or that do not accept tax-deductible donations, are less vulnerable to the loss of donor trust. Among smaller nonprofits (those with assets of \$10 million or less), 54 percent of their revenues comes from donations and 36 percent from program revenues. For the largest nonprofits (those with assets of \$50 million or more), 81 percent comes from program revenues and 14 percent from contributions.⁴⁸

Organizational structure may also reduce direct exposure. Structure includes independent subsidiaries, affiliates, partnerships (including licensing

and leasing arrangements), and operating through management companies in whose names certain transactions are conducted. Shields can occasionally be punctured to the extent that these units act on behalf of, benefit, are directed by, or share the name of the nonprofit, or are identified with it (e.g., athletic booster clubs, auxiliaries, and alumni associations).

2. The Message and Its Transmittal

As Petty, Cacioppo, and Schumann note, the quality of the message matters.⁴⁹ Also, the effectiveness of any restorative message will depend upon the ability of the audience to identify with the messenger, trust the organization, and believe the message. This is especially so where the impairment demands organic changes in the organization and a credible link between those changes and expected results. Toshio Yamagishi warns against assumptions of audience gullibility in trust relationships.⁵⁰ The educational level of the audience, the timing, the medium, the frequency of repetition, the depth of the infraction, and the channels used can alter the effectiveness of a restorative message.

3. The Nature of the Market in which the Nonprofit Operates

The effectiveness of a restorative message depends upon the market environment in which the organization operates. The message might be less effective in a zero-sum (or slowly expanding) market where there are no significant barriers to entry—for example, through capital, technology, or licensing requirements, so that the impairment of public trust encourages new providers or invigorates existing ones to capture the disaffected. Hence, the effectiveness also depends upon the counterstrategy of competitors—including a heavy advertising campaign of their own explaining

why a relationship with them is more advantageous.

4. The Organization's Goodwill and Cost-Benefit of Trust Restoration

The effectiveness of a restorative message is also likely to be affected by the goodwill the organization has with the public. Goodwill arises from a number of factors including location, identification with the public, past history (including past infractions and impairments of the public trust), the social significance and memory of past performance, the reputation and standing of its leadership, and the degree of participation of the public in the decision-making process of the organization.

As the public may have a cost of switching, the organization has a cost-benefit comparison of restoration. As noted, restoration often involves organizational and management changes, so the full cost of restoring the public trust includes the cost of these changes. Goodwill, mission, and social capital may justify the cost. To retain its status, the Christian Broadcasting Network (CBN), after twelve years of dispute with the IRS, gave up its tax-exempt status for 1986 and 1987 with a heavy (undisclosed) fine and taxes for politicking.⁵¹ Alternatively, CBN could have chosen to convert to a for-profit or close. This case also illustrates the point made earlier, that organizational shields can occasionally be punctured. Three subsidiaries of CBN were deemed to be politicking, but the punishment rose from the transactional level to the parent level.

5. The Public's Exposure to the Impairment and the Depth of the Damage Done

The ability to restore the public trust varies depending upon the consequences of the impairment (such as death or destruction) and its breadth. In

2003, when the head of a D.C. teachers union was convicted of conspiracy and mail fraud (*United States of America v. Barbara A. Brook*), the impact was contained primarily to members. Their membership and payment of dues continued, notwithstanding the large amount of funds stolen by the director and her staff. However, the 2004 Form 990 annual report of the National Capital Area United Way filed with the Internal Revenue Service showed that public and corporate contributions to it fell in 2001 to 2003, after it was charged with inflating its receipt of donations and its director was charged with stealing its funds. The *Washington Post* (October 26, 2003) reported that not only did corporate donations fall, but that the new director faced the challenge of restoring public trust.

6. The Value and Substitutability of the Product or Service

Products may be patented and contain specific properties—which at least in the short run may create dependency mimicking trust. Whether the product is high-valued, a necessity, or a luxury (nonprofit amusement parks) may affect the propensity to receive the message and the importance of restoration of trust. A good may be a necessity, not because it is necessary for life but because it is necessary for other reasons (such as religion) or because of its relationship to other products (such as a shoelace to a shoe).

New brands have a harder time competing with older, high-valued, established brands, implying that restoring public trust may be easier for established organizations or products.⁵² In a multi-product organization, each product may have a different level of responsiveness to a trust-impairing act and to the public response to a restorative message.

A Guide to Managing the Public Trust

The table on the following page offers a working guide to managing the public's trust. Column 1 gives the five core public-nonprofit transactions in which the public's trust matters. Each of these transactional relationships is within the normal responsibilities of a nonprofit manager and is commonly conducted with the public. The second column shows the specific concepts of trust upon which the transaction depends. The third column shows the various managerial actions that may impair the public's trust connected to that transaction and also to the organization as a whole. The fourth column shows the key concepts in relationship marketing that may be communicated to the public in trying to restore its trust. Note that these concepts are transaction-specific and do not rest on "admissions, apologies, and plea for forgiveness." The fifth column shows a generalized list of factors that could condition the effectiveness of any message to restore the public's trust in the organization. Organizational goodwill, restricted markets, and high-valued nonsubstitutable products or services may allow some nonprofits to get away with mild public rebuke while others cannot.

• • •

Theoretically—and legally—the public's trust is central to the purpose and performance of nonprofit organizations. Accordingly, a principal responsibility of all nonprofit management is to strengthen that trust and to restore it if it is impaired by their policies, decisions, actions, omissions, or under their supervision. From a managerial perspective, the public's trust cannot be an amorphous concept. It must relate to what managers do, can do, and can undo under the circumstances.

The Meaning, Management, and Marketing of the Public Trust in Nonprofit Organizations: An Operational Guide

Public-Nonprofit Transactional Relationships	Principal Bases for the Public Trust	General Nature of Managerial Action Impairing Public Trust	Primary Information in Message to Restore Public Trust Based on Projection of Future Performance of Nonprofit and Expectations of Public	Factors that Condition Effectiveness of All Messages to Restore Public Trust
1. Contracting				<p><i>The Organization's Risk Exposure:</i> Degree of involvement in the activity and the weight of the activity in the organization's operating portfolio.</p> <p><i>The Message Itself:</i> The timing, channels, messenger, credibility, audience demographics and receptivity—including depth of commitment of audience to organization (e.g., religion).</p> <p><i>The Organization's Market:</i> The number of competitors, the share of the market held by the offending organization, the counterstrategies of competitors and their standing (goodwill) with the public, and barriers to entry and to expansion of other organizations and firms in the same market.</p> <p><i>The Organization's Goodwill:</i> Its history, relationship to, and standing with the public; its prior infractions, its integrity, and its assessment of the cost-benefit of restoring the public's trust. A nonprofit organization may legally elect to reorganize as a for-profit, or stay as nonprofit but with a different name and organized under a different section of the corporate or tax-exempt code, and thus appear as a "new" organization.</p> <p><i>The Depth and Breadth of Damage:</i> Some impairments are minor, relegated to a small population (membership) rather than the entire public. Some damages have deep-rooted results such as death; some are the result of wanton negligence.</p> <p><i>The Product or Service:</i> Its social use or value, the degree to which it can be copied by others and substituted for by the public.</p>
Ordinary	Performance	Malperformance of Any Type	Communicating realizable future performance consistent with needs of public and counter-party (e.g., government or foundation) to the contract; confirming the reliability of the organization	
Charitable	Mission and Contract Adherence, Discretion, Social Capital	Misrepresentation, Nonadherence, Deceit, Nonresponsiveness, Incompetence	Affirming the organization's commitment to mission, social capital, and a shared interest with the public and mutual reliance; confirming its capacity to perform specific tasks guided principally by the public's need	
2. Use of Contributions				
Unrestricted	Mission Adherence, Discretion	Misrepresentation, Misuse	Affirming the ability to make discretionary decisions that fulfill or exceed goals; use of social capital, efficient resources use congruent with the public interest that the organization shares and to which it is exclusively committed	
Restricted	Social Capital, Mission, Performance	Misrepresentation, Nonadherence, Violation of Agreed Terms	Affirming commitment to fulfill donor intent through the organization's mission, social capital, history, principal purpose, standing, and shared commitment with the donor to the precise purposes intended by donor	
3. Custody of Assets				
	Discretion in Use, Preservation, Accretion for Future	Misuse, Negligence, Imprudence, Appropriateness of Growth Strategy	Affirming exercise of care, good discretionary decision-making exclusively in the public's current and future interest; transparency and accountability	
4. Use of Social Capital				
	Adherence to Use of Content	Misrepresentation, Withholding of Social Capital	Affirming social capital, its inclusion and availability, and its alignment	
5. Promise of Mission				
	Adherence to Promise to Perform	Misrepresentation, Violation, Disputed Meaning and Performance/Expectations	Affirming ability to perform, mutual dependency and commitment to objective, organization has no greater priority. Clarify reasonable expectation and capability to perform	

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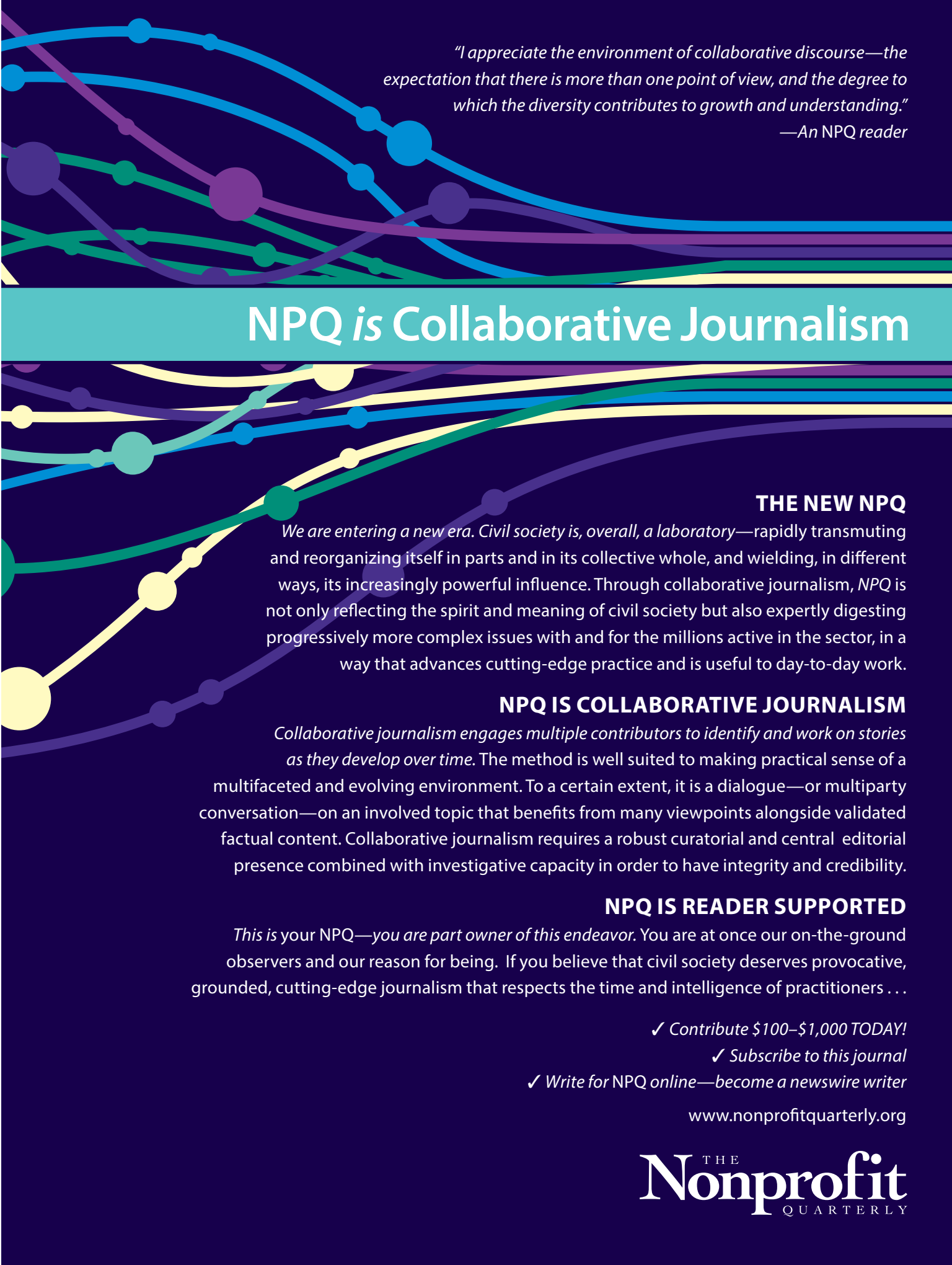
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