

# THE Nonprofit QUARTERLY



## *Births & Deaths in the Nonprofit Sector*



**McLean** *on* the sector's vital statistics

**Andersson** *on* the importance of the  
nascent stage of nonprofits

**Cases of deaths, near deaths,  
and reincarnations**



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# THE Nonprofit QUARTERLY

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There is no exactitude in the relationship between the number of registered nonprofits and the number of nonprofits that actually exist, but these are the figures that inform analysis of the parameters of the sector. In this article, Chuck McLean, vice president of research at GuideStar, outlines the numbers and some of the issues and questions that they raise.

by Chuck McLean

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It is difficult to identify exactly when an organization has come into existence. A general rule is that a nonprofit is born the moment it has been officially registered by the IRS, but this article argues that “the emergence of a new nonprofit organization is better understood as a process rather than a discrete event or state. Specifically, reducing nonprofit birth to the act of registration is to simplify and ignore critical aspects of the organizing process.”

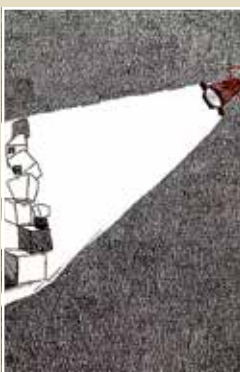
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As organizational theorists have described it, an organization's risk of dying is highest at the point of its founding and decreases with age. So it is essential for new nonprofits to understand the challenges that they face if they are to survive—and, as the author writes, “more importantly, have significant impact.” This article reviews theories on the life cycle-related threats and opportunities that await the young nonprofit.

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There are historic moments when a whole new field of nonprofits appears in response to social realities—and this kind of phenomenon poses both challenges and opportunities. The challenges are developmental, as the organizations establish themselves, work out their leadership mix and decision-making processes, establish relationships, and set up systems; a primary opportunity is for a well-placed infrastructure to support the whole field through these challenges. This article about new nonprofit journalism sites is based on interviews with the Knight Foundation and the Investigative News Network.

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## 32 Deaths, Near Deaths, and Reincarnations

Along the trajectory of an organization's death are signs of decline—and even of antecedents of decline—that can be pulled out and used as a kind of morbidity and mortality analysis in aid of interpreting what went wrong. To that end, this special collection presents mini-case studies on the death, near death, or reincarnation of five organizations: Hull House; the National Center for Public Policy and Higher Education; the Otto Schiff Housing Association; the International Museum of Women; and ACORN. The case studies were prepared by students at the University of Pennsylvania as part of their work for the graduate course “The Nonprofit Sector: Concepts and Theories,” taught by Chao Guo, associate professor of nonprofit management in the Penn School of Social Policy and Practice at the University of Pennsylvania. They include “event structures”—maps illustrating the series of events leading to each organization's demise as interpreted by the students, with guidance by Mark A. Hager, associate professor of philanthropic studies in the School of Community Resources and Development at Arizona State University.



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## 66 10 Ways to Kill Your Nonprofit

This article presents the authors' top picks for how best to destroy your organization. Of course, if you want your nonprofit to thrive, you should avoid the pitfalls described in these pages. But, the authors warn, this won't be easy to do, as, “Killing a nonprofit takes less effort than making one really effective.”

by Mark A. Hager and Elizabeth A. M. Searing



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# Welcome

**D**EAR READERS,  
Welcome to the winter 2014 edition of the  
*Nonprofit Quarterly*: “Births and Deaths in  
the Nonprofit Sector.”

Metaphors are wonderful shortcuts. They are doorways through which a thing can be viewed, although they do have their limits: they tend to illuminate one aspect of an entity while obfuscating another. That said, thinking about this edition in terms of births and deaths was a useful way for our editorial team to explore the stages of growth and decline of nonprofits, as well as to gauge how well (or not) we are currently able to analyze the “ebbs and flows in the numbers and types of nonprofits that thrived and perished” in any given period, as Chuck McLean describes it in the opening feature.

What came up in our editorial discussions? Things like: At what point is a nascent nonprofit viable? Do some organizations suffer from failure to thrive? Are larger baby nonprofits healthier than smaller ones? At what point do we pronounce a nonprofit dead? Are there fields of endangered species, and should they be saved? Does quality of life matter? Do some nonprofits commit suicide? We were never in danger of mixing this metaphor, lending itself, as it did, to a seemingly endless array of questions.

Of course, the metaphor doesn't serve in many ways. All we can numerically track in terms of birth and death statistics are the registrations of organizations, but organizational status is not a good indicator of “life” being present (except inasmuch as there is someone present enough to submit a 990). That said, many nonprofits can be said to have a “body” and “soul.” Nonprofits have to “eat.” They can “wither and die” from lack of care and from isolation. Some nonprofits become “demented” or “lazy” as they get older. Some nonprofits are “bullies in the playground.” And some remain “immature” well into “adulthood,” embarrassing themselves by forgetting to pay their bills or by committing to things and then not following through. And many nonprofits go through phases of development, and these form patterns that in some cases are as discernable as the patterns in child development.

So, nonprofits are not people. But they do often exist in concept and action before they are acknowledged, and they do die—oftentimes long before anyone officially declares them dead. Perhaps an understanding of economic activity is a more reasonable way to measure life in the sector—but then where does all of the untracked human capital effort go? It just goes to show, what can be counted doesn't always count.



# Vital Records: *Births and Deaths in the Nonprofit Sector*

by Chuck McLean

From his perch as a senior researcher at GuideStar, Chuck McLean can easily track the numbers of nonprofits registered, the general fields they are in, and how old they are when they die. But, he cautions, this is still not a very accurate view of the demographics of the sector; there is much that remains out of sight.

EVERYONE AGREES THAT THE NUMBER OF REGISTERED nonprofits at any given time is a very rough—bordering on meaningless—proxy for the number of nonprofits that exist. But these are the figures advanced whenever anyone attempts to describe the parameters of the sector. This article outlines the numbers and some of the issues and questions that they raise.

Between December 2004 and September 2014, there were 1,904,769 IRS-approved tax-exempt

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**CHUCK McLEAN** is vice president of research at GuideStar, where he produces the annual *GuideStar Compensation Report*, an analysis of the executive compensation of thousands of nonprofits throughout the country.





One of these “dead” organizations is happily operating as a public charity seven miles from where I sit writing this, ignorant of the fact that it has been doing so illegally since June 2011.

organizations that appeared on the IRS Exempt Organizations Master File (EOMF) for at least one month. Yet, by September 2014, there were only 1,459,813 organizations that the IRS still believed were viable. For various reasons, any analysis of the ebbs and flows in the numbers and types of nonprofits that thrived and perished during this period is inherently flawed, but the analysis here presents a rough sketch of what happened during the period.

## The Great IRS Purge

Using the EOMF, we can get some idea of the births and deaths of organizations from 2005 through 2014. One of the difficulties in pinning this down with precision jumps out after a quick look at table 1.<sup>1</sup>

Year	Births	Deaths	Net Change
2005	43,816	11,099	32,717
2006	46,146	33,464	12,682
2007	47,651	45,617	2,034
2008	41,481	36,580	4,901
2009	53,651	23,332	30,319
2010	52,068	40,738	11,330
2011	50,897	230,623	-179,726
2012	48,824	53,879	-5,055
2013	51,357	67,811	-16,454
2014	67,321	35,692	31,629
<b>Total</b>	<b>503,212</b>	<b>578,835</b>	<b>-75,623</b>

Prior to 2006, the IRS had no legal standing to revoke the tax-exempt status of an organization for failing to file the required Form 990 series return, and organizations with gross revenues of \$25,000 or less were not required to file at all. The Pension Protection Act of 2006 provided for the creation of a new online form (subsequently named the 990-N) that these smaller organizations were required to file starting in 2008. The legislation further allowed the IRS to begin revoking the tax-exempt status of organizations that failed to file for three consecutive years.

The first round of these automatic revocations began in June 2011. Based on the anomalous

number of deaths for that year (and, to a lesser degree, in 2012 and 2013), the actual number of deaths in the years preceding 2011 are understated. For example, 154,214 of the organizations appearing on the December 2004 EOMF would have qualified for automatic revocation had the law been in effect at that time, but they did not lose their tax-exempt status until June 2011. It is also worth noting in passing that death is a simpler but somewhat misleading way of describing the loss of tax-exempt status. One of these “dead” organizations is happily operating as a public charity seven miles from where I sit writing this, ignorant of the fact that it has been doing so illegally since June 2011. I suspect that there are thousands of small, volunteer-only organizations in similar circumstances.

## The Demographics by Field

In general, there appears to be no trend suggesting that specific program types of organizations are waxing or waning. For the most part, organization types were born and died in proportion to their overall representation in the EOMF (see table 2).

Category	Births	Deaths	Net Change
Arts, Culture, and Humanities	36,895	25,477	11,418
Education	68,968	36,663	32,305
Environment and Animals	23,413	10,563	12,850
Health	30,833	21,924	8,909
Human Services	157,322	99,620	57,702
International, Foreign Affairs	14,189	5,077	9,112
Mutual/Membership Benefit	7,246	2,212	5,034
Public, Societal Benefit	80,267	42,491	37,776
Religion-Related	60,574	19,612	40,962
<b>Total</b>	<b>479,707</b>	<b>263,639</b>	<b>216,068</b>

One notable exception were human services organizations, which were created at 23 percent more than the expected rate and died at 28 percent more than the expected rate. The other exception were religious organizations, which died at about half the expected rate. One possible

explanation for this is simply that because most religious organizations are not required to file even a 990-N they are not subject to automatic revocation. The IRS does not know that an organization has gone out of business unless it notifies the IRS that it is ceasing operations (a requirement usually observed in the breach). (Note: for various reasons, nearly half of the organizations in the current EOMF, mostly small ones, are not classified by program type. Those organizations are not included in table 2.)

### The Demographics by Size of Assets

It is probably not surprising that small organizations dominate both births and deaths in the EOMF. Organizations with total assets of less than \$25,000, or those never required to report assets because their revenue was less than \$25,000, accounted for 80 percent of the births and 89 percent of the deaths (see table 3).

Table 3: Nonprofit Births and Deaths by Total Assets		
Total Assets	Births	Deaths
< \$25,000 or Never Reported	400,618	513,968
\$25,000 to \$99,999	38,704	22,711
\$100,000 to \$499,999	32,810	20,431
\$500,000 to \$1,000,000	9,960	6,081
\$1,000,000 to \$4,999,999	14,047	7,655
\$5,000,000 to \$9,999,999	2,858	1,642
\$10,000,000 to \$49,999,999	3,101	1,864
\$50,000,000 or Greater	1,114	4,483
<b>Total</b>	<b>503,212</b>	<b>578,835</b>

One surprising finding was that, besides the very smallest organizations, the only other assets group where deaths exceeded births was the very largest organizations.

Upon further investigation, we found what you might expect—that the disproportionate number of organizational deaths among mega-organizations were rarely deaths but rather morphings. For instance, the Jamie and Steve Tisch Foundation came apart when the founders underwent a divorce. This death resulted in two births: the Jamie Tisch Foundation and the Steve Tisch

Foundation. Another interesting example is Oxford University Press, Inc., which reported net assets of \$93,204,848 on its 2011 Form 990. It was allowed to transition to become Oxford University Press, LLC, in Delaware, and become a “disregarded entity” of Oxford University, itself a 501(c)(3)—which essentially means that for tax purposes it will be treated as part of the university. And so it goes—these larger nonprofits do not die at all but rather merge, split, or otherwise change form. This provides just a small window into the fallacy of using the numbers without plenty of caveats.

### Life Expectancy

When speaking of the age of nonprofits at death, the EOMF provides us with only the proxy of the IRS ruling year. In most cases, this will track the founding year fairly closely, but there can be some odd exceptions. For example, the American Diabetes Association (ADA), which has been around since 1940, received a new IRS ruling in 1992 because of changes to its corporate structure. So, for the purposes of talking about age using the EOMF, we have no choice but to treat the ADA as if it were twenty-two years old. This kind of situation is unusual, though, and with the hundreds of thousands of organizations in this analysis, it is unlikely to change the numbers significantly.

The most likely age of organization death is between six and fifteen years (see figure 1, following page). That decade accounted for 31 percent of all deaths. The most “dangerous” age was nine, with 18,955 deaths, about 6 percent more than age ten, the second-highest age for deaths.

The age distribution of nonprofits active in the September 2014 EOMF skews young (see figure 2). Organizations five years old or younger make up 20 percent of the organizations. The median age is twenty years. These young organizations are overwhelmingly public charities, and their proportion of the total tax-exempt universe is increasing. Overall, 69 percent of the organizations in the September 2014 EOMF are public charities; 82 percent of the organizations age five or younger are public charities. In fact, from 2004 to 2014, all subsections under which the IRS provides tax exemption saw a net decline, except for 501(c)(3) organizations (see figure 3).

Upon further investigation, we found what you might expect—that the disproportionate number of organizational deaths among mega-organizations were rarely deaths but rather morphings.

Figure 1: "Age" of Nonprofits at Death

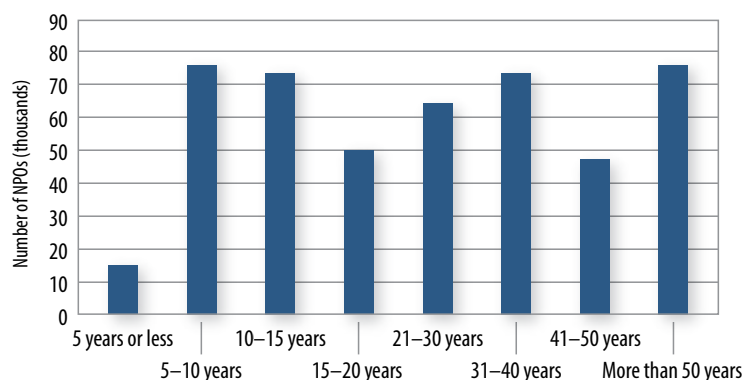


Figure 2: "Age" of Active Nonprofits

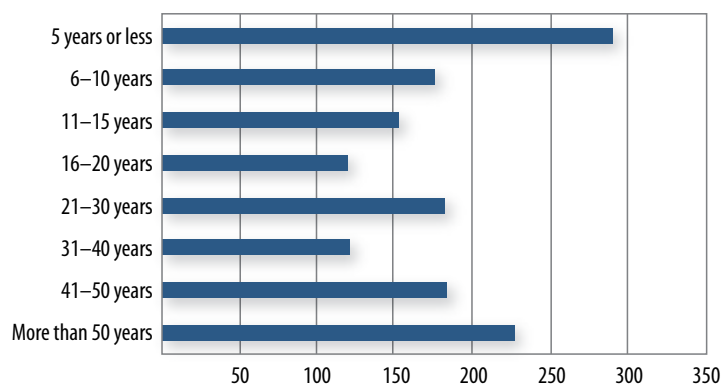
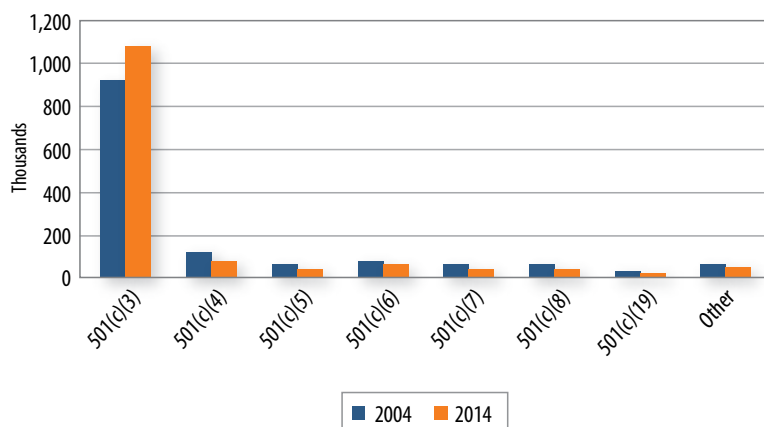


Figure 3: Change in Number of Tax-Exempt Organizations by Subsection, 2004–2014



In light of this, one thing that bears close attention is the advent of the Form 1023-EZ. The purpose of this new form is to make it easier for small organizations to receive tax-exempt status as public charities. Although it is much too early to come to a definitive conclusion about the impact this new form will have, consider this: of the 67,321 organizations created in 2014 through the end of August, 28,807 (43 percent) received their tax-exempt status in the two months since it became possible to file Form 1023-EZ, and 62 percent fit the profile of organizations that would be eligible to use that form rather than the full Form 1023.

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Readers should use these numbers at their own risk, and only to provide the most general and fuzzy estimates of the parameters of the sector. Although automatic revocations mean that, going forward, the EOMF will give us a fairly accurate understanding of the numbers and types of organizations that are active and have formally applied for and received tax-exempt status, this leaves much of the sector unaccounted for. For instance, the Association of Statisticians of American Religious Bodies reported 344,894 religious congregations in its 2010 census. A vast majority of these congregations do not apply for tax-exempt status, and we know very little about their birth and death patterns. The IRS does not release information on how many and what types of organizations file one of the Form 990 series returns on a regular basis without ever actually applying for tax-exempt status—only organizations operating under IRC sections 501(c)(3), 501(c)(9), or 501(c)(17) are compelled to formally apply. I can find no reliable numbers on how many of these so-called “self-declarers” are currently operating. Likewise, as I have suggested above, there are probably many small organizations, important in their communities if not in the grand scheme of things, that operate as if the IRS did not exist.

#### NOTE

1. The tables and figures in this article were generated by GuideStar using datasets created or downloaded from the IRS.

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# The *Nascent* Nonprofit Organization— *What Happens Before a Nonprofit Is Born?*

by Fredrik O. Andersson

While the earliest phases of nonprofit life remain an essential area of study, the nascent stage of nonprofits is a valuable window into organizational development.

HERE IS A CLASSIC PHILOSOPHICAL PROBLEM called the “sorites paradox,” or “paradox of the heap”—a version of which goes something like this: A single grain of wheat does not comprise a heap; as a single grain is not a heap, if you add one more grain, you still don’t have a heap; as two grains are not a heap, add a third grain, and you still don’t have a heap; and so on. Following this logic, no amount of wheat added to that first grain can make a heap. While the line reasoning is plausible, it arrives at what appears to be a false conclusion—thus the paradox.

I highlight this philosophical riddle in an article about organizational emergence because it illuminates the difficulty of identifying exactly when enough of something accumulates to allow one to assert that a heap has come into existence. The same applies to new organizations: Is thinking about starting a new nonprofit organization enough to say that a new nonprofit has been created? Is gathering information or talking to

people about starting a new nonprofit verification of its existence? How about amassing resources? One could, of course, argue that a nonprofit is born the minute it has been officially registered by the IRS and thus attains formal status—but I would argue that the emergence of a new nonprofit organization is better understood as a process rather than a discrete event or state. Specifically, reducing nonprofit birth to the act of registration is to simplify and ignore critical aspects of the organizing process.

This is not to say that formally registering a new nonprofit is a minor event. Quite the opposite: registration is an important act that establishes boundaries—that is to say, a “barrier condition between the organization and its environment.”<sup>1</sup> As these boundaries coalesce, it is possible for the founder(s) of the new organizations to (among other things) establish routines and procedures, and develop capacities within the nonprofit that allows it to take coordinated action. Still, nonprofit founders do not instantaneously register new nonprofits but rather create them through various actions—many of which take place before formal registration of the new agency occurs. And,

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FREDRIK O. ANDERSSON is assistant professor at the Helen Bader Institute for Nonprofit Management at the University of Wisconsin-Milwaukee.



Despite its intuitive appeal, however, the gestation of nonprofit organizations remains a relatively underresearched area—in part because it is hard to identify a nascent nonprofit organization.

in the entrepreneurship literature, the portion of the development process transpiring before any formal entity has been established is often referred to as the *gestation* or *nascent* stage of organizational development.

Despite its intuitive appeal, however, the gestation of nonprofit organizations remains a relatively underresearched area—in part because it is hard to identify a nascent nonprofit organization. While there appears to be growing scholarly interest in trying to better understand the earliest phases of nonprofit life, to date the only thing we know is that we don't know much.<sup>2</sup> This article is organized around a number of observations of the nascent stage, based on my own research and work with nonprofit start-ups as well as on findings from the entrepreneurship and social entrepreneurship literature. My hope is that these observations will serve as an entry point for discussion and debate, and stimulate further research focusing on nonprofit emergence.

### Observation #1: The patterns of emergence are exceptionally heterogeneous.

When examining the nascent stage of organizational development, we find that it is not a linear process. We also find that it is exceptionally heterogeneous. In one of the first empirical studies of firm gestation, Paul Reynolds and Brenda Miller examined the conception-to-birth process of over three thousand ventures. They found that many of the ventures did not engage in all of the presumed key events of gestation; in addition, they were not able to detect any particular sequencing of the various actions the ventures took. They also found significant variance in the *types* of actions taken. In other words, these ventures differed in terms of what they were doing as well as in what order.<sup>3</sup>

But while organizational creation is not a linear process, it remains depicted as one. Recently, I visited the “how to start a new business/nonprofit” section in my local bookstore, and the vast majority of books were organized as manuals, providing road maps or step-by-step instructions on what to do and how and when to do it. And perhaps the most common instruction given to would-be-entrepreneurs that comes out of this literature is to begin by generating a business plan.

Given that there are many unknowns when attempting to initiate a new organization, writing a business plan before moving forward seems reasonable and useful. I have nothing against nonprofit business plans, and *planning* is indeed a powerful and important process for any organization—but nonprofit emergence is so much more than a plan, and creating a business plan, as we know, is not a necessary condition for starting up a new nonprofit (after all, nonprofits came into being as far back as 1793, as de Tocqueville observed in his account of his visit to the United States in 1831—long before the idea that every start-up needs a business plan became a founding principle). Nor is creating a business plan a necessary condition for start-up success. Plenty of research in the for-profit field has examined the link between business plans and organizational performance, but the evidence to date is inconclusive. In addition, it is often noted how highly successful entrepreneurs, including Steve Jobs, Bill Gates, and Michael Dell, did not write formal business plans before starting their ventures, and many entrepreneurs consider producing a business plan a waste of scarce resources and time that ought to be devoted to more-productive activities. Finally, an underlying assumption of the business plan is that the entrepreneur can figure out most of the unknowns of a new organization in advance—but in today's dynamic and often uncertain nonprofit environment, making plans can be inherently difficult, and relying on a plan can be unwise if the conditions change. Or, as Mike Tyson put it, “Everyone has a plan—until they get punched in the face.”

The point here is that a business plan is just one of many possible actions a nascent nonprofit entrepreneur may or may not undertake. And taken together, the range, timing, and choices of actions to consider and account for illustrate the difficulties and complexities facing scholars, start-up funders, and policy-makers trying to fully comprehend the birth stage of nonprofit organizations. Clearly, there is more than one way to get through the nascent stage and end up with a new nonprofit organization—and, in order to understand such equifinality, we need to view nonprofit organizational birth as the result of an experimentally oriented rather than linear process.<sup>4</sup>

## **Observation #2: The length of the nascent stage varies significantly.**

In addition to the variability discussed in the previous section, the time it takes for a nascent entrepreneur to move a new organization from inception to birth also differs considerably. The Reynolds and Miller study found that the average nascent stage lasted around three years, yet some of the ventures in their sample took as little as four weeks and others close to a decade to get off the ground.<sup>5</sup> That the length of the nascent stage can vary significantly suggests that time may not be a very useful factor in analyzing the birth of new organizations. Some scholars advocate that we may do better to look at capacity, and that what determines the length of the nascent stage is linked to the “maturity” of these capacities.<sup>6</sup> The starting point for the capacity approach is that during the nascent stage, an emerging organization is vulnerable, and overcoming this vulnerability is essential for a new organization to progress to the next level. In other words, the length of emergence depends on the ability to develop a sufficient capacity endowment—and the time this process takes can vary considerably from venture to venture.

## **Observation #3: Many nascent organizations perish before they are “born.”**

The notion that nascent organizations are vulnerable is supported by research by Simon Parker and Yacine Belghitar, Howard Aldrich, and Maija Renko, among others.<sup>7</sup> Renko noted recently that “the start-up process of a new venture is precarious: most entrepreneurial activities end in ‘near-misses,’ that is, organizations that die while emerging.” Renko’s statement is based on data from the Panel Study of Entrepreneurial Dynamics, which found that six years after entering the nascent stage, two-thirds of entrepreneurs had either abandoned the process or were still trying to start up the new venture.<sup>8</sup> This observation is important for two related reasons. First, it illuminates how the common perception of organizational birth as an observable formal start-up results from analysis of two underlying rates: the rate at which nascent organizational activity is instigated,

and the success rate of such attempts. So, when we talk about nonprofit organizational “deaths,” we must distinguish and clarify whether or not we are including both nascent-stage deaths and deaths of nonprofits already founded. Clearly, if we include the former, the overall number of deaths significantly increases, and if we study just the latter, we are likely to ignore potentially important insights into how and why organizations live or die. Second, if nascent deaths are not taken into consideration in discussions about and research on nonprofit births, we have a selection-bias issue resulting from only considering nascent activities that led to successfully established organizations. Per Davidsson points out that this approach is “equivalent to studying gambling by exclusively investigating winners.”<sup>9</sup> This, in turn, highlights the importance of generating panel rather than cross-sectional data that take into account nascent activity, in order to properly analyze how new organizations are born, what allows new organizations to thrive, and why and how they die.

## **Observation #4: We need to know more about the intentions of nonprofit entrepreneurs.**

A key concern when trying to analyze the nascent stage is where to begin—in other words, what are the early factors leading to nascent activity? Because new organizations are seldom coerced into being, and because they do not represent a random, passive by-product of environmental circumstances, scholars have long focused on intentionality, which proposes that at inception the fundamental organizational idea resides within the entrepreneur, and therefore the goals of the new organization are reflections of his or her intentions.<sup>10</sup> Hence, during the nascent stage it is initially the entrepreneurs’ intentions that help craft the direction and actions taken. Several scholars believe that, given the above, intentionality must precede more tangible features of emerging organizations (for example, looking for resources).<sup>11</sup>

Notwithstanding the scholarly challenge to capture and assess entrepreneurial intent, the intentionality construct has long been an important puzzle piece in a much-needed conceptual

**That the length of the nascent stage can vary significantly suggests that time may not be a very useful factor in analyzing the birth of new organizations.**

Because of its long-lasting implications, I would argue that understanding the process of imprinting is one of the primary reasons nonprofit scholars and practitioners need to pay more attention to the nascent stage.

framework for entrepreneurship on which researchers can anchor their studies of new-venture creation. In the nonprofit literature to date, the creation of nonprofits is often framed as a response to market failure, government failure, or contract failure—or in response to various expressive needs.<sup>12</sup>

Nonprofit entrepreneurs are also frequently described as passionate and ideologically motivated individuals who seek to address problems and/or needs that speak to them on those levels.<sup>13</sup> However, while such characteristics as being responsive to problems and needs and being passionate and driven are useful information, this does not tell us much about the nonprofit entrepreneur's intentions for his or her new organization. What are the aspirations and goals with respect to growth? Will the organization use an innovative approach, or will it replicate what is already in use? Is it a hobby project, or is it going to be the entrepreneur's source of employment? The answers to these types of questions are key to understanding how a nascent venture gets organized and evolves, and thus should be explored in much more detail by nonprofit scholars.

#### **Observation #5: What transpires during the nascent stage leaves an enduring imprint on the new organization.**

In his seminal work "Social Structure and Organizations," Arthur Stinchcombe highlighted the enduring impact of prior organizational history on subsequent organizational structures and events.<sup>14</sup> The idea that important founding conditions are embossed onto new organizations and tend to persist over time is often referred to as "organizational imprinting." Because of its long-lasting implications, I would argue that understanding the process of imprinting is one of the primary reasons nonprofit scholars and practitioners need to pay more attention to the nascent stage. Therein lie potential answers to very critical questions and facets of organizational development, including how nonprofit organizational identity and/or culture are shaped, and why nonprofits initiated at different times have different forms and follow different strategies.

In addition, insights from studies of imprinting during the nascent stage can help bring greater clarity to such issues as the sources and rationales of founder's syndrome and how emerging nonprofits seek to overcome their liability of newness and increase their legitimacy.

• • •

This article attempts to show that paying attention to the nascent stage of nonprofits is a sound and valuable approach to viewing nonprofit birth as a process, and that it opens up a new and very promising avenue for nonprofit entrepreneurship and organizational research. While there is a growing interest in the earliest phases of nonprofit life, there is still considerable room and need for further research and discussion regarding the nascent stage and how we can better understand it. While the five key observations outlined above are certainly not the complete picture, my hope is that they will facilitate progress in learning about the nascent stage and why it is essential to a comprehensive understanding of organizational development. Research on the nascent stage of nonprofit organizations is, in other words, in its own nascent stage—suggesting that there are innumerable challenges and opportunities to take on moving forward.

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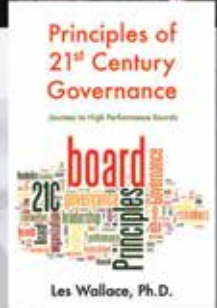
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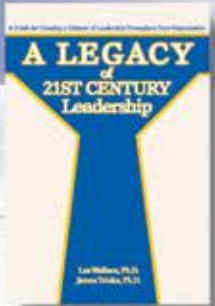


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# The Challenges of *New* Nonprofits

by Wolfgang Bielefeld

A nonprofit's infancy is a time of exploration and testing,  
and missteps are, as the author writes, "par for the course—  
although as any parent of a young child can attest,  
some falls can be painful."

**W**HAT GOVERNS THE SURVIVABILITY OF NEW organizations? What is at stake, and what choices do organizations face along the road to maturity?

Those seeking to start up a group with the objective of doing good in the world have a number of options, and this article reviews theories on the life cycle-related threats and opportunities that await the young nonprofit.

## **Birth Options**

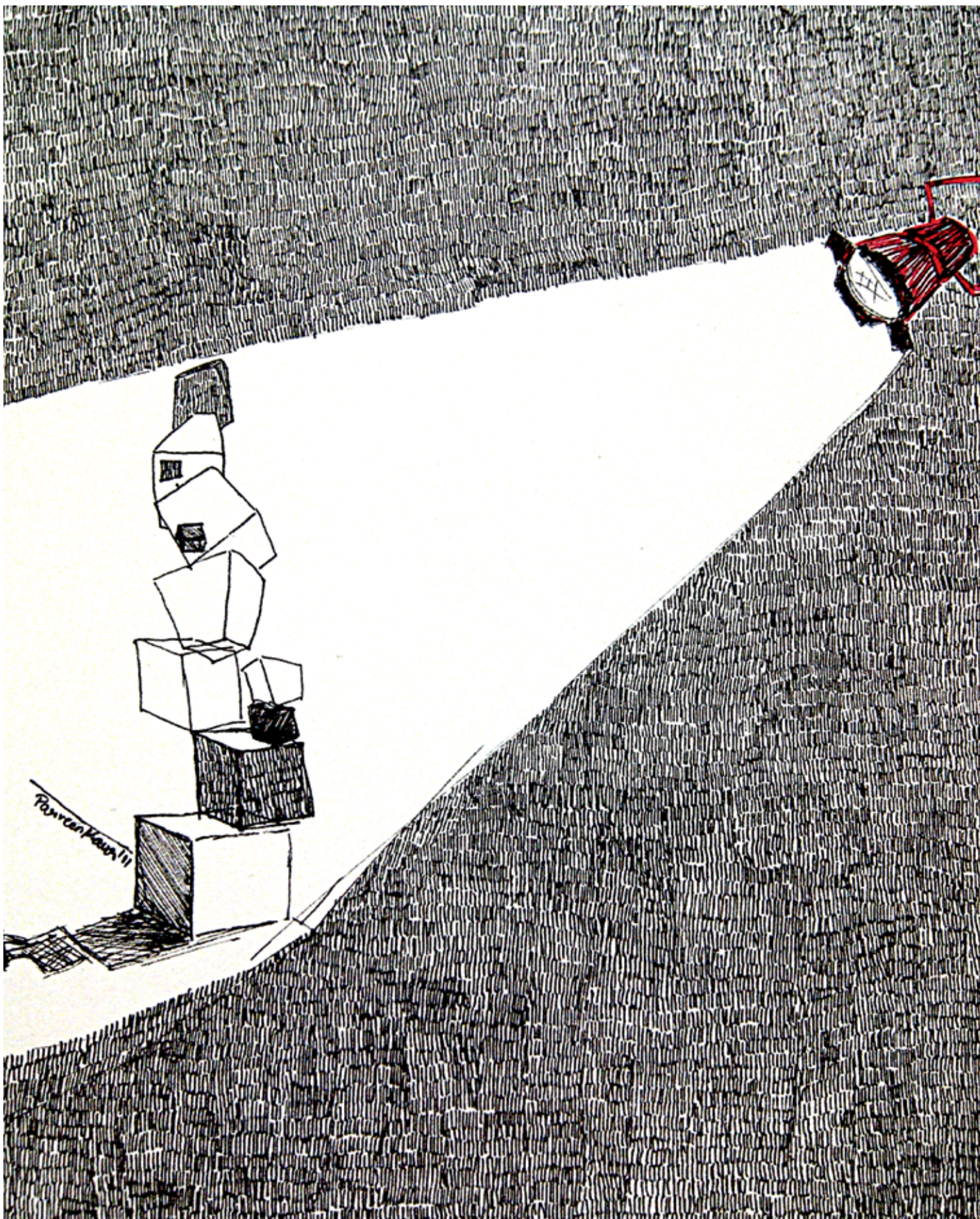
Those seeking to start up a nonprofit must decide how they wish the organization to function. One option is to operate as an informal group of people, bound to each other only by the agreement of group members. These groups are often limited in size or tenure; they do not have the

organizational rights of a more formal group, nor do they bear responsibility to an organizational structure beyond what is necessary to keep the effort organically knit together and moving forward—and this by voluntary agreement. There is something essential about this moment. It is the point at which the only reason a group does things is because those things need to be done to further the cause. If the group has an urge or reason to be more formal, however, it may choose to become a legally recognized nonprofit entity, and in this case it can be set up as an *unincorporated association*, a *charitable trust*, or a *nonprofit corporation*.

*Unincorporated associations*, the simplest legal form, are allowed to have a bank account in their name and to have tax-deductible contributions made to them. They have few other beneficial features. The *charitable trust* form is common in many other countries but has relatively limited use in the United States, where charitable trusts tend to be used by organizations whose purpose is

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**WOLFGANG BIELEFELD** is professor emeritus at the School of Public and Environmental Affairs at Indiana University-Purdue University Indianapolis.



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to make grants. The most common type of legally recognized nonprofit in the United States is a *non-profit corporation* with IRS tax exemption. These organizations must report to their respective states and the IRS, and otherwise adhere to requirements of their formality. They must keep their contracted promises as a group and adhere to proper decision-making procedures. As Fredrik Andersson writes, young organizations can find this difficult. Some will stay nascent for a while, only gradually arriving at independence and formality.<sup>1</sup>

The nascent stage is formative, and somewhat predictive of the future.<sup>2</sup> Is the organization premature, or has it placed itself under the umbrella of another organization only to find itself smothered? When it launched, was it really ready to do so? Does it have a strong sense of purpose and will to survive? That reason for being and the collective life force of the group are important factors—more important, in fact, than many others.

In the end, it is wiser to be born into organizationhood at the right time: when a group is sure that its niche is clear; when it knows that it has the will, heft, and capacity to live; and when it has some idea about how to negotiate its environment. The establishment of a new nonprofit corporation is relatively easy and generally no barrier unless someone at the IRS decides that a particular field needs special scrutiny. State-level incorporation and IRS tax exemption depend primarily on the establishment of a charitable mission and the assurance of a minimal organizational structure to accomplish it (such as a board of directors and bylaws). While accomplishment of these first organizational milestones is, no doubt, an occasion for the founders to celebrate, this is merely the start of a difficult process.

### The Vulnerability of Infant Organizations

Once an organization is established, there are all manner of threats to negotiate. Indeed, private organizations are very vulnerable in their early years. It is well known that business start-ups have high failure rates. Using data on firms started in 2005, the U.S. Census Bureau found that a mere 43 percent of these firms still existed five years later.<sup>3</sup> While the percentage can vary somewhat depending on the industry or the year of analysis,

the conclusion is that youth is a hazardous time for new businesses.

So, what causes businesses to fail? A lack of capital, a misunderstanding of the market, a faulty model for how to attract and maintain that market—there are any number of factors that likely sound familiar to many nonprofits. It is true that evidence suggests that the rate of failure among nonprofits may not be as dire as it is for profit-making organizations. Teresa Harrison and Christopher Laincz examined data from the National Center on Charitable Statistics (NCCS) on all 501(c)(3)s that filed a tax return between 1989 and 2003.<sup>4</sup> They found that 12 percent of these nonprofits exited from the data within five years and 17 percent exited within ten years. But the great IRS purge of 2011 and 2012 attests to the fact that the statistics were, prior to that, tempered by a dearth of declarations—in other words, that *quiet deaths* had occurred. Many of the organizations eventually found to no longer exist in the course of this purge were, due to their small size, not required to report and thus were assumed to be current. Once the IRS's new reporting requirement kicked in, these phantoms were unable to comply and were, finally, declared dead.

### How to Survive

New nonprofits face a number of significant challenges if they are to survive and, more importantly, have significant impact. Much has been written about organizational functioning in start-up years, and we can use insights gleaned from this literature to help us understand these challenges. Below we examine the implications contained in a number of relevant concepts and theories.

#### The Liability of Newness

Organizational theorists have long noted that organizations face developmental risks associated with where they are in their life cycles. Arthur Stinchcombe, who was the first to argue that an organization's risk of dying is highest at the point of its founding and decreases with age, associated high mortality in new and younger organizations with three factors:<sup>5</sup>

1. New organizations that are acting in new areas require their members to perform new

roles. Learning these roles takes time and leads to inefficiency.

2. New organizational members who do not know each other need time to develop trust.
3. New organizations need to build stable relationships with clients and other environmental stakeholders.

Some of the problems that may plague organizations during this period are interpersonal conflicts, difficulties related to how decisions are made (and by whom), and a lack of systems (program protocols, financial data management, human resources, board policies and frameworks, etc.) to support meeting the expectations of stakeholders (including funders, staff and volunteers, beneficiaries of the activity, and so on).

### *The Liability of Smallness*

A related line of research has examined how organizational size influences failure. The *liability of smallness* posits that small organizations have a propensity to fail. This smallness-related vulnerability results from problems in raising capital, recruiting and training a workforce, and handling regulatory compliance.<sup>6</sup> As organizations grow, they increasingly emphasize predictability, formalization, and control, demonstrating greater reliability and accountability. But this transition is not always easily made. Traditionally, the period during which an organization transitions from informality to greater formality is often fraught with blame and shame, as well as, sometimes, the loss of key movers and shakers, as smallness burns out leaders.

### *The Liability of Age*

In 1991, Mark Fichman and Daniel Levinthal suggested that, during an organization's formative years, a convex ( $\cap$ -shaped) relationship exists between age and failure.<sup>7</sup> New organizations begin with a stock of assets (such as goodwill, positive beliefs, commitment, resources) that buffer them during an initial honeymoon period, even if they struggle in the early stages. The larger the initial stock, the longer the organization is buffered. As these assets are depleted, however, organizations that are unable to

develop sustainable resource supplies are increasingly likely to fail.

The new nonprofit faces a plethora of issues that are likely to include *lack of visibility to the environment, confusion about structure, over-confident leadership, and shallow systems*. The nonprofit will have to answer critical questions, such as: "Why do we exist?" "How will we make a difference?" "How will we establish our presence?" "Who does what?" "How will we know we are successful?" In addition to asking the right questions and establishing hypotheses for how the organization will operate, the nonprofit will need to ensure that adequate capacity and support are available to start proving the hypotheses—to some extent—within a few years. Without this, the nonprofit is unlikely to survive.

The discussion above brings up a paramount issue for new nonprofits: while it is important to consider both internal functioning and the external environment, it may prove particularly problematic for young nonprofits to assess and respond to the environment, because the complexities are new. Nonprofits are influenced by a number of environmental factors, including other organizations, the availability of resources, and the normative expectations of stakeholders. Organizational theories have been developed to consider these aspects of the environment, and we will examine three of these in terms of their implications for new nonprofits.

### *Population Ecology Theory*

*Population ecology theory* uses ecological models borrowed from biology to analyze populations of organizations. Populations are aggregates of organizations that have important similarities, such as what they do and where they get resources. For example, nonprofit day-care organizations would comprise a population.

In Michael Hannan and John Freeman's model, population dynamics occur through the three stages of *variation, selection, and retention*.<sup>8</sup> *Variation* is the stage that generally occurs earliest in an organization's life, and it refers to the generation of organizations that diversify the field. While this could take place through major change

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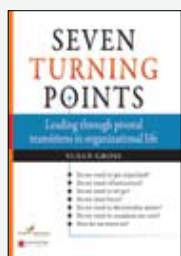
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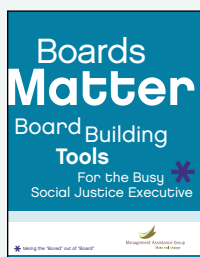
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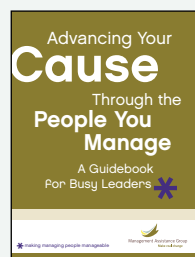
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in existing organizations, it can also happen via the development of new organizations—for example, an organization might be developed to provide specialized support to LGBT high school students, where more general support services exist but have not been able to address the specific needs of that population in a way that is culturally attuned.

What characterizes this different organization is its environmental niche. Niches are domains of unique resources and needs. For example, the day-care niche is composed of those wanting day care and the resources available for day-care providers. Consequently, a new nonprofit must understand its niche and its characteristics, such as the number of providers, degree of competition, demand for services, and availability of resources. It is also important to assess the niche's "carrying capacity," or number of organizations it could support. A relatively full niche is likely to be a more difficult environment than a relatively sparse one. Considering these factors, a new nonprofit may be able to choose a niche that is favorable for it.

A new population of nonprofits will initially have high death rates, since the forms are untested, resources are less predictable, and the environment is not familiar with the organizations. As more experience is gained, a relatively stable middle period follows, where births are roughly equal to deaths. Finally, a late period ensues when death rates rise again due to competition from newer populations. A new nonprofit, therefore, will be influenced by where its population is in its life cycle. All other things being equal, a new nonprofit is likely to have the hardest time in either a very new or a very old population, as population death rates will be highest at these times.

Also affecting the ability of an organization to survive is the degree of instability and change in the environment. What is important is how large or drastic environmental changes are and how quickly they occur—and these factors will affect specialist and generalist organizations differently. Generalists have broad product lines, such as a nonprofit hospital, while specialists, such as a neighborhood clinic, have narrow ones. Research has found that in environments where

change is drastic but slow, generalists have the advantage, since they have more resources to make big changes. In environments where change is fast but not very drastic, specialists have the advantage, as they can make small changes more quickly. If changes are both drastic and fast, all organizations will have difficulties. Thus, a new nonprofit should consider the turbulence of its environment when deciding to become a generalist or a specialist.

### *Resource Dependence Theory*

*Resource dependence theory* deals with how organizations attempt to avoid becoming dependent upon others. It describes the acquisition and use of power. An organization ("A") will become dependent upon another ("B") to the degree that "B" provides important resources and there are few alternative suppliers. This will be exacerbated if "B" is not likewise dependent on "A." In this situation, "A" is vulnerable and its autonomy could be threatened, as "B" could impose additional demands. Organizations will, therefore, seek to minimize their dependencies by ensuring that they have potential alternative suppliers and customers whenever possible. New nonprofits will be especially susceptible to such dependencies, given their small size and lack of alternatives. The provision of a service not readily available elsewhere, however, would give them increased bargaining power. Another strategy would be to establish some control over critical others with, for example, long-term contracts, interlocking boards, or joint ventures. Finally, collaboration with other small nonprofits in similar circumstances would be a way to share risks and rewards. Such a coalition could have some countervailing power in dealing with a common dependency. For example, an association composed of the nonprofit day-care providers in a city could present a united front in negotiations with the city over resources.

### *Institutional Theory*

*Institutional theory* considers a different dimension of a nonprofit's environment. Besides market and economic controls, environments can impose institutional controls on

A new population of nonprofits will initially have high death rates, since the forms are untested, resources are less predictable, and the environment is not familiar with the organizations.

New nonprofits that are willing to make themselves dependent on particular resource providers may have little choice but to conform, and in doing so they may risk their niche.

organizations and regulate the processes by which work is accomplished. These controls are socially defined rules, regulations, and beliefs, and organizations are rewarded for conforming to them. This is especially pertinent when outputs are hard to objectively evaluate or when they are not sold in markets. Nonprofit organizations are particularly subject to these controls—after all, state and IRS regulations formally specify what the nonprofit form is, what nonprofits can do, and some aspects of their functioning. In addition, they may provide services whose outcomes may be difficult to evaluate objectively or which are provided to the general public or are free of charge. In these situations, stakeholders will seek to impose their norms and beliefs on nonprofits as a condition for their support. These may take the form of laws, procedural rules, or professional standards. For example, day-care centers are licensed, academic programs are accredited, and some types of services require professionals with proper credentials.

Nonprofits have some alternatives in dealing with their institutional environments. They could, for instance, comply with institutional expectations, especially if these are imposed by powerful actors in the environment. The situation is more difficult, however, if stakeholder demands vary or even conflict with one other. In such cases, the nonprofit must skillfully navigate through the configuration of demands. A nonprofit could also decouple its operations from environmental scrutiny. It could display conformity to the environment while protecting its operations from environmental influence. It could do this by providing information or other visible displays to the environment—essentially, showing the environment what it wants to see. Finally, the nonprofit could seek to influence its institutional environment by trying to change the viewpoints of influential stakeholders. Collaborating with other, similar nonprofits may be particularly useful in this instance. New nonprofits that are willing to make themselves dependent on particular resource providers may have little choice but to conform, and in doing so they may risk their niche. Banding with others in attempts

to change the institutional environment may be their best alternative.

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In sum, the infancy of a nonprofit is a time of exploration and testing of internal and external limits against what an organization wishes to achieve, and generally entails a number of missteps. These are par for the course—although as any parent of a young child can attest, some falls can be painful.

#### NOTES

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# A Field of *Toddlers*: *Nonprofit News Sites*

by Ruth McCambridge

Nonprofit news sites are a young field going through the usual growing pains of newly founded entities. In this case, however, the field has the Knight Foundation and the Investigative News Network providing support and guidelines toward sustainability.

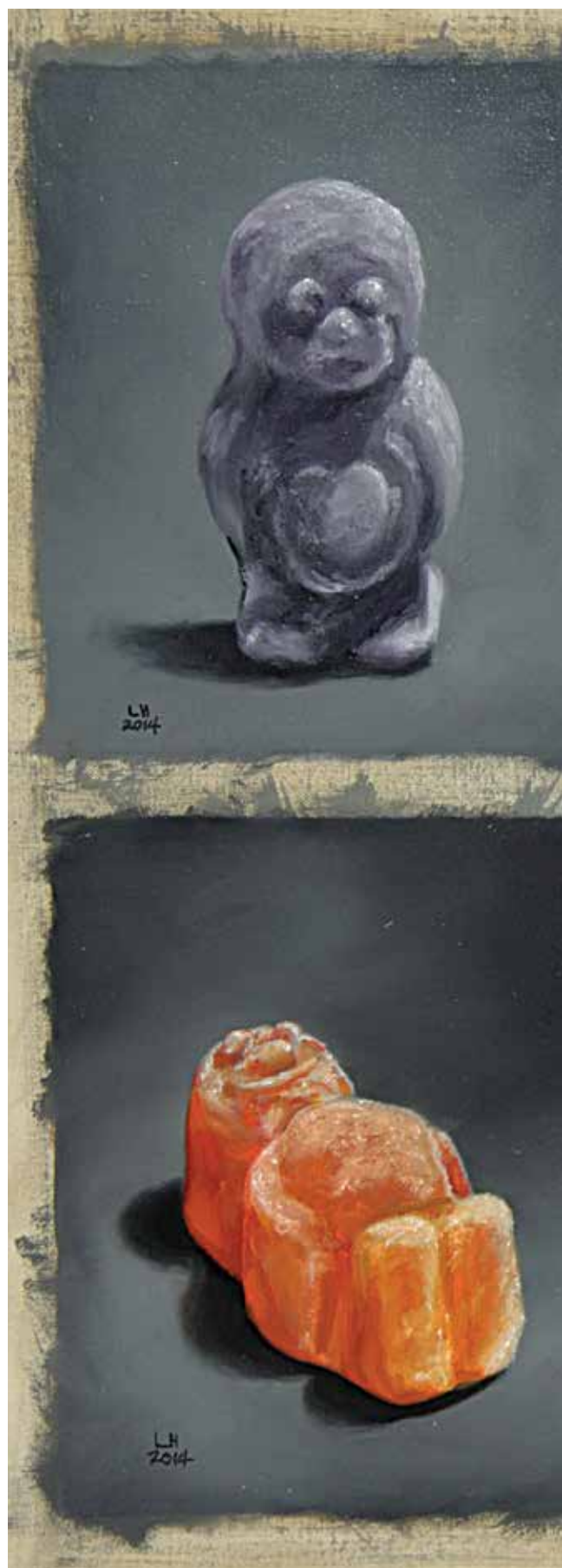
**N**ONPROFIT-BASED JOURNALISM SITES ARE BY NO means new. There are some that have been around for decades—*Mother Jones*, *The Nation*, and even the Associated Press, for instance—but there is a new crop of sites that have emerged over the last seven years from the detritus of the implosion of the old landscape of journalism.

Among the refugees of that implosion were many serious journalists committed to the delivery of high-quality news. These are the people—passionate and tenacious devotees of the civic purpose of the profession—who started many of the new sites.

This makes them classic nonprofit founders: mission focused, and not necessarily focused on

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





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For most new organizations . . . there is a wall one runs into sooner rather than later, and sometimes in ways that are incredibly painful and embarrassing.

infrastructure development. This focus on mission, by the way, is a wonderful and necessary thing, establishing the DNA or “imprint” of the organization; but, except in a few cases, the purpose fire in the belly of the organization, while critical to igniting the effort and giving it life, is not necessarily sufficient to sustain it over the long term.

Over time, someone has to attend to what kinds of revenue can be raised and managed with what kinds of capital and effort, how to treat staff fairly and get the most from them, and how to develop reasonable decision-making models. Conflict and failure around these issues typically plague organizations under seven years old, although this not a strict rule. For some organizations, these so-called “first-stage” issues can extend even further out, treating participants to decades of arbitrary, unstable, and quirky practices that somehow survive on such stuff as the strength of the involved community. For most new organizations, however, there is a wall one runs into sooner rather than later, and sometimes in ways that are incredibly painful and embarrassing, letting the organization know that inaction—as well as action—in some realms has consequences.

### Nonprofit Patterns of Early Development

The idea that all organizations typically go through so-called stages of development was first deeply discussed in an article by Larry Greiner, “Evolution and Revolution as Organizations Grow,” originally published in the *Harvard Business Review* in 1972, and then updated in 1998.<sup>1</sup>

As outlined by Greiner, the characteristic of the first phase is a period of creative evolution, defined by the following:

- The company’s founders are usually technically or entrepreneurially oriented, and they disdain management activities; their physical and mental energies are absorbed entirely in making and selling a new product.
- Communication among employees is frequent and informal.
- Long hours of work are rewarded by modest salaries and the promise of ownership benefits.
- Control of activities comes from immediate marketplace feedback: the management acts as the customers react.<sup>2</sup>

“All of the foregoing individualistic and creative activities are essential for the company to get off the ground,” writes Greiner. “But therein lies the problem. As the company grows, larger production runs require knowledge about the efficiencies of manufacturing. Increased numbers of employees cannot be managed exclusively through informal communication; new employees are not motivated by an intense dedication to the product or organization. Additional capital must be secured, and new accounting procedures are needed for financial control.”<sup>3</sup>

This realm of literature simply tries to discern the patterns that many organizations exhibit as they start up, mature, and reorganize or die. Patterns, when they are accurate, are incredibly valuable as signposts, but there are plenty of exceptions, particularly as some organizations, such as digitally based ones, are taking on new forms.

At the heart of Greiner’s research is the idea that organizations often have to face potential failure before they are motivated to change significantly. This failure can take many forms in nonprofits—informality coupled with leaders’ heavy-handedness may dull the development of the staff or cause revolts and loss of key staff, and finances may be mismanaged or systems in general may not match the expectations of funders. And undergirding all this may be the assumption that the quality of the core work will save the endeavor. In fact, in the end, the informality of many organizations in this start-up stage may cause failures in the program that call even the quality of the product into question.

These are the kinds of problems—and they are sometimes made very public—that spark attempts to change the way the organization functions.

### The Buffering Effect of Infrastructure

Again, there are mediating factors that can make transitions from less-attentive administrative and revenue-producing systems to more-attentive systems potentially less painful. One of these factors is the presence of a funding source or infrastructure (or both) that is attempting to push the field toward a sustainable state. In the

field of nonprofit journalism, there are the Knight Foundation and the Investigative News Network.

These organizations provide not only support but valuable information that is like parenting guidelines for children's developmental stages. For instance, having the information contained in figures 1 through 4, drawn from an upcoming report on nonprofit news sites by the Knight Foundation, gives these new organizations benchmarks that are not keyed to an idea but rather to reality.<sup>4</sup>

Figure 1 demonstrates the pattern of the changes in revenue mix in the first few years of life. These patterns are, of course, not a rule but rather an indicator of how the mix changes in the first few years. But organizations mature at different rates within their early lives, and figure 2 exhibits three different stages of evolution tracked through revenue mix.

An important variable to be considered in all of this is that the business model in the whole field is

Figure 1: Total Revenue Growth by Source Type<sup>5</sup>

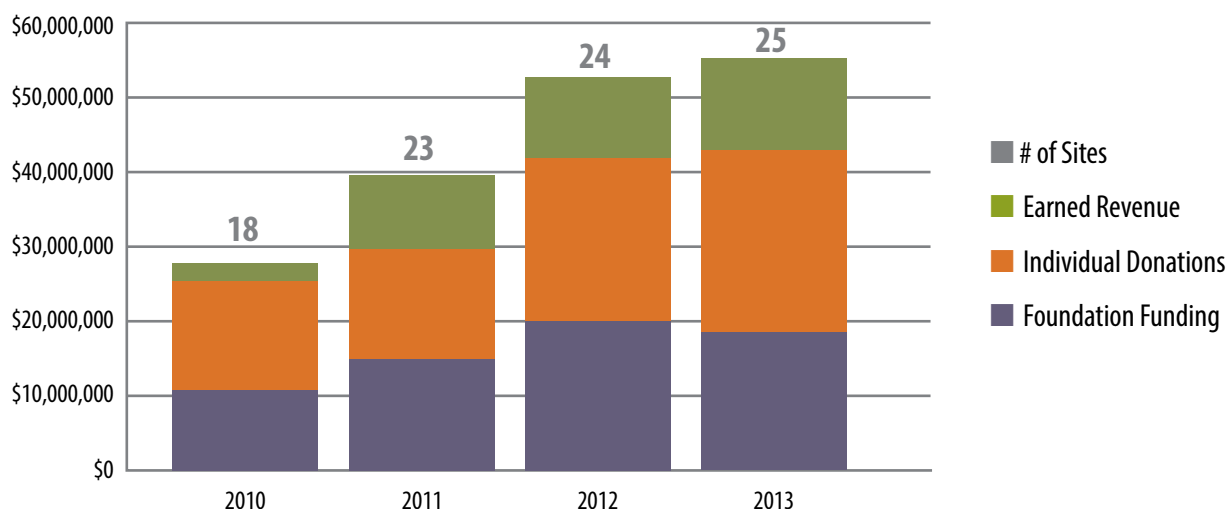
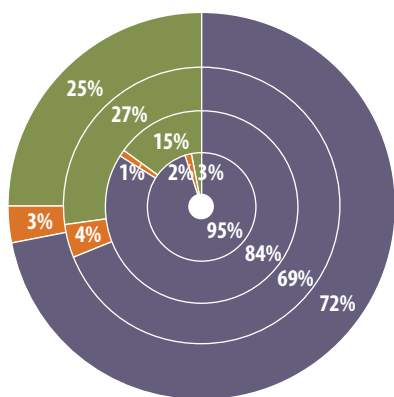


Figure 2: Three Stages of Evolution

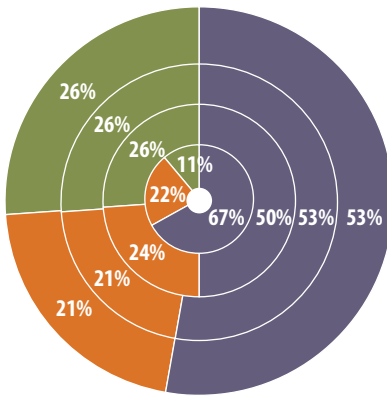
### EVOLVING

- Foundation Funding
- Individual Donations
- Earned Revenue



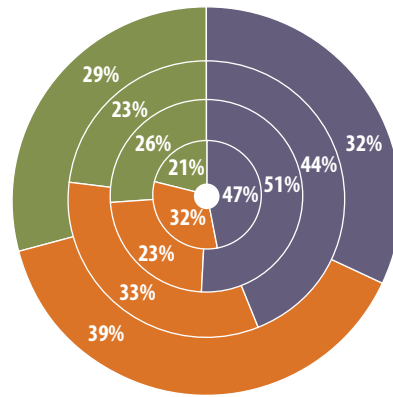
### GROWING

- Foundation Funding
- Individual Donations
- Earned Revenue



### MATURE

- Foundation Funding
- Individual Donations
- Earned Revenue



In the last ten years, even some of the most well-capitalized and most heralded experiments in revenue models for journalism have failed—many of them in for-profit environments (think paywalls).

both still in development and very sensitive to the specifics of the individual endeavor. As figure 3 shows, the seven-year-old *MinnPost*, which has a budget of \$1.6 million, has a healthy proportion of its income flowing from donors. The well-capitalized, five-year-old *Texas Tribune* (figure 4), with a budget in excess of \$7 million, however, looks very different: it is a creature of a hyperpolitical environment, and its engagement of its readers is designed around events that emphasize that brand and thus it is particularly strong on sponsorship income. The mix would show this even more clearly in the *Texas Tribune* figure if the amount of foundation funding in the year depicted (2013) were not an anomaly: \$3 million, a figure approximately five times as large as the \$600,000 in foundation support in each of the previous two years. From this we can assume that the events and sponsorship categories would normally account for an even larger percentage of the revenue pie than the combined 27.4 percent listed here. So we can see that the two organizations may not be in different stages of development so much as have

different markets and business models, and this is reflected in the Knight report's designation of both as "established," as compared to "growing" or "mature."

Thus, it is not possible to just pick up and fine-tune tested strategies for revenue and audience development. In the last ten years, even some of the most well-capitalized and most heralded experiments in revenue models for journalism have failed—many of them in for-profit environments (think paywalls). Nonprofit news sites must understand the conditions in which a particular strategy has succeeded or failed; then, each organization must build the infrastructure to run its own experiments, which are like mini-negotiations with stakeholders—and potential stakeholders—about the specific product offered. This is a very sophisticated endeavor for an enterprise not necessarily oriented to business.

To address some of these systemic issues, the Investigative News Network (INN), which provides services to nonprofit news sites (including business training, technological help, and better

Figure 3: Percentages of *MinnPost* Revenue by Source Type

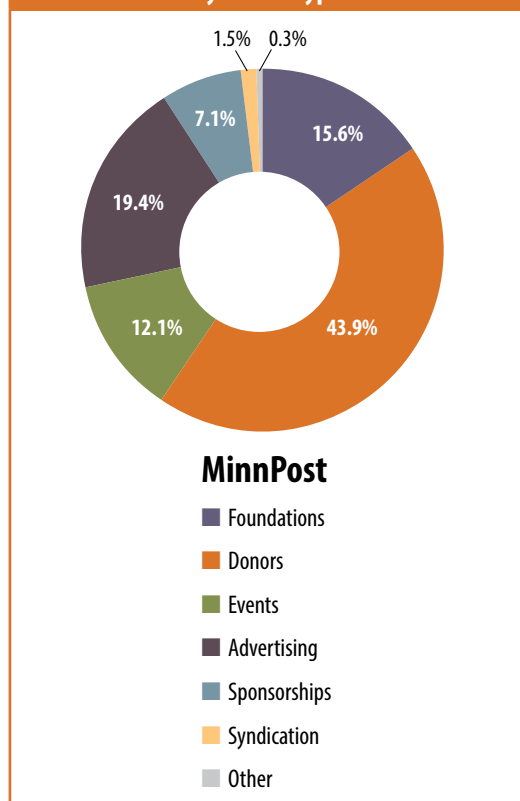
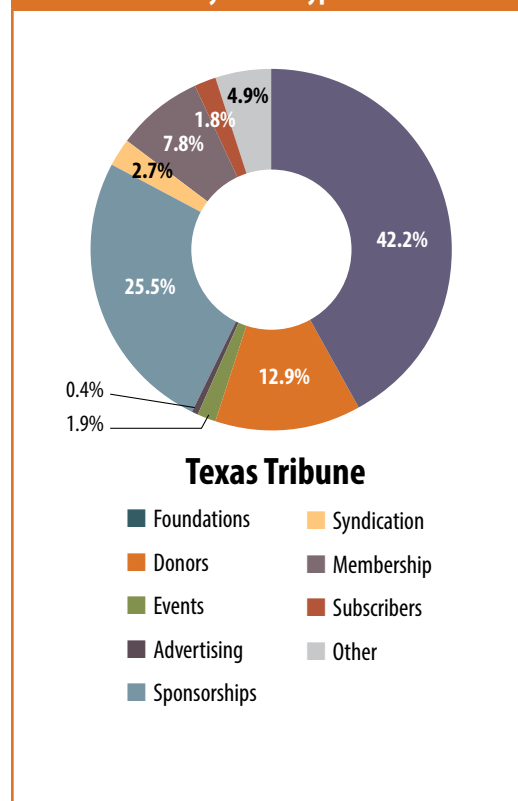


Figure 4: Percentages of *Texas Tribune* Revenue by Source Type



rates for liability insurance), has established an innovation fund (among other supports) that provides small grants to nonprofit news sites for experimentation by individual groups in the areas of audience development, engagement, and revenue generation. The project includes requirements for measuring results and sharing the information with the field. The Knight Foundation, on its end, is attempting to acknowledge the variations in the field by sorting the twenty-five organizations it is studying into categories that would not necessarily have been understood to have been important in driving the organizations' business models before they were identified as such in practice. This type of pattern recognition, which can only be done by looking at what's going on from a balcony of sorts, is valuable beyond rubies.

In light of developmental pattern theory, the field of nonprofit news sites that the Knight Foundation has been studying is not in bad shape, but it is still classically a field of first-stage groups. "Within the first three years of an organization's starting, we may see some spectacular crashes and burns," says Marie Gilot, the Knight Foundation's program officer for journalism. "But, with those surviving three years and going into five or more, we see that even though they may not have a very stable financial base, and even though they are still fragile, they have survived and are finding ways to sustain themselves for the time being. And, those that have survived have been the ones willing to experiment with a different revenue mix appropriate for their location."<sup>6</sup>

### Infrastructure Meets Individual Group Capacity and Focus

Still, each experiment that these groups run needs capacity. Specific expertise—advertising, sponsorships, donor development, and event management—requires up-front capital for what is, in the end, a speculative revenue program in that specific market. According to INN's CEO and executive director Kevin Davis, all these systems and strategies need to be integrated into a comprehensive enterprise model: "There are three parallel strategies that need alignment. The content strategy needs to be aligned with an audience/community

strategy, and those strategies need to be aligned with the revenue strategy." This may not be easy for an undercapitalized organization led by a journalist with little business experience, but INN tries to help by offering an executive training program for community journalists. Davis says that undercapitalization and an overdependence on foundation money can be a deadly combination when time and capacity for experimentation are needed.

There are also needs with regard to the marrying of content to technological delivery systems and the development and redevelopment of those systems—for instance, many organizations invested (sometimes a great deal) in apps that would make their content responsive to specific mobile devices, but these were soon superseded by methods that make content responsive to all devices. Additionally, organizations need staff who will systematically run all of these experiments, giving them enough rope to prove themselves but cutting them when they prove not to be ideal for the particular site. This investment of capital without a clear immediate payoff may be a tough sell for many foundations, although it is surely in the DNA of any entrepreneurial endeavor.

Gilot explains that the need or tendency to focus so intently on mission early on is hard to counteract, and that attempts to do so may in fact sometimes have a more complicated effect. As she describes it:

The best-case scenario is what happened with the *Texas Tribune*. They had an early, very big investor, who acted a little bit like a venture capitalist, or angel funder. And that person was very knowledgeable about growth and what it takes to build a business, even a nonprofit one, and insisted on some things, and that helped. But this is an exception. I think this problem of overinvesting on the editorial side is endemic across the board, including when these organizations had starter money from the Knight Foundation, for instance, or from large foundations. They often got a two-year grant to get started. But instead of pushing the *Texas Tribune* to diversify the funding and invest in the business side, the grant seemed to slow down that side. They

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"If you do investigative reporting, especially in a small city, it's going to be hard to find businesses that are going to want to support that. This is why you don't see a whole lot of sponsors on the websites like ProPublica that regularly uncover all sorts of corruption and mismanagement of large businesses or government contractors."

focused on building the editorial side with their start-up money, and two years later they really started to hurt, because then the funding was phasing out. And they haven't built anything to replace it.

Gilot does not downplay the difficulty in replacing that money, saying, "If you do investigative reporting, especially in a small city, it's going to be hard to find businesses that are going to want to support that. This is why you don't see a whole lot of sponsors on the websites like ProPublica that regularly uncover all sorts of corruption and mismanagement of large businesses or government contractors. That's one of the reasons why we're funding the Investigative News Network, which is a group that supports those smaller outfits."

### Every Group Has Its Own Issues to Work Out

Jonathan Sotsky, director of strategy and assessment at the Knight Foundation, is quick to point out that the fit of the news site to the environment creates idiosyncrasies that have to be built on and resolved:

We are looking for the things that can be replicated. So, when we see different sites experimenting with membership models and figuring out how to recast what would be considered something like just being a donor to something more like a model where donors receive certain benefits—whether it's access to certain reporting, access to some events, or acknowledgment of some kind—we start to see the effectiveness of some of these strategies in one or two places and think that maybe there are opportunities to expand that model elsewhere. But some of the conditions that come with the success of certain sites or programs can be idiosyncratic.

Finding the right mix for the specific outlet is no one-size-fits-all endeavor, adds Gilot. Some have tried events, some are concentrating on sponsorships or donations, and others are offering their services for training—for example, a local university is paying the New England Center for Investigative Reporting to train journalism students.

Some are clearly very specifically tied to place and type. "In the case of the *Texas Tribune*," says Gilot, "Texas is a rich state that happens to be completely consumed by Texas politics and has a very interested, very committed readership because of the whole Texas politics angle." But, she adds, "understanding your audience is the key to making money online":

So, for instance, the *MinnPost* in Minnesota invested some money in really understanding who their readership was, who was reading *MinnPost* online, and they found out that it tended to be people who are educated—young professional couples who are educated—and then people with disposable income. So they were able to sell that knowledge to the advertisers or sponsors—I don't know if you can call them *advertisers* when it's for a nonprofit, but to people who wanted to sponsor their website—by saying, "This is a highly valuable target audience that you're reaching, thanks to us." And, they are able to command a higher price for their advertising rates thanks to that particular knowledge. So, knowing your audience, knowing what it needs, fulfilling that need, and then, in turn, being able to show the people you want to ask for money that you know what you're doing and that you're answering a need for your target audience is really important.

But interacting with and really knowing that audience online is another stretch for many of the leaders of these young organizations:

Some early mistakes that occur with our journalists come from the fact that they don't have a lot of knowledge about business. These are also journalists who, often, have worked in print or in a newsroom that had a website, but a *destination* website—and it takes a while for them to realize that they cannot expect people to come to their new website, which is unknown and doesn't yet have brand recognition, and that they have to use social media to its full extent in order to reach out to people. So, they have to make an effort. People are

not going to come to them—the publisher has to find the audience on social media (and elsewhere) and must work at growing their audience there, even though at first the site is not going to be making money. And it has taken a while for many of them to understand this. I think people are wiser now, but it took a while to realize that this entails a completely different relationship with your audience.

### Metrics and Self-Awareness of Purpose

Although young, the field of nonprofit journalism is taking on some powerful societal and business innovation challenges that may keep it close to purpose, even while its systems develop; these challenges are all bound up with advances in technology.

Technology platforms, for instance, can produce massive amounts of data about readers—but, as with any data, there are a lot of paths to nowhere. Thus, the questions nonprofit news sites ask themselves about what to measure and how to interpret impact need to be very well thought through. This kind of activity is an advanced placement course in connecting purpose to program outcomes. Sotsky says that the maturing of the nonprofit news sites can be seen, in part, in their willingness to measure their impact and the sophistication with which they approach that element of the work:

Some sites are investing in software and systems to help track the impact of their reporting that go beyond just “here’s how many visitors we had on our site, and here’s the average onsite duration time.” I think that’s where the industry has been stalled in terms of measurement—those typical vanity metrics. And these sites are starting to move beyond the “who’s looking at our stuff?” questions to start to see what type of user engagement they have with their readers and whether their coverage is leading to policy changes or real-world impact.

• • •

These new organizations have to find their way together and separately—learning and teaching and challenging each other even while they are developing and solidifying their own characters in the form of principles, values, practices, and ways of interacting with the world. A knowledge scaffolding during such a time that patiently allows learning to emerge rather than imposing a logical but disconnected set of prescriptions on participants is unusual in this logic-model-driven philanthropic atmosphere, but a great model for other funders.

It is worth saying that adequate capitalization is equally important, especially if the availability of that capital depends on active experimentation with the enterprise model and open sharing of results. That said, given the central importance of independent journalism to civil society, the breaking down of traditional investigative journalism, the relatively good prospects for finding a revenue model that works for editorial independence, and the quality of current infrastructure, it would seem that nonprofit journalism should be much higher on this country’s list of innovative/entrepreneurial philanthropic priorities than it currently is.

### NOTES

1. Larry E. Greiner, “Evolution and Revolution as Organizations Grow,” *Harvard Business Review*, July-August 1972, reprinted and updated May 1998, [hbr.org/1998/05/evolution-and-revolution-as-organizations-grow](http://hbr.org/1998/05/evolution-and-revolution-as-organizations-grow).
2. Ibid.
3. Ibid.
4. The report, due to be published by the Knight Foundation in January 2015, examines the progress and challenges of the nonprofit news field through the lens of twenty-five nonprofit news organizations on the path to sustainability.
5. All figures in this article are from the Knight Foundation’s upcoming report (see previous note).
6. This and all subsequent quotes by Gilot, Kevin Davis, and Jon Sotsky are from interviews with the author.

To comment on this article, write to us at [feedback@npqmag.org](mailto:feedback@npqmag.org). Order reprints from <http://store.nonprofitquarterly.org>, using code 210404.

Although young,  
the field of nonprofit  
journalism is taking  
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societal and business  
innovation challenges  
that may keep it close to  
purpose, even while its  
systems develop; these  
challenges are all bound  
up with advances in  
technology.

# Deaths, Near Deaths, *and* Reincarnations

The five case studies outlined in this article describe nonprofits that succumbed to external violence or internal mismanagement, committed suicide, plan to commit suicide, faced death but refused to “go gentle into that good night,” or expired but subsequently rose from the dead—all evidence that organizations never simply “die.”

**Editors’ note:** The following mini-case studies were submitted as part of the graduate course “The Nonprofit Sector: Concepts and Theories,” taught by Chao Guo, associate professor of non-profit management in the Penn School of Social Policy and Practice at the University of Pennsylvania. Below is an introduction by Mark A. Hager, associate professor of philanthropic studies in the School of Community Resources and Development at Arizona State University.

ORGANIZATIONAL EVENTS ARE COMPLICATED, so we have to select the right tools to study and understand them. Statistical models are all the rage, but they are poor choices for studying intricate processes. The stories and the analytic tools we have to interpret them are better at capturing the complexity, but while stories by themselves can teach us a lot, they cannot show us the similarities or trends that run across an assortment of cases. One approach to understanding the trends in stories is called “event structure analysis.” Pioneered by Indiana University sociologist David Heise in the early 1990s, event structure analysis has been used to understand social movements, labor markets, firm







growth, and organizational decline and dissolution, to name just a few areas where it has been applied.

The five cases in this article include “event structures” that are a hallmark of the method. You can think of them as a graphical representation of the events in the case, but they are more than that. The connecting lines do not just signal that one event led to another—they mean that the person studying the case believes that one event was actually involved in causing the subsequent event to happen. (This is not to say that the subsequent event *had* to happen, only that it did.) When we see events unfolding in similar ways across a variety of cases, we can build our understanding of how change processes unfold in nonprofit or other kinds of organizations.

The interpretations of the people who studied the cases (the individual authors of each case study) are important to the method. Authors or author teams used Heise’s program Ethno (available online) to document and create their event structures.\* The first step is to boil the cases down to essential events, resulting in a terminal event (like closure or merger). A simple case might have only several events; a more complicated case might have several dozen. Once the events are listed, the analysts enter them one at a time into the computer program. Once entered, Ethno starts asking the analyst a series of questions about the relationships between events. Was Event A required for Event B to happen? Was Event B required for Event C? And so on. Analysts consider the situation and answer yes or no. Once Ethno understands all the logical relationships between chains of events, it can draw the event structure. Like the story, the event structure can be informative on its own; however, when coupled with other cases that went through similar or different processes, we can build broader understandings of organizational life and death.

*Mark A. Hager*  
Arizona State University

\*See [www.indiana.edu/~socpsy/ESA/](http://www.indiana.edu/~socpsy/ESA/).

# The Death of Hull House

by Daniel Flynn and Yunhe (Evelyn) Tian

**M**UCH HAS BEEN WRITTEN ABOUT THE UNEXPECTED closure of Jane Addams's Hull House in January of 2012. This venerable institution had served some of Chicago's most vulnerable residents for over 122 years. Many have chalked up the closing to Hull House's overreliance on government funding, and no doubt this is partially to blame. However, that diagnosis is, we feel, oversimplified—financial mismanagement, poor governance, and severe mission drift all contributed to Hull House's untimely demise. We also wonder if perceived causes of turmoil, or even organizational death, cannot sometimes be in reality symptoms of a greater, more ravaging illness. Although the death of Hull House does not fully exemplify this phenomenon, the answer would appear to be yes.

## A Brief History of Hull House

Hull House opened on September 18, 1889, at the corner of Halsted and Polk Streets, in a Chicago neighborhood heavily populated with recent immigrants. Jane Addams and Ellen Gates Starr founded this settlement house—one of the first in the United States, and eventually the country's most famous—on the premise that “the dependence of classes on each other is reciprocal; and that as the social relation is essentially a reciprocal relation, it gives a form of expression that has peculiar

value.”<sup>1</sup> In practice, this looked like members of the middle and upper classes moving into not only a poor neighborhood but also the same house as their disenfranchised neighbors. Originally, these elites came to Hull House to address poverty through various education and cultural classes and activities. However, for many who stayed on and got to know those they came to help, “their class condescension evaporated and was replaced by democratic beliefs: outrage at the unjust conditions working people strove to overcome and eagerness to be their political allies in those struggles.”<sup>2</sup> From its early days, Hull House exhibited a strong dual-pronged mission: assist the impoverished and vulnerable of society with basic needs and cultural competencies, and advocate for the rights and dignity of each citizen.

Jane Addams remained at Hull House until her death, in 1935, and Hull House continued to change and evolve once Addams was no longer at the helm. By the time of her passing, Hull House had grown from one settlement home into thirteen houses that comprised the Hull House community. Hull House had also become a hotbed of political activity—hosting women radicals and academics seeking social reform, conducting research on societal injustices ranging from cocaine use to inadequate sanitation, and working with city officials to establish Chicago's first public

The death of such a well-established, iconic nonprofit organization inevitably raises many questions about mismanagement.

swimming pool, public gymnasium, public playground, and citizen preparation classes.<sup>3</sup> In the 1960s, Hull House was displaced by expansion of the University of Illinois and lost its original settlement house structure, becoming instead a system of community and neighborhood centers around Chicago. And in the 1990s, the economic growth of the period encouraged the organization to reshape its operations to focus on foster care, child care, domestic violence counseling, and job training. The financial boom allowed Hull House to quadruple its budget and confidently enter the twenty-first century.

### The Closing of Hull House

Unfortunately, the twenty-first century did not bring continued prosperity for Hull House. In mid-January of 2012, Hull House announced that it would be forced to close in March. In fact, it closed just one week after that announcement, on Friday, January 25. Nearly three hundred employees and upward of sixty thousand yearly clients received less than one week's notice. The chairman of the board, Stephen Saunders, asserted that Hull House "hoped for a much more dignified closing" and that the organization had debt of "approximately \$3 million and growing, owed to vendors and landlords all over Chicago."<sup>4</sup> There was simply not enough money to continue daily operations.

What caused the demise of such a famous and revered institution? How did it happen so abruptly, unforeseen by staff and with limited pleas to the public for support? Were there warning signs of impending death? And what can Hull House's closure reveal about the death and dying process of nonprofit organizations?

### Mismanagement

The death of such a well-established, iconic nonprofit organization inevitably raises many questions about mismanagement, especially given its extensive executive team and the many accomplished professionals—including at least five financial advisers, five attorneys, and several CEOs—who served on its board of trustees.<sup>5</sup> The management failures at Hull House can be organized into two primary categories: financial negligence and poor governance.

### Financial Negligence

The only financial documents available for Hull House span 1998 to 2010, but they show significant signs of economic distress over that thirteen-year period. By 2010, Hull House had entered the "zone of insolvency," a period of financial distress where [...] the legal responsibilities of board members change from [...] safeguarding their organization's mission and assets, to safeguarding the interests of all of its stakeholders."<sup>6</sup> With better financial management, Hull House could have avoided this crisis, and simple financial analysis supports this claim.

First, basic financial analysis reveals revenue drops of nearly 19 percent between 2001 and 2002 (\$40,567,863 to \$32,932,988), as well as a continuous decrease in total revenue from 2007 to 2010, totaling 27.3 percent (\$32,011,227 to \$23,286,579).<sup>7</sup> In addition, when looking at the various revenue sources and expense categories, one finds that almost 90 percent of Hull House's revenue came directly from government payments, and this percentage peaked at 95.2 percent of total revenue in 2001. On average, less than 10 percent of revenue came from public contributions, and only about 1.5 percent of total expenses each year were spent on fundraising.<sup>8</sup> The lack of diversified revenue, overreliance on government contracts, and poor fundraising performance were all substantial indicators of poor financial planning.

Second, there were also clear warnings of Hull House's high level of financial unsustainability from the financial vulnerability measurement. This tool takes program service expenses divided by total revenue, and indicates whether or not an organization generates enough revenue to support its program functions (not even taking into account administration or fundraising expenses). As table 1 shows, Hull House consistently had vulnerability measurements near 90 percent, and, after 2005, yearly rates exceeded 100 percent. By the late 2000s, Hull House was unable to financially support its programs, and it never took drastic enough measures to overcome those deficits.

Third, ratio analysis comparing Hull House with other similar settlement houses and industry benchmarks further paints the picture of an organization in financial crisis (see table 2).

**Table 1: Financial Vulnerability Measurements and Changes in Program Services Expenses <sup>9</sup>**

YEAR	1998	1999	2000	2001	2002
Program Services Expenses (1)	\$32,164,189	\$29,662,250	\$32,740,892	\$39,083,424	\$29,170,239
Total Revenue (1)	\$35,365,510	\$36,082,635	\$38,151,568	\$40,567,863	\$32,932,988
Financial Vulnerability Measurement per Greenlee and Trussel (2000) (2)	90.95%	82.21%	85.82%	96.34%	88.57%
Change in Program Services Expenses from Previous Year (4)	—	(\$2,501,939)	\$3,078,642	\$6,342,532	(\$9,913,185)
% Change in Program Services Expenses from Previous Year (4)	—	-7.78%	10.38%	19.37%	-25.36%
YEAR	2003	2004	2005	2006	2007
Program Services Expenses (1)	\$30,080,481	\$29,924,557	\$31,227,808	\$31,096,169	\$27,281,999
Total Revenue (1)	\$35,704,012	\$33,463,887	\$34,799,534	\$35,718,538	\$32,011,227
Financial Vulnerability Measurement per Greenlee and Trussel (2000) (2)	84.25%	89.42%	109.45%	110.32%	108.53%
Change in Program Services Expenses from Previous Year (3)	\$910,242	(\$155,924)	\$1,303,251	(\$131,639)	\$3,814,170
% Change in Program Services Expenses from Previous Year (4)	3.12%	-0.52%	4.36%	-0.42%	-12.27%
YEAR	2008	2009	2010		
Program Services Expenses (1)	\$25,052,886	\$22,578,724	\$20,079,827		
Total Revenue (1)	\$28,328,139	\$26,197,876	\$23,286,579		
Financial Vulnerability Measurement per Greenlee and Trussel (2000) p. 203 (2)	110.65%	118.06%	136.29%		
Change in Program Services Expenses from Previous Year (3)	(\$2,229,113)	(\$2,474,162)	(\$2,498,897)		
% Change in Program Services Expenses from Previous Year (4)	-8.17%	-9.88%	-11.07%		

(1) From Forms 990.  
(2) Equals program services expenses ÷ total revenue.  
(3) Equals current year program services expenses minus prior year program services expenses.  
(4) Equals change in program services expenses ÷ prior year program services expenses.

Nonetheless, despite poor debt ratios, this measurement only tells part of Hull House's story. First, accounts receivables consistently made up as high as 40 percent of total assets, and these were mostly from government contracts that were often paid late.

The savings indicator, calculated by dividing net income by total expenses, measures what percentage of revenue an organization saves each year. The common industry benchmark for large human needs organizations is .015, and Hull House not only never reached this threshold during the 2000s but also was consistently outperformed financially by two other well-known

settlement houses: Henry Street Settlement and University Settlement.

Likewise, as table 2 shows, the debt ratio also reveals Hull House's poor financial performance. This indicator, calculated by dividing total liabilities by total assets, measures the riskiness of an organization's debt structure. A lower result signals a healthier organization with less financial risk; Hull House's industry benchmark is slightly below .5. Hull House again performs poorly, with debt ratios doubling, tripling, and even quadrupling this industry standard.

Nonetheless, despite poor debt ratios, this measurement only tells part of Hull House's story. First, accounts receivables consistently made up as high as 40 percent of total assets, and these were mostly from government contracts that were often paid late.<sup>11</sup> Therefore, there were deep cash-flow issues that the ratio does not reveal. More significantly, however, US GAAP principles do not require property to be listed at fair market value, and Hull House's properties—many of which were bought decades prior and had been greatly depreciated—were listed at low values or had been removed

**Table 2: Saving and Debt Ratio Analysis<sup>10</sup>**

	SAVING INDICATOR			
	2001	2004	2007	2010
Hull House	0.010	-0.010	0.006	-0.043
Henry Street Settlement	0.073	0.063	0.074	0.039
University Settlement	0.039	-0.001	0.049	0.011
Industry Benchmark	0.015			
	DEBT RATIO			
	2001	2004	2007	2010
Hull House	1.039	1.340	1.280	2.254
Henry Street Settlement	0.153	0.207	0.004	0.245
University Settlement	0.487	0.521	0.627	0.426
Industry Benchmark	0.482			

There is little doubt that Hull House suffered a dearth of financial stewardship, yet this failure only caused such irreparable destruction because it was coupled with poor governance.

completely from the balance sheet. For instance, despite owning numerous community centers around Chicago, Hull House's 2010 Form 990 lists only \$930,049 in land, buildings, and equipment, meaning that the organization had significantly more assets than were listed.<sup>12</sup> Given the growing organizational debt, one must ask why Hull House did not choose to sell some of these valuable properties to cover its increasing liabilities.

A final indicator of Hull House's financial distress was its exceedingly high leverage, both in terms of current and long-term liabilities. This is especially evident upon examining Hull House's "other liabilities" presented in its 990s. This broad category of debt included loans from the Hull House Foundation, unfunded pension payments, checks drawn in excess of deposits, and government contract advances. Of special concern were the cash advances Hull House received on its government contracts for over \$2 million on an annual basis, from 1998 to 2005, and for over \$1 million from 2006 to 2010.<sup>13</sup> Ultimately, these "other liabilities" reveal that Hull House remedied its cash flow and fundraising issues by "spending tomorrow's funding to pay for yesterday's expenses."<sup>14</sup> This irresponsible cycle could not last forever, and it contributed to organizational death.

The signs of financial mismanagement at Hull House seemed to be everywhere: decreasing and undiversified revenue, inability to fund program operations, lack of yearly surpluses, unrestrained debt growth, and poor debt management. There is little doubt that Hull House suffered a dearth of financial stewardship, yet this failure only caused such irreparable destruction because it was coupled with poor governance.

#### Poor Governance

One of the key turning points for Hull House was when it hired Gordon Johnson, former director of the Illinois Department of Children and Family Services, to lead the organization. Johnson increased the annual budget of Hull House from about \$9 million in the 1990s to \$40 million in 2001, largely by relying on government funding, which has been discussed previously.<sup>15</sup> When Clarence N. Wood succeeded Johnson, in 2001, he promised to bring more private funding to Hull House to offset

the continuous cutting back of Illinois's government budget for human services—\$4.4 billion from 2002 to 2012.<sup>16</sup> However, it is clear that Wood never achieved this goal, nor did he address any of the other emerging financial problems. Yet ultimate financial responsibility for a nonprofit does not lie with the executive director but, rather, with the board of trustees. Though the board claimed it did everything it could to save Hull House, fiduciary irresponsibility and poor communication—both internal and external—suggest otherwise.

One of the three legally required duties for nonprofit boards is the "duty of care," a responsibility that requires board members to "participate in well-informed decisions on behalf of the nonprofit."<sup>17</sup> With such overt signs of financial distress in Hull House's yearly financial statements, serious questions remain as to whether or not the Hull House board fulfilled this responsibility. One can posit that a board comprised of successful business people—a number of whom worked in the financial sector—would be able to accurately interpret basic financial documents. If this is the case, board members either did not take the time to carefully review these documents—which would mean they violated their duty of care—or failed to take sufficiently aggressive measures to improve the organization's financial situation and correct bad financial practices. If, somehow, the board was financially illiterate, it had a responsibility to recognize and address this deficiency. The financial woes at Hull House ran deep, but with strong, active governance, these problems could have been identified and rectified before organizational death.

As suggested above, there is evidence that the Hull House board suffered from poor internal and external communication. Internally, an organizational cultural gap existed between the board members and the staff. According to Wood, some board members did not comprehend the idea of "living on the edge," because their corporate backgrounds encouraged organizational abandonment over the struggle to survive. West reported that most staff members within Hull House were used to traditional social service models and life on the edge, and accused the board of not understanding how nonprofits really function.<sup>18</sup> In the wake of

organizational closure, board and staff blamed each other for ineffective governance and inaccurate information, respectively. In other words, there were different understandings about how to interpret the organizational situation (i.e., financial data) and how the board should address different problems (i.e., decision-making process) to achieve mutual agreement and commitment within the organization.

Externally, stakeholders criticized Hull House for not publicizing their financial problems earlier or louder and instead presenting a sugarcoated image of the organization. Upon closing, Hull House's board chair Stephen Saunders noted that the organization had been holding six or seven fundraisers a year, and that board members had been reaching out to anyone they knew.<sup>19</sup> Nonetheless, despite these efforts to raise additional funds, many around Chicago and beyond were stunned when the organization collapsed. By the time Hull House announced its closing, it was too late for the public to save the famous institution. The board's reluctance to be transparent about Hull House's true condition (or inability to recognize its precarious situation) exemplifies both a failure in its obligation to organizational stakeholders and a failure in strategic governance.

### Mission Drift

Despite evidence of severe financial negligence and poor governance, one must consider the possibility that these woes were symptomatic of a different cause of Hull House's death: mission drift. Any casual observer could note that the Hull House of 2012—in revenue sources, mission, operations, and physical structure—looked starkly different from Jane Addams's original settlement house, and these divergences from the founding structure require further exploration.

Organizations cannot function or fulfill their missions without money, and Addams and Gates were keenly aware of this upon the founding of Hull House. In the early days, Hull House survived (in an era before tax deductions) through in-kind gifts and financial donations sought out by Addams. It was an arduous process, and she writes, "We were

often bitterly pressed for money and worried by the prospect of unpaid bills, and we gave up one golden scheme after another because we could not afford it."<sup>20</sup> To help wealthy Chicagoans empathize with the settlement and its residents, Addams often brought donors to Hull House to share a meal with the guests or attend lectures, concerts, or other events.<sup>21</sup> Fundraising from individuals was, for many years past Addams, the primary source of money for Hull House, yet by January 2012, 85 percent of Hull House's revenues were from government contracts.<sup>22</sup> Moreover, the organization struggled desperately to attract private contributions. Not only does this altered fundraising model significantly hinder the opportunity to bring together different social classes for mutual benefit—an original intent of the organization—but it also makes the key collaborative partnership not with the public but with an entity Addams viewed with suspicion: government. As Ivan Medina of the School of Social Work at Loyola University Chicago commented in an interview with Maureen West, "Jane Addams was about social change. She challenged government. [...] If you become an arm of government, you can't protest government, its bad policies and unequal services."<sup>23</sup> Though a lack of diversified revenue sources contributed to Hull House's closure, one must consider whether the dubious structure was not a direct cause of organizational death but rather a symptom of mission deviation.

Furthermore, and perhaps most notably, the mission and operations of Hull House had changed drastically since the early days. At its closing, the organization was serving over sixty thousand people a year through social services such as foster care and domestic violence counseling. However, though Jane Addams is often regarded as the founder of modern social work, the early Hull House services and programs differed greatly from those of today's social service agencies. A weekly program from 1892 displays a diverse set of programs and activities, including the "Working People's Social Science Club," "Women's Gymnastic Classes," "Electricity—With Experiments," and "Hull House Debating Club," among many others.<sup>24</sup> Hull House's original approach to helping people meet their basic needs or gain life skills only faintly resembled current notions of

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social services. Furthermore, these “services” offered by Hull House were never central to the settlement’s mission; rather, as Florence Kelley, an early resident of Hull House eloquently put it, “The House may seem to exist chiefly for its mass of detail work, yet as the years go by the truth grows clearer, that much of this has been chiefly valuable for the fund of experience it yields as a basis for wider social action.”<sup>25</sup> Hull House was instrumental in advocating for reforms ranging from the creation of public spaces and organizations to new labor protection laws to better sanitation services for poor neighborhoods. Eventually, the organization became not a political challenger seeking social change but instead a political instrument implementing government programs. By the time of Hull House’s untimely demise there was little question of how far the organization had strayed from its initial purpose and role in the Chicago community.

A final significant difference in the modern Hull House and its founding version was its physical structure. As was briefly discussed, Hull House was forced to sell its properties in the 1960s because of university expansion (the original Hull House home was preserved as the Jane Addams Hull-House Museum), and rather than retain a similar model with various properties in the same neighborhood—and even the same block—Hull House opted to decentralize, and instead became an expansive, often disjointed network of neighborhood centers around Chicago.<sup>26</sup> This signaled the end not only of a single community focus but also of the cohabitation of different social classes. The Hull House Association, as it was renamed after this shift, resembled a traditional nonprofit organization more than a settlement house.

This restructuring, however, was not unique to Hull House, and nor were the drastic changes in revenue sources and operations; in fact, they were quite the opposite. Many comparable organizations underwent similar transitions: settlement houses morphed into neighborhood centers; resident social workers ceased to live in the neighborhoods they served; staff was professionalized and relied less on volunteer labor; and donations were replaced by government funds as the primary source of revenue.<sup>27</sup> If anything, this restructuring

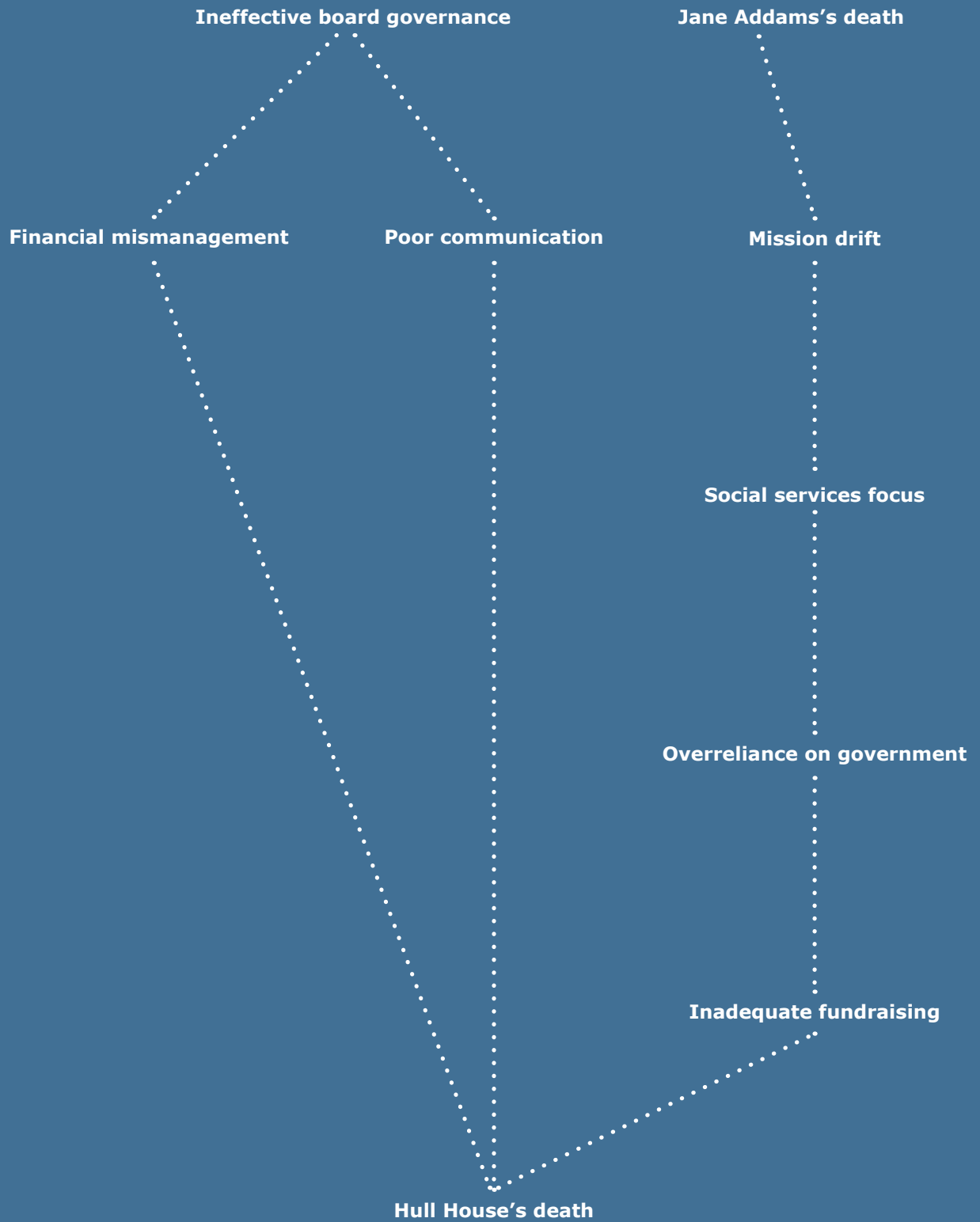
was the norm for settlement houses, and though many organizations founded in the original settlement model have closed, many others, including Toynbee Hall in London, Henry Street Settlement in New York City, and University Settlement in Cleveland, continue to thrive today. Thus, despite Hull House’s vastly different revenue structure, mission, operations, and physical layout from its original form, it seems imprudent, given the many analogous settlement houses that experienced the same transitions, to declare mission drift the sole underlying cause of the organization’s demise.



Rather than playing the role of medical provider who establishes the illness prior to death, this study acts as a coroner who seeks to identify the cause of death after the organization’s passing. However, an “organizational autopsy” does not have the advantage of examining a deceased body; rather, it must analyze the actions and reactions of an organization when it was alive. In the case of Hull House—and many other nonprofits—this causes a conundrum: how does one distinguish between symptoms of an illness and the underlying illness itself?

If there were a single devastating cause of death for Hull House, what might that be? A compelling argument could be made that Hull House suffered from “reverse founder’s syndrome”: no subsequent leaders at Hull House possessed the prophetic vision of Addams, and the organization’s operations and integrity suffered as a result. Financial mismanagement and poor governance were merely symptoms of a sharp mission divergence at Hull House since Addams’s death. However, though a “mission purist” might prefer this argument overall, it seems to lack conclusive evidence. Other settlement houses formed with a spirit and mission comparable to that of Hull House and evolved over the years in a similar fashion as Hull House, yet these developments did not bring about financial distress or ineffective board leadership. Moreover, nonprofit missions *should* evolve as the organization and times demand, and Hull House thrived for many years after its mission had deviated from Addams’s original settlement-house model. Ultimately, the cause of death for Hull House was a three-pronged attack—financial mismanagement,

## EVENT STRUCTURE Hull House



poor governance, and mission drift—that ravaged all facets of the organization. If Hull House had managed one or two of these areas more effectively, perhaps it could have staved off death and even paved the path to recovery. Sadly, it succumbed to all three conditions.

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**DANIEL FLYNN** is a graduate student in the Nonprofit Leadership program in the Penn School of Social Policy and Practice at the University of Pennsylvania. Flynn has worked for the Jesuit Volunteer Corps and the Health Federation of Philadelphia, among other nonprofits. **YUNHE (EVELYN) TIAN** is a graduate student in the Nonprofit Leadership program in the Penn School of Social Policy and Practice at the University of Pennsylvania.

# The (Planned) Death of a Nonprofit: The National Center for Public Policy and Higher Education

by Barbara Berreski

**H**OW DO YOU SPARK A NATIONAL CONVERSATION about higher-education policies, gain the attention of legislators and other policy-makers in every state across the country, evaluate the success of higher education in each state, and present the data so that the concepts are easy for people outside the field to understand? You issue a statewide higher education “report card,” and then you call the press.

From 2000 to 2008, the National Center for Public Policy and Higher Education issued five biannual reports titled *Measuring Up*. States were graded in six areas: preparation, participation, affordability, completion, benefits, and learning. There were many bad grades—Ds and Fs—for many of the states. And, not surprisingly, many people were upset. But it got them talking about higher education.

## Establishment of the National Center

The idea for the National Center started in the late 1990s, when Patrick M. Callan, director of the nonprofit Higher Education Policy Institute (HEPI), was approached by Atlantic Philanthropies.<sup>1</sup> Callan was well known in higher-education policy circles, as he had been working in

the field since the early 1970s. Atlantic wanted to examine higher-education policies among the states and help them to set their agendas for the future, so Atlantic contacted Callan. The staff and the board of directors of HEPI, under Callan’s leadership, began eighteen months of intensive research. Could Atlantic’s vision be implemented? If so, how?

One idea was a report card on higher education. As Callan described it, his team liked the idea of a report card that would evaluate state performance in higher education regardless of the different policies that had been adopted state by state. In addition, the report card would gauge the success of higher education from the students’ perspective. Quality in higher education had always been measured through accreditation, which is centered on the institution; Callan hoped that the report card would change that focus.

HEPI did a yearlong feasibility study to see if there were enough data that would be relevant to good policy. They concluded that enough data existed and that a report card was an idea worth trying. At the time, Callan told me, they didn’t know if it was going to work or what the response would be.

HEPI had previous experience evaluating the performance of higher education, but not on this scale: HEPI was established in 1992 to conduct nonpartisan analyses and policy studies of higher education and disseminate the results through publications and public programs. From 1992 to 1997, HEPI sponsored the California Higher Education Policy Center, which addressed the future of higher education in California.<sup>2</sup>

Callan's success in California had clearly interested Atlantic, but his experience had taught him that if the report card idea attracted attention there would be controversy. "We never set out to create gratuitous controversy in California, but if you do something with integrity, you are going to piss people off," Callan said. Atlantic and subsequent funders like the Pew Charitable Trusts and the Ford Foundation knew this was a risk but over the course of the National Center's existence never wavered in their support nor pressured Callan to "back off."

The next step was creating an entity to support the report card; that entity, the National Center for Public Policy and Higher Education, was officially announced in March 1998 by James B. Hunt Jr., then governor of North Carolina. Governor Hunt served as the chair of the National Center's board, and his participation in the endeavor gave it and its products instant credibility.<sup>3</sup>

Callan envisioned the National Center as an independent policy forum, much like the Truman Commission in the 1940s and the Carnegie Commission on Higher Education in the 1970s. He also envisioned that, like those two commissions, the National Center would exist for a period of time then cease operations.

### **Measuring Up and Other Projects**

**Measuring Up.** The first edition of the report card was issued in 2000. The National Center's goal was to show the states what they were doing well in higher education and what they were not. If a state was not doing something well, policy-makers in that state could look at other states for examples of success. In grading the states, performance was the only measure; the policy of the states was not analyzed, and the states did not get "points" for trying. "The

'grades' were just a device to get the message out," Callan explained.<sup>4</sup>

Callan knew that the higher-education establishment would likely not be receptive to the idea and might choose to ignore it; thus, in order to have impact, the National Center would need to get media attention on the report. The center actively sought that attention, and the strategy worked. Callan and his staff members were invited to speak to legislatures around the country, as well as to organizations like the National Governors Association and the National Conference of State Legislatures. Sometimes they were met with enmity, but, according to Callan, they "were happy to be challenged."

**Associates Program.** In 2000, the National Center established an associates program designed to foster the professional growth of individuals in higher education. As Callan put it, "If an organization is going to be sustained, it is all about developing people." The program's purpose was to give early-career and mid-career individuals an opportunity to meet with senior people in the field to share knowledge and consider broad policy issues.

One of the most important goals of the program was diversity of all types: "demographic, professional, and geographic." To that end, the first group consisted of ten individuals from different parts of the country, who met for three extended weekends throughout the course of a year. The program operated for seven years, and nearly one hundred people completed it. The participants evaluated the program annually, and high levels of satisfaction were reported.<sup>5</sup>

**National CrossTalk.** *National CrossTalk* was the National Center's periodical between 1997 and 2011. Published three to four times annually, it was designed to be a vehicle for exploring the possible solutions to the higher-education issues brought to light in *Measuring Up*. As Callan described it, "Those of us in social science, we can be good analysts but lousy storytellers. I knew a good story would help people connect with and understand the issues." This approach was all part of the National Center's strategy to help make higher-education policy issues part of a national discussion.

Callan was clear that the purpose of *CrossTalk* was not to promote the National Center; it was to examine how policy issues impacted real people. To that end, he hired a former *Los Angeles Times* education reporter to be the senior editor of *CrossTalk*, and *CrossTalk* hired freelance reporters to examine higher-education stories from both sides. The reporters were never told what position to take. *National CrossTalk* was very successful, in large part because, said Callan, “if you make it about the issues, and less about ‘me versus you,’ the more likely you are to be listened to.”<sup>6</sup>

### Closing the Center

When the idea of the National Center was set forth in a concept paper in 1998, one of its missions was “to conduct public policy research and studies in areas relevant to the higher-educational needs of the nation over the next 15 to 20 years.” When the National Center announced its closing in a *CrossTalk* editorial in December 2010, Callan declared that at its inception, “we expected the National Center to operate for about ten years.”<sup>7</sup> When asked about this apparent discrepancy, Callan acknowledged that although he had not announced a specific time frame for the National Center’s existence, it was always understood that it would have a finite life of about a decade—notwithstanding the fifteen to twenty years of public policy and research the center originally intended to conduct.

To that end, Callan kept the staff relatively small—fifteen employees at the most. Although there was enough funding to double the staff, Callan felt that “smaller is good.” Not only did the small staff allow the National Center to be nimble in response to changes, it also enabled all employees to be part of the conversation. And, because the center was not a large organization, it would need to reach out to other groups involved in higher-education research and use them as resources, helping to overcome the “us versus them” mentality that sometimes pervades higher-education research.

### Why

The question that begs to be asked is, Why create a nonprofit organization with an expiration date? Callan’s response was simple: “No one asked me

to create a center for the ages.” But the reasons are a little more complicated than that.

First, Callan has done this before. When he helmed the California Higher Education Policy Center, he announced at the outset that it would operate for five years only—and it did. In retrospect, he regretted the specificity with which he had stated its demise (indeed, he admitted to feeling that the deadline had been a little too rigid and thus had been intentionally vague about how long the National Center would operate when it first opened). But he stayed focused on his mission and successfully completed it in the five-year time frame. Callan is, clearly, comfortable working on time-restricted projects (of course, undertaking policy research in a discrete subject area like higher education lends itself more easily to a finite time frame than some other nonprofit goals, such as, for example, ending world hunger).

Second, the impermanence of the National Center gave Callan a lot of freedom. For Callan, an organization that is not created to be permanent can take more risks, and “you need to take prudent risks to change policy.” A permanent organization might be worried about losing funding if it takes certain policy positions. Callan did not have that pressure. Callan’s funders were 100 percent supportive of the National Center’s mission, but, he said, “if the funding hadn’t been there, I would have just closed the place.”

Third, the National Center’s most visible product, *Measuring Up*, was a victim of its own success. This report card on the states got a lot of attention, especially in its first year. By the time the fifth edition was published, in 2008, it had, according to Callan, become part of the landscape. Politicians and other policy-makers, who at first reacted with anger and suspicion, eventually learned to use *Measuring Up* for their own purposes.<sup>8</sup> In addition, much of the shock was gone after the first edition, since people knew what to expect. Callan opined: “Are you going to keep doing [something like the report cards] until no one reads your reports? Or until no one funds you?”

### How

Unlike many nonprofits, the National Center did not close because of lack of funding—it was

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Callan believes the country suffers without the report card, not only because it fueled public discourse about the issues but also because it gave people at the state level leverage to advocate for changes in policy.

well funded at its inception and throughout its life. The National Center began with a grant from Atlantic Philanthropies, and in 2002 and 2003 Atlantic gave the National Center grants totaling \$6.5 million and \$2 million, respectively.<sup>9</sup> Even at the end of its life, the National Center was still being funded. In 2011, the year it closed, it received \$330,290 in grants and contributions.<sup>10</sup>

Callan has said that the National Center operated longer than expected so that it could produce the 2008 edition of *Measuring Up*, which was its last report card. The decision to close in 2011 was made at the same time as the issue of the final report card (most of the center's funding was structured as three-year grants, so the board of directors had agreed to stop seeking funding three years prior to the center's closing.) Staff were also fully aware of the anticipated closing and thus were able to make plans for subsequent employment.

### After Closing

At the time of the National Center's closing, Callan hoped that the report card would be continued by another organization. He acknowledged that the report card would have to be reformulated, in part because there are better data now. Although several foundations were approached with the idea, however, none accepted the challenge. Callan believes the country suffers without the report card, not only because it fueled public discourse about the issues but also because it gave people at the state level leverage to advocate for changes in policy. Callan similarly hoped the Associates Program would be adopted by another entity, but to date it has not.

Although the National Center was closed in June 2011, its umbrella organization, HEPI, filed a Form 990 with the IRS for 2012.<sup>11</sup> When asked about this, Callan said that he has kept the National Center alive as a legal entity in order to "house" projects for individuals who have funding but do not have a nonprofit in which to "park" their endeavors. He made it clear that he's not looking for business and that the National Center will likely "go away someday."

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**BARBARA BERRESKI** is director of Government and Legal Affairs of the New Jersey Association of State Colleges and Universities (NJASCU) and a graduate student in the Nonprofit Leadership program in the Penn School of Social Policy and Practice at the University of Pennsylvania.

## EVENT STRUCTURE

### National Center for Public Policy and Higher Education

Atlantic Philanthropies approaches Callan



Idea for report card is floated



National Center is created with an estimated expiration date



Promises are kept



Callan closes National Center

# The Transformation of the Otto Schiff Housing Association, the Creation of the Six Point Foundation, and the Impending Closure of Both

by Katie Grivna and Sandi Toben

**T**HIS ARTICLE EXAMINES THE CLOSURE OF THE Otto Schiff Housing Association (OSHA), a nonprofit organization located in London that serves survivors of the Holocaust and their families residing in the United Kingdom. In 2001, after more than twenty-five years of service, board chair Ashley Mitchell determined that the best way to serve OSHA's clients and have a greater impact on available social services would be to liquidate all of the organization's assets and distribute the money to other nonprofits that also serve Holocaust survivors and Jewish refugees. In addition to distributing its funds to other agencies, the Otto Schiff Housing Association transformed into the Six Point Foundation, a grant-making organization that provides financial assistance to that same population.

Many nonprofits hope that their respective efficacies will put them out of business—by serving the client population fully, there would no longer be a need for such service in the future

(in other words, mission accomplished). In the case of OSHA, however, Mitchell concluded that Holocaust survivors would be better served by other nonprofits in the area. And, with respect to its new foundation, as a spend-out organization Six Point plans to close in fewer than three years, when all the funds have been used.

## Establishment of the Otto Schiff Housing Association

In 1933, a group of community leaders created the Central British Fund for German Jewry (CBF), presently known as World Jewish Relief (WJR), with the mission of aiding Jewish refugees. The organization played an important role before, during, and after World War II, assisting German Jews in emigrating before the start of the war, providing housing at a camp for German Jews who were at risk of being deported during the war, and helping Holocaust survivors and their families reclaim their properties and rebuild their lives afterward. According to a press statement

issued by the Association of Jewish Refugees (AJR) in April 1944, more than 50 percent of the thirty thousand refugees from Germany and Austria who wished to settle permanently were over the age of fifty.<sup>1</sup>

In 1955, as part of the recovery effort, CBF and AJR funded the Otto Schiff House (named after one of the founding members of CBF, who was a tireless advocate for Jews in an era of anti-Semitism)<sup>2</sup>—which housed elderly Holocaust survivors, among many other educational and supportive services.<sup>3</sup> A brief obtained from Mitchell states that “by 1975, there were 196 refugees in residential care and 52 in sheltered accommodations”—and many more on a waiting list hoping for services.<sup>4</sup> Programs continued until 1984, when London’s Housing Corporation decided that residential care should be separated from other services provided by CBF. As a result, in 1985 the CBF Residential Care and Housing Association was established as a separate charity and continued to care for survivors—most of whom were healthy and active sixty- to seventy-year-olds.<sup>5</sup> In 1991, the CBF Residential Care and Housing Association was renamed the Otto Schiff Housing Association (OSHA), which managed many residential buildings, including the original Otto Schiff House.

### A Decade of Decline

As the OSHA residents aged their health deteriorated, and inevitably the facilities were no longer appropriate for their needs. According to AJR’s 1989 annual report, the maintenance of the organization’s facilities wore heavily on the budget: “The facilities they provide in five homes, which include sheltered accommodation, full residential care and nursing care, can only properly fulfill their purpose if buildings and equipment are kept up to date. In an age of rapid technological and social changes this is a continuous process calling for financial support in excess of what can be diverted from ordinary income.”<sup>6</sup> Maintaining the facilities left OSHA leaders dipping into their reserves, which were already at a deficit. In 1997, significant renovations began at the Osmond House, one of OSHA’s care homes, and construction costs quickly surpassed the budget.

This restoration, combined with OSHA’s already bleak financial position, caused that year’s deficit to surpass a million pounds.<sup>7</sup>

### Ashley Mitchell: Change Agent

After being a leader in Holocaust survivor services for decades and expanding its reach to five care homes and two blocks of sheltered housing sites, OSHA was losing steam.<sup>8</sup> With debt mounting, the Housing Corporation placed OSHA on its supervision list (an intervention method) out of concern for the organization’s financial troubles.<sup>9</sup>

Failure to resolve OSHA’s deficit would result in the Housing Corporation’s seizing its assets.<sup>10</sup> Meanwhile, trouble within the organization was also brewing, and managerial issues and bad relations between trustees caused the sudden resignation of the board chair in 1998. Mitchell, a businessman and trustee at the time, was named board chair because of his experience sorting out unruly boards.<sup>11</sup>

Mitchell, who describes himself as “an entrepreneur with a very strong social conscience,” assessed the organization for two years before deciding to close the nonprofit. While the number of Holocaust survivors was declining as the years went on, maintaining the facilities to provide an appropriate level of care continued to be a difficult task. In an interview with the authors, Mitchell explained, “The level of care we were giving was excellent but you did not have to be a nuclear physicist to realize that the situation was impossible, although there was a reluctance among many people to accept this.” He believed that the cost of sustaining operations was unrealistic and that clients would be better served through other charities. Naturally, this decision came with opposition. Mitchell spoke of the resistance he received from the chief executive that ultimately led to the latter’s resignation: “I try to allow everyone to have their say but don’t put up with irrelevant political behavior. I also absolutely believe in transparency and good corporate governance.[. . .] Not everyone always needs to have the glory,” he explained. While Mitchell respected the nonprofit’s long and rich history, he felt that other charities would better serve the same population.

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## Maximizing Assets

After making the decision to liquidate and distribute all of OSHA's assets, Mitchell's work was still far from over. Zoning restrictions on the properties significantly decreased their market price. For the next three years, Mitchell worked with architects and lawyers to remove the zoning restrictions. While these efforts came at a hefty price of £3 million, it was well worth it in the end;<sup>12</sup> prior to rezoning, one property was valued at £2 million and afterward was sold for £30 million.<sup>13</sup> The other properties brought in large sums, as well. According to the *Jewish Chronicle Online*, "Eleanor Rathbone House in Muswell Hill was sold in 2003 for £5.7 million. Then Heinrich Stahl House in Bishops Avenue fetched £16.25 million, Leo Baeck House, another Bishops Avenue site, sold for £30.25 million, and the final property, Otto Schiff House in Hampstead, is set to realise £5 million."<sup>14</sup> In total, property profits raised £57 million.<sup>15</sup> Next, Mitchell made arrangements for clients to move to other local Jewish care homes, which he described as one of the most challenging aspects of the change. "Prior evidence showed that moving people who are old and frail leads to high death rates," he said. "We managed to move everyone in the end without any associated loss of life."

Next, Mitchell negotiated the distribution of assets to similar organizations. As he explained, "Once I had determined that we needed to close, various charities claimed historic and moral rights to our assets. These conflicting claims, which had a vision relating to general community welfare, making a bat seem to have 20/20 vision, led to a negotiation of a tripartite legal agreement, setting out how funds should be distributed. Where money is concerned most people and organizations manage to show their worst side."

## Fund Distribution and Impact

As described earlier, after liquidating its assets, OSHA distributed its remaining funds to several related organizations that serve members of the Jewish community. Most notably, close to \$20 million was granted to Jewish Care, which created a nursing and dementia care facility

also bearing Otto Schiff's name, and £16 million to WJR.<sup>16</sup> OSHA also distributed funds to AJR, Jewish Community Housing Association, and Jewish Blind and Disabled, which received more than \$500,000 each,<sup>17</sup> and money was granted to Jewish residential and nursing care programs, the Holocaust Centre, and a local Jewish center, too. According to Mitchell, thousands of people have benefited as a result of distributing OSHA's profits. "Looking at some of the capital projects which we have helped to fund, I have no doubt that we could not have done these ourselves [nor could have] the organizations that we have helped and done a better job," he said.

## Creation of the Six Point Foundation

Additionally, \$4.09 million created the Six Point Foundation.<sup>18</sup> Named after the six points on the Star of David as well as the six million Jewish people killed during the Holocaust, the foundation offers two types of grants: individual grants and organizational grants. Individual grants are awarded to Holocaust survivors living in the United Kingdom for services that will enhance the quality of their lives. Individuals must go through a partner agency that requests the Six Point Foundation grant on their behalf. Many of these grants are small but meaningful. Examples include new computers, walk-in bathtubs, and travel expenses to visit family in the United States.<sup>19</sup> These grants help support and better the lives of the people that OSHA once served. Short-term organizational grants are awarded to nonprofits in the United Kingdom that serve elderly Jewish people, to help support programs for Holocaust survivors. Organizational grants have been awarded to purchase a bus to transport elderly to social gatherings, operational costs to supply kosher meals to the elderly, and programming costs for a religious study group.<sup>20</sup> Six Point describes itself as a spend-out, grant-making foundation, meaning that it plans to close once it distributes all of its funds. Because of the foundation's spend-out model, these grants are not intended to be recurring.

Since the Six Point Foundation's establishment, it has received additional financial support from OSHA. As reported in the foundation's

2013–14 financial statements, OSHA granted the foundation £1.675 million and an additional £1.2 million for a specific technology initiative.<sup>21</sup> Additional funding is not guaranteed in the future, according to the foundation's executive director Susan Cohen. This "bonus" funding was a result of the resolution of potential liabilities. OSHA previously earmarked funds for contingencies, such as pension liability for former employees, that have since been resolved and deemed unnecessary. Since OSHA no longer needs to hold these funds in reserve, it distributed them to the foundation.

Currently, the Six Point Foundation expects to cease its operations in March 2017. The foundation's financial statements corroborate its trustees' views on the spend-out model. According to Cohen, "Trustees reconfirmed their position that they did not wish to be held to a strict spend-down timeline but recognise, given the needs of the Foundation's target group, that a further three to four years is a realistic timeframe."<sup>22</sup>

## Current State of the Otto Schiff Housing Association

While OSHA is no longer a direct-care provider, the organization still exists. OSHA's 2013 financial statements show that it is still moving hundreds of thousands of pounds and earning interest from its investments. Because of OSHA's responsibility to two regulatory agencies, the Charity Commission and the Housing Corporation, the organization has had legal issues when trying to merge the last of its assets with another charity.<sup>23</sup>

The organization has settled other major obligations, such as pension funds, but major obstacles remain. According to Mitchell, OSHA is "obliged to repay certain Social Housing Grants to the relevant government bodies. These can only be undertaken once an invoice has been raised by the [Housing Corporation]. However, obtaining this document has been equal to sucking blood from a stone." Once this invoice is produced, OSHA will use its remaining funds to meet this obligation, in addition to covering other operating expenses such

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as annual audit costs and legal fees related to the closure. As Mitchell explained, while he hopes to have everything finalized by March 2015, “if it continues to be difficult to get this done, I will recommend to our trustees that we just close up.”



The Otto Schiff Housing Association has a rich history in the United Kingdom’s Jewish refugee community, and remains committed to providing care to hundreds of Holocaust survivors and Jewish refugees, even if it is no longer providing direct-care services. Thanks to the guidance and determination of Ashley Mitchell, the Otto Schiff Housing Association turned financial deterioration into an opportunity to provide major financial support to other Jewish care providers working with the same client population, or directly to individuals through the Six Point Foundation. As Mitchell settles the organization’s remaining financial obligations, the history of the Otto Schiff Housing Association is a powerful example of an organization’s dedication to its mission.

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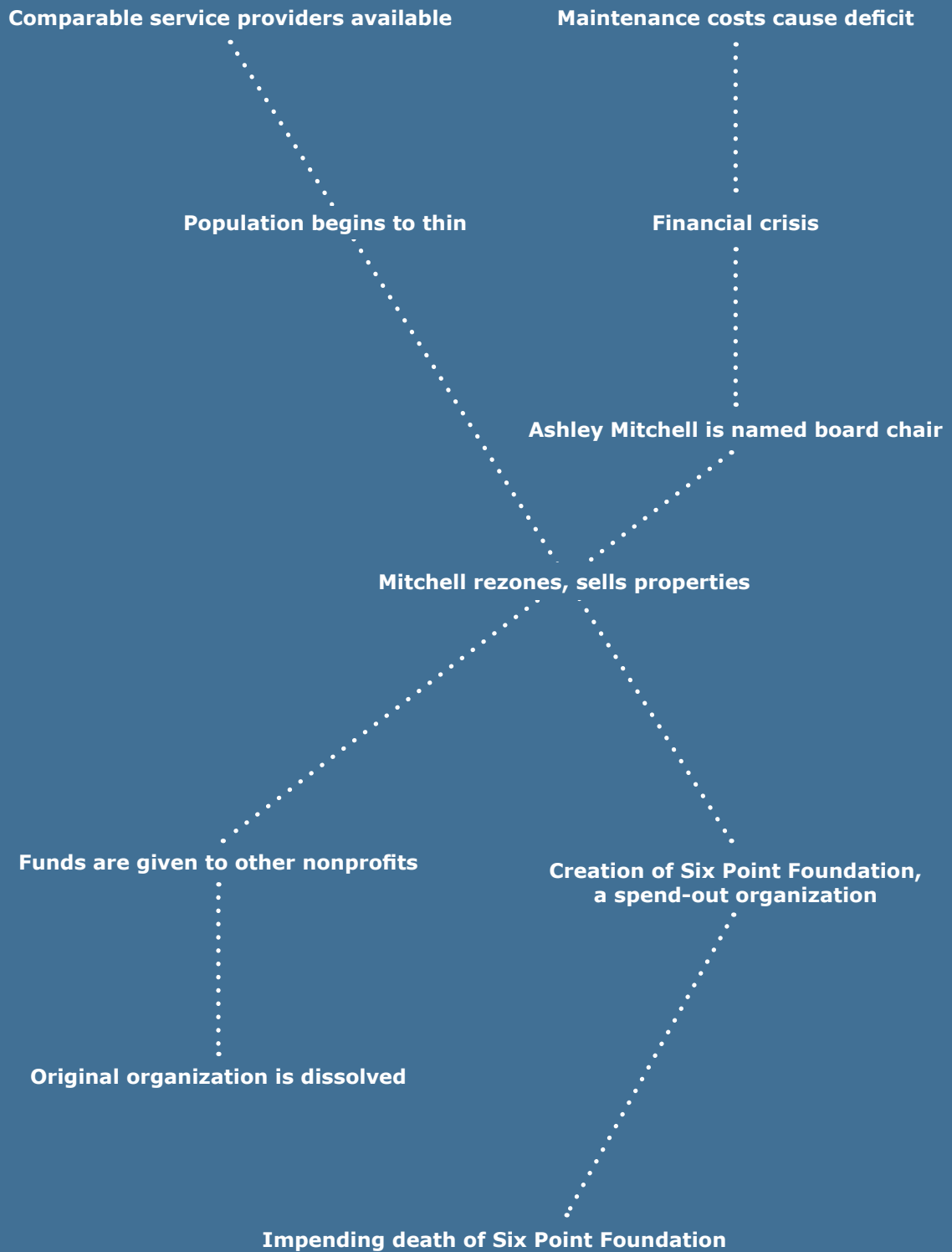
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**KATIE GRIVNA** is a graduate student in the Nonprofit Leadership program in the Penn School of Social Policy and Practice at the University of Pennsylvania. **SANDI TOBEN** is Host Sub-Committee Chair at the Spruce Foundation, Philadelphia, and a graduate student in the Nonprofit Leadership program in the Penn School of Social Policy and Practice at the University of Pennsylvania.

## EVENT STRUCTURE

### Otto Schiff Housing Association



# Curating Change: The Merger of the International Museum of Women and the Global Fund for Women

by Sarah Burke and Chloe Singer

**T**HIS CASE STUDY LOOKS AT THE FACTORS THAT LED up to the International Museum of Women's (IMOW) decision to merge with the Global Fund for Women (GFW) in March of 2014. While we reached out to previous IMOW staff—now at GFW—for a firsthand account of the events that led to the merger, we were unsuccessful and had to rely upon secondary information for evaluating the two organizations' financial and strategic decision to merge their staffs, boards of directors, and operations under one shared mission.

## The International Museum of Women

From 1985 to early 2014, the International Museum of Women operated as a digital museum, curating exhibitions, producing physical installations and events around the world, and developing an educational curriculum, all in aid of inspiring creativity, awareness, and action on vital issues for women. According to IMOW, approximately 70 percent of visitors surveyed reported changes in their opinions about global women's issues, and up to 60 percent reported taking action toward gender equity as a result of engaging with IMOW's digital content.<sup>1</sup> But in March of 2014, the museum announced it was shutting down operations as an independent entity and merging with the Global Fund for Women, the largest public foundation in the world dedicated to advancing women's and girls' rights through

an international network of women-led organizations, advisors, and supporters. But if IMOW was so successful in achieving its mission and advancing global gender equity, what events led to its decision to merge?

## A Museum without Walls

IMOW was originally founded, in 1985, as the Women's Heritage Museum, and for over ten years it operated as a "museum without walls," producing exhibitions and resources for the public. Jeanne McDonnell, the museum's executive director in 1995, articulated IMOW's mission in the following statement: "We have been working for ten years in the field of public education in women's history. We have not limited our subject boundaries geographically because we believe that women's mutual concerns transcend political boundaries."<sup>2</sup>

Growing support from the community led the museum's board of directors to begin plans to create a single-destination women's museum in San Francisco. In 1994, the museum submitted an application to build a physical space in the Presidio. The plan, which they titled "Shooting for the Stars (A Plan for the Women's Heritage Museum at Presidio) 1995–2035," was an ambitious one. The museum envisioned not only building the physical location in the Presidio but also simultaneously building a coalition of similar women's museums in South America, Africa, China, Japan, and Eastern Europe—along with

creating its own television channel, developing a series of educational programs and scholarships, and creating partnerships with other global cultural organizations. However, although its application to lease one of the Presidio buildings was initially approved, political changes derailed all nonprofit efforts to lease space there, and the museum was forced to move in another direction.<sup>3</sup> Despite this setback, the board of directors stuck to its decision to look for a physical home for the museum. And, in 1997, the board decided to change the museum's name from the Women's Heritage Museum to the International Museum of Women, to reflect the museum's focus on global women's issues.

Following the Presidio project, the museum developed a \$120 million campaign to build a 100,000-square-foot museum on Pier 39, in San Francisco, with a targeted opening date of 2008. The museum continued simultaneously to develop its global program, holding thirteen major exhibits focusing on such topics as women and political participation, global motherhood, and women's role in the global economy.

In 2005, after the museum had invested nearly \$1 million in site evaluation and raised cash and pledges of \$7.5 million, site inspectors uncovered significant structural problems with the pier that would cost an additional \$20 million to correct.<sup>4</sup> The additional costs were too exorbitant, and the museum canceled its plans to build a physical museum and refocused on the original mission of running a "museum without walls."

### Partnership with the Global Fund for Women

That same year, IMOW began a relationship with GFW that would prove to be very fruitful for both organizations. With funding from a GFW grant, IMOW was able to produce a large-scale virtual exhibition, *Imagining Ourselves: A Global Generation of Women*. The exhibition included an intersection of film, photography, music, poetry, and personal essay—all responding to the question, "What defines your generation of women?"<sup>5</sup> GFW promoted the exhibit to its stakeholders, allowing IMOW to tap into a much larger network and increase global exposure to the virtual exhibit. The result of their collaboration is an ongoing,

interactive, multilingual exhibit that has thus far received over sixteen million visitors, and more than one million people representing 230 different countries have participated in producing content—personal stories dealing with war and peace, cultural conflict, motherhood, identity, and other experiences important to women globally.

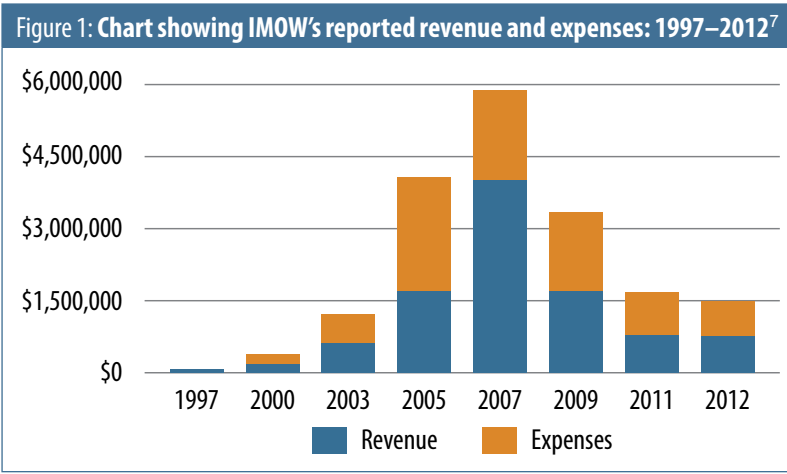
The exhibit received worldwide attention and, in 2007, led to IMOW's winning the Anita Borg Social Impact Award, which recognizes the accomplishments of women leading in technological innovation. As the institute expressed it at the time, "[IMOW] amplifies the voices of women worldwide through history, the arts and cultural programs and exhibits that educate, create dialogue, build community and inspire action. With its unique focus on cultural change, the Museum advances the human right to gender equity worldwide."<sup>6</sup> The success of the exhibition demonstrated to both entities the global impact that could be effected through strong partnership, and reinforced IMOW's belief that a virtual museum was a relevant model for advancing its mission and engaging a global audience.

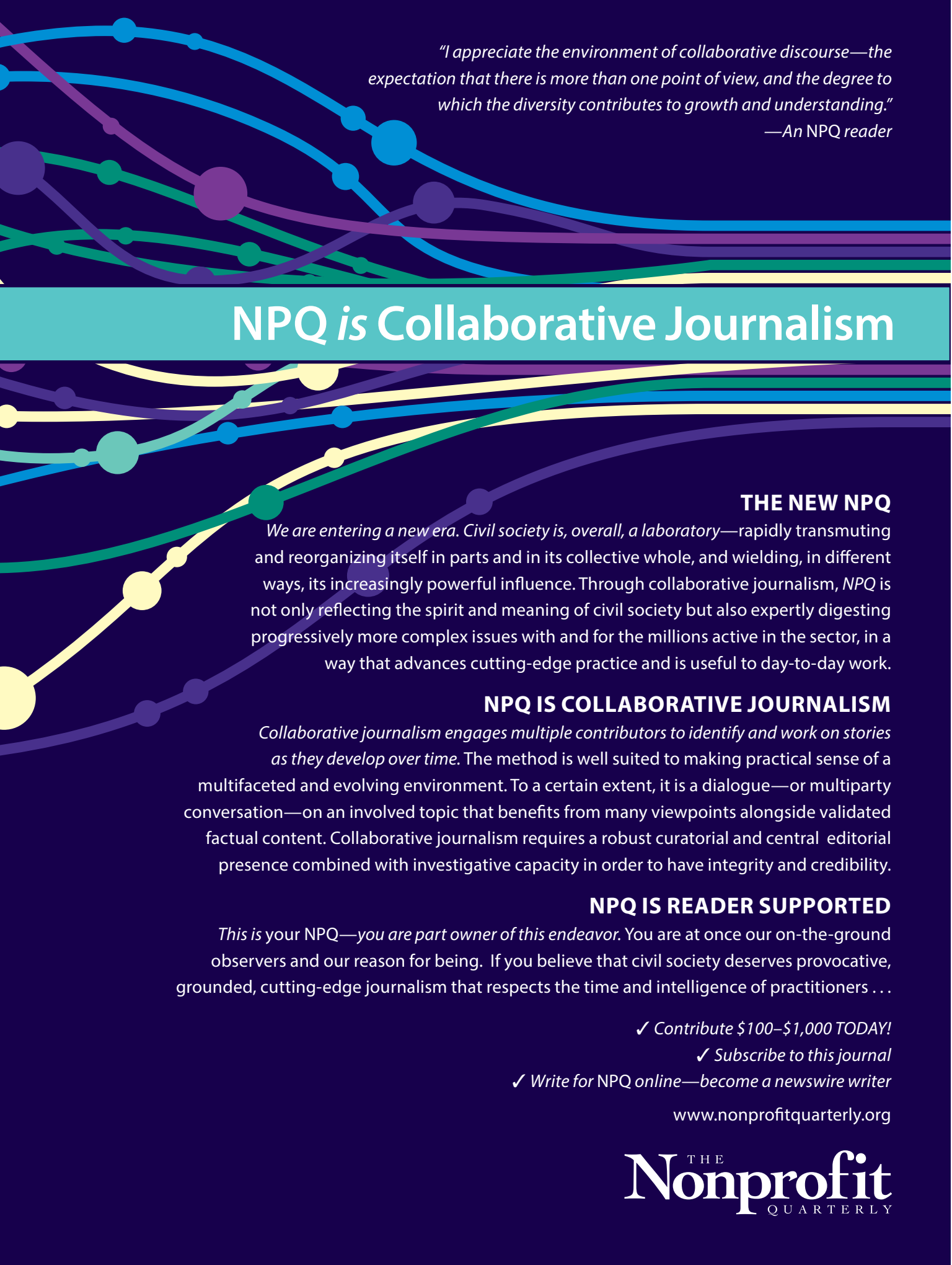
### Financials

Just one year after the success of their exhibition and winning the Anita Borg Social Impact Award, however, IMOW's financials began a downward spiral. A review of the museum's Form 990s over the seventeen-year period of its filings, illustrated below (figure 1), tells the whole story.

While the museum was established as a 501(c)(3) in 1985, 1997 was the first year it was required to file a Form 990 with the IRS, at which

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time it reported zero expenses and a modest annual revenue of \$31,890. By 2001, total revenue was at \$641,658—a nearly 2,000 percent increase. Between 2003 and 2005, there was a large leap in expenses due to the undertaking of the capital campaign. Total expenses in 2005, the year IMOW announced the end of the campaign, came in at over \$2.3 million, while total revenue was just under \$1.6 million—a net loss of approximately \$770,000.<sup>8</sup> Between 2005 and 2011, expenses went down and revenue increased; and in 2007—the peak of its growth—IMOW brought in nearly \$4 million in annual revenue, ending that fiscal year with a net gain of \$2,116,579. The following year, however, revenue plummeted to \$889,262, and the museum ended fiscal year 2008 with a net loss of more than \$2 million. By 2013, the final year IMOW filed, it reported a total revenue of just \$655,462—a dramatic decrease from just five years prior.

What was behind this downward spiral?

During the capital campaign, IMOW had “staffed up” and brought on a vice president of development, further adding to its overhead expenses. This employee was given a comparatively outsized annual salary of \$155,000 (as a comparison, the vice president of education management and the vice president of marketing were paid \$55,000 each, annually). Furthermore, the executive director’s compensation rose from \$22,000 to \$177,000 during this period, significantly adding to IMOW’s increase in total expenses.<sup>9</sup>

As the money from the capital campaign began to disappear, IMOW’s overall financial situation plummeted further. While IMOW’s official explanation was that the needed repairs to the pier had caused the project’s demise,<sup>10</sup> a look into IMOW’s records by San José State University indicates that the campaign “ultimately failed due to lack of funding and the economic downturn.”<sup>11</sup> By 2008, IMOW was operating at a total net loss of more than \$2 million. Of its expenses, \$2,030,486 was paid toward program services, while it received a mere \$856,141 in contributions. Furthermore, in 2008, the museum’s CEO was paid \$208,981, and two other employees, the vice president of development and the vice president of programs, were each paid \$120,000.<sup>12</sup> While not outlandish figures for a large international organization, it is

problematic for the salaries of staff to rise while an organization is operating at an extreme loss.

By 2010, clear structural changes had been put into effect: the CEO was replaced, and there were major reductions in salaries and paid positions. By 2012, IMOW’s total revenue was just \$757,920, and expenses were \$714,929. The new executive director was given an annual salary of \$117,000, and there was only one other paid position.<sup>13</sup> It is clear from these numbers that, even though IMOW was staying afloat, it did not have the assets or staff to make the global impact it desired.

### The Merger

Meanwhile, in contrast to IMOW’s shrinking numbers, GFW was—and remains—a true powerhouse in women’s rights advocacy: its 2012 revenue was over \$18 million with expenses just under \$15 million.<sup>14</sup> GFW invests nearly \$9 million each year in women-led organizations.<sup>15</sup> Its efforts have helped to form women’s rights organizations, launch Women’s Funds, and provide more than \$100 million dollars in grants to over 4,600 organizations in 175 countries.<sup>16</sup> GFW’s extensive community and strong financial stability were a clear lifeline to the struggling IMOW, and IMOW’s commendable skills in digital storytelling promised to help accelerate GFW’s communications efforts. IMOW and GFW saw the opportunity to double their impact, reach new audiences, and get closer to achieving their shared vision: “a just, equitable, and sustainable world in which women and girls have resources, voice, choice, and opportunities to realize their human rights”<sup>17</sup>—and in March 2014, the two organizations merged under GFW’s name.

IMOW has only released positive publicity regarding the merger, but it necessitated considerable sacrifice. Not only did IMOW as a legal entity disappear, it also gave up its independence and ability to control its decisions and future. GFW’s CEO and president, Musimbi Kanyoro, continues to serve as CEO, while IMOW’s president became vice president of advocacy and innovation. In addition, due to GFW’s much larger size, the boards of each organization did not merge equally—GFW’s board took on just two members of IMOW’s board.<sup>18</sup>

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IMOW's merger with GFW was a selfless and strategic move to achieve its stated goals. Simply put, by combining forces with GFW, IMOW could be most effective.

## Moving Forward

According to the *Stanford Social Innovation Review*, nonprofit mergers and acquisitions have dramatically increased over recent years.<sup>19</sup> “Merged nonprofits can roll together annual audits, combine insurance programs, and consolidate staffs and boards. But they are also bigger and more complex and require more and better management—a cost that often exceeds the savings from combined operations.”<sup>20</sup> It has been just nine months since IMOW and GFW merged, and it appears that the merger was a successful move that relieved IMOW of its financial struggles and helped to further both organizations’ global impact. Still, it will be interesting to see whether this merger allows IMOW to continue its mission within the GFW infrastructure, or if IMOW will struggle with the loss of its own unique identity and sense of autonomy.

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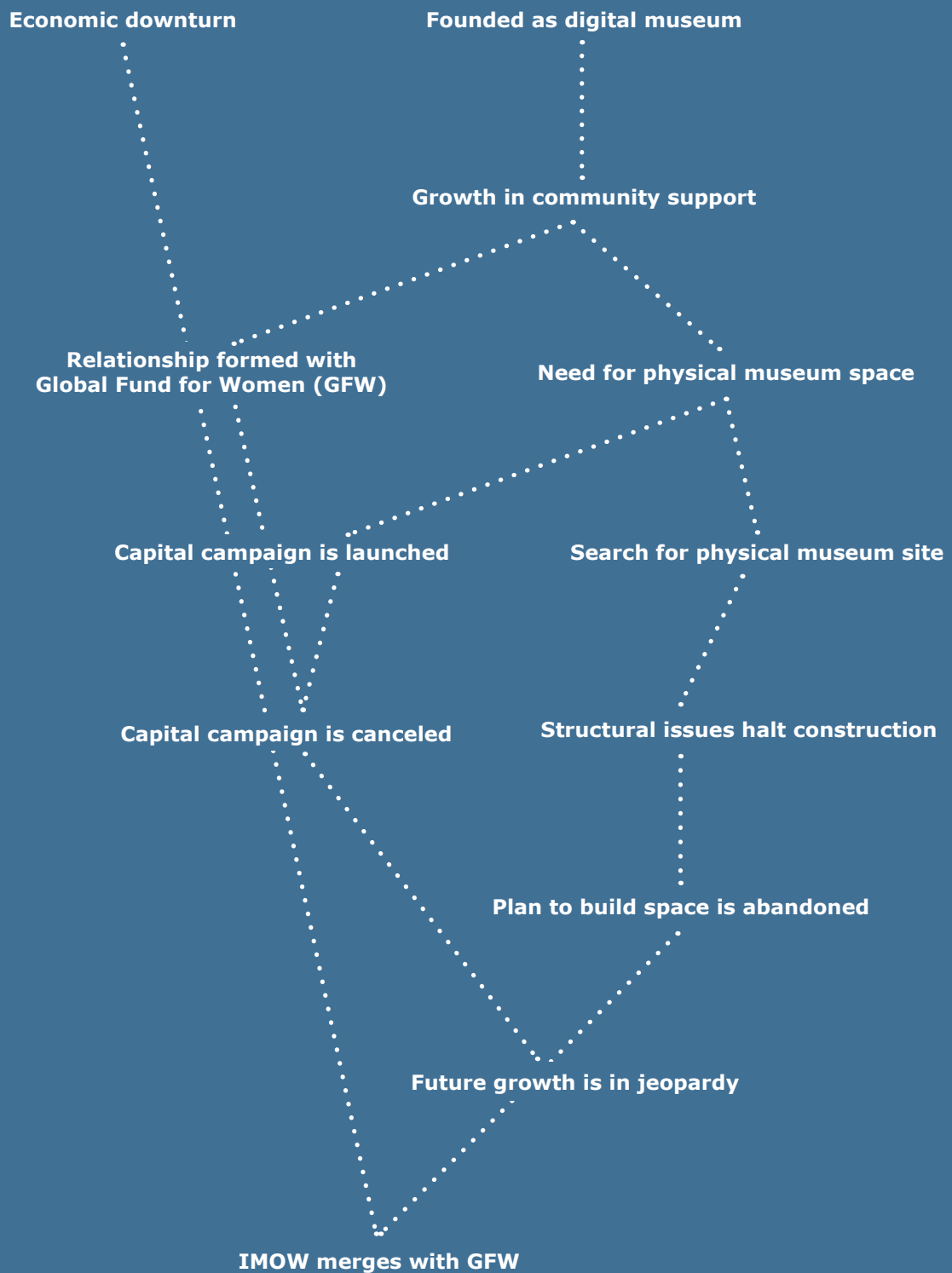
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**SARAH BURKE** is development manager at Soroptimist International of the Americas and a graduate student in the Nonprofit Leadership program in the Penn School of Social Policy and Practice at the University of Pennsylvania. **CHLOE SINGER** works for the Penn Fund and is a graduate student in the Penn School of Social Policy and Practice at the University of Pennsylvania.

## EVENT STRUCTURE

### International Museum of Women (IMOW)



# Death or Reincarnation?

## The Story of ACORN

by Emily Conners and Marissa Meyers

**T**HE STORY OF ACORN ILLUSTRATES HOW NON-profit organizations, like organizations in other sectors, are not infallible. ACORN's downfall exemplifies what happens when a variety of factors are allowed to conspire to end an organization's life. However, a more in-depth analysis of ACORN's death exposes possible signs of life. Does ACORN's legacy live on within the disaffiliated local branches? In other words, is ACORN truly dead, or is a reincarnation taking place?

### Death

ACORN's death occurred in 2010, when the organization filed for Chapter 7 liquidation. But the death of ACORN cannot be fully understood without looking at the organization's history. Founded by Wade Rathke and Gary Delgado, ACORN began in 1970 as Arkansas Community Organizations for Reform Now (the organization later changed "Arkansas" to "Association of"). ACORN became a national and international network of community organizations, with an emphasis on advocating for low- and moderate-income families on social issues. During its lifetime, ACORN's membership included 175,000 families in 850 chapters in seventy-five cities

in the United States and abroad.<sup>1</sup> But as the years progressed, the ACORN story revealed a plethora of ways in which to effectively kill an organization.

ACORN's demise was predicated upon years of poor leadership and mismanagement, among other factors. This is seen in the decision making of the leadership during key periods of the organization's history. Media coverage began highlighting the lack of accountability within the organization when, in 2008, ACORN's get-out-the-vote organizing prompted allegations of nationwide voter fraud by the group.<sup>2</sup> Another costly blow to the organization was the revelation that same year that Dale Rathke, the cofounder's brother, had embezzled \$948,607.50 from ACORN and affiliated organizations in 1999 and 2000.<sup>3</sup> Worried that conservative opponents would use the news of embezzlement against the organization, ACORN leadership had not reported the fraud; instead, they chose to keep the matter confidential, and had not even informed the board of directors.<sup>4</sup> When the embezzlement and decade-long cover-up of the crime eventually came to public light via a whistleblower, the organization, with its reputation already tarnished by the voter-fraud allegations, struggled to maintain its credibility.

Subsequently, it was revealed in September 2009 that a conservative adversary of the organization's had caught on film members of a local branch of ACORN giving advice to activists posing as a pimp and a prostitute on how to cheat the system and lie on bank loans.<sup>5</sup> Although ACORN was found to have done nothing illegal, the organization's handling of the scandal brought its management even more into question, and highlighted how poorly the organization managed screening and intake processes, as well as staff supervision and training.<sup>6</sup> According to *The Hill*, less than one week later Congress decided to pass an act to defund ACORN. The federal government had been a steady ACORN funder, giving the organization \$50 million dollars between 1995 and 2009; but, as then-House Minority Leader John Boehner said at the time, the bill "indicates that the writing is on the wall for ACORN."<sup>7</sup>

Organizations can rise or fall depending on how they react to adversity. An independent assessment of ACORN's governance, by Senior Counsel with the Proskauer Rose law firm Scott

Harshbarger (former Massachusetts Attorney General and former CEO of Common Cause), describes an organization that was eager to expand and did so too quickly and without adequate infrastructure. Harshbarger also found that ACORN was straying from its core mission—and mission drift, whether unintentional or purposeful, can be a strong factor in an organization's demise. In addition, Harshbarger found that ACORN's complex governance structure was prohibiting it from maximizing its efficiency. ACORN's national structure was a 501(c)(3), its local chapters were 501(c)(4)s, and there were boards for both arms of the organization. Although the organization included 501(c)(3)s, 501(c)(4)s, 527s, PACS, and for-profit entities, the power was concentrated in only a few members, and it was alleged that the powerful few were not accurately representing the stakeholders and constituents.<sup>8</sup>

ACORN's mismanagement was costly, yet the organization did not take the opportunity to learn from its critical errors. Harshbarger's

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Suspicious about  
that ACORN is still alive  
and well, hiding behind  
alternative names of the  
“new” organizations.

management audits brought no response from the board, and ACORN's nonresponse—coupled with its failure to put a reform plan into motion—brought the organization yet closer to its demise.

ACORN's spiraling path downward overshadowed the organization's accomplishments as a whole, as well as the accomplishments of its neighborhood chapters and its affiliates.<sup>9</sup> However, some chapters disaffiliated from the organization just prior to its closure and continue to remain open today under different names. So is ACORN really gone for good, or does its legacy live on, for better or for worse?

### Reincarnation

What does one do when an organization is getting ready to close yet the issues it addressed in the community are still unresolved? This is the question many ACORN chapters began asking in 2010, when the organization readied to close its doors. Two of ACORN's largest chapters, in New York and California, were the first to separate from the umbrella organization, with many others following suit shortly thereafter.

ACORN's California chapter, which represented about an eighth of ACORN's national membership, changed its name to Alliance of Californians for Community Empowerment (ACCE) in January 2010. The newly founded group supported a comparable mission, was staffed by many of the same employees who had worked for ACORN, and was mostly funded by the same donors. The former head organizer for the California chapter, Amy Schur, was named executive director of ACCE.<sup>10</sup>

Suspicious about that ACORN is still alive and well, hiding behind alternative names of the “new” organizations. Darrell Issa, California Republican representative on the House Committee on Oversight and Government Reform, issued a written statement to Fox News likening these metamorphoses to a “criminal” who changes his or her name but continues to operate much as before. Issa described the new entities as remaining, when it came down to it, the same corporation with the same board, staff, and people—in other words, with having changed in name only.<sup>11</sup>

Issa was not alone in declaring his concern. The Capital Research Center reported that ACORN is still being led by Wade Rathke at ACORN International (under the name Communities Organized International [COI]) since 2005.<sup>12</sup> Additionally, Cause of Action, a nonprofit that focuses on government accountability, keeps a list of rebranded former ACORN entities, still-active ACORN entities, and ACORN allies on its website. As of August 2012, the website listed 174 active organizations.<sup>13</sup> (The list has not been updated since that time.) Two of the active organizations, Affordable Housing Centers of Pennsylvania (AHCOPA) and ACTION United, are currently housed where the former ACORN chapter of Pennsylvania called home. While AHCOPA's executive director Kenneth Bigos says that the organization does not have direct ties to ACORN, AHCOPA's website states that the organization has been operating since 1985, which is the same year that ACORN's housing branch started operations.<sup>14</sup> In contrast, ACTION United's website puts its establishment date as 2010.<sup>15</sup> AHCOPA's website lacks any information linking it to ACORN, while ACTION United's website clearly acknowledges the link: “ACTION United was formed in April 2010 by staff and former leaders of Pennsylvania ACORN, which was destroyed by right wing forces angry at the 1 Million voters registered by ACORN nationally in 2008 and the results of that voter engagement. Seeing a strong need to continue the work done by PA ACORN for over 30 years, ACTION United has continued to employ much the same organizing model as ACORN.”<sup>16</sup>

According to Fox News, ACORN's housing sector lost more than any other division within the organization. The federal freeze in funding decreased the housing budget by 75 percent, from \$24 million in 2009 to \$6 million in 2010 across all of the organization's remaining offices. The organization reduced the number of families to whom it provided financial advice from twenty thousand to ten thousand.<sup>17</sup> Bigos has acknowledged that there is still an overwhelming population of families in Pennsylvania who need personal finance education.<sup>18</sup>

AHCOPA has a staff of five: three counselors, the executive director, and a part-time administrative assistant. According to Bigos, local residents are required to attend a First-Time Home Buyer Counseling and Education program, which is a group educational workshop. Once the individual has attended the workshop (provided by a local realty agency), the attendee can request one-on-one counseling with a housing specialist. Individuals are also welcome to meet with foreclosure specialists if they are at risk of losing their homes. When questioned about the relationship between ACORN and AHCOPA, Bigos seemed hesitant to acknowledge any connections outside of his organization's fundamental mission to provide financial counseling to community residents and "some advocacy work on the side." Bigos did acknowledge that some members of AHCOPA's board of directors were formerly with ACORN, but, he added, AHCOPA has a different tax identification number and different funding from that of ACORN Housing Corp. in the past.<sup>19</sup>

AHCOPA's next goal is to develop a relationship with Habitat for Humanity Philadelphia.

Bigos hopes that families who are not selected through Habitat's housing project will be able to go to AHCOPA for counseling with the aim of being selected during the next Habitat homeowner search. Additionally, Bigos envisions a program where individuals who are not interested in living where Habitat is currently building can come to AHCOPA to find out how they can finance their home in a location of their choosing without Habitat's financial assistance. The goal would be to help improve applicants' credit scores to ensure a low interest rate, a service that is similar to that provided by Habitat. According to Bigos, around 90 percent of AHCOPA clients live on incomes that are approximately 80 percent below the area's median income. This means that the household income of a family of four is below \$63,000. AHCOPA hopes to help such families secure a home with a value of \$80,000 to \$110,000. The only fee that AHCOPA charges for its services is \$12.25 for an individual credit report or \$22.50 for a joint report.<sup>20</sup>

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# THE Nonprofit QUARTERLY

While AHCOPA and Action United are attempting to provide assistance that ACORN used to provide to the Philadelphia community, it is clear that there are many similarities between the new organizations and ACORN—from values to staff members to protocol. Is it really possible to transform how an organization functions by changing its name but keeping its location, ideas, and staff members the same? And, was it appropriate for the new organizations to keep the same individuals running their offices, considering that there had been so much corruption in the old organization? Some may decide not to donate or request financial assistance from these organizations purely because of the association. The hope is that organizations like ACTION United and AHCOPA will be able to succeed in their mission to help their local communities, even as ACORN goes down in the books as one of the most catastrophic suicides in nonprofit history.

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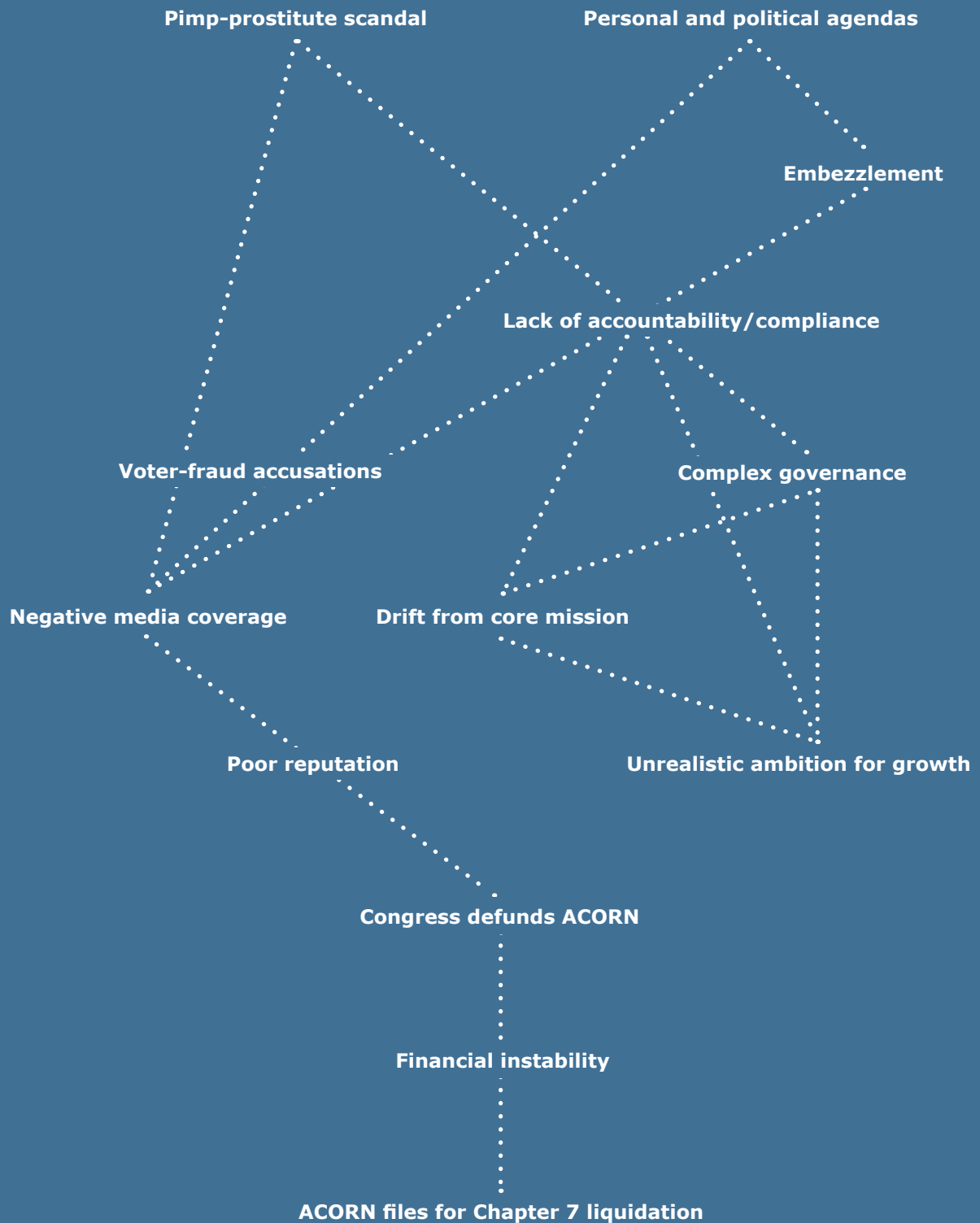
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**EMILY CONNERS** is an AmeriCorps VISTA through the Corporation for National and Community Service and a graduate student in the Nonprofit Leadership program in the Penn School of Social Policy and Practice at the University of Pennsylvania. **MARISSA MEYERS** is a graduate student in the Nonprofit Leadership program in the Penn School of Social Policy and Practice at the University of Pennsylvania.

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## EVENT STRUCTURE ACORN





# 10 Ways to Kill Your Nonprofit

by Mark A. Hager and Elizabeth A. M. Searing

**F**OR THE RECORD, WE WOULD NEVER SUGGEST THAT you actually do it. Kill your nonprofit, that is. You work so hard to make it go, and most days you want it to fly free and carry your dreams for a better world. But not everyone is like you. Clearly (from what we see out there) some people really do want to kill their

nonprofit. So this article is for them, not for you. This is for those people who really do long for a darker world.

## #10WaysToKill

We spend our time watching nonprofits and reading what people have to say about how nonprofits operate—and as far as we can tell, there's no shortage of ways to run your organization into the ground. Below is just our top ten. We've assembled some of the best crash-and-burn thinking here to help you on your quest to take your nonprofit down.

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**MARK A. HAGER** is associate professor of philanthropic studies in the School of Community Resources and Development at Arizona State University. **ELIZABETH A. M. SEARING** is a doctoral candidate in the Andrew Young School of Policy Studies at Georgia State University.



There are myriad ways to harm your organization, and this article lays out ten of the best. But if none fits your bill, don't despair. For, as the authors assure us, "People come up with new and creative ways all the time to capsize, starve, overwhelm, alienate, asphyxiate, delegitimize, underinvest in, and otherwise off their nonprofits."

### *1. Overwhelm it with liabilities.*

Of course we have to start with money, because a sailboat can't run without wind. You have a lot of options here: cut the wind, trim the sail, capsize the boat. But, if your nonprofit has more assets than liabilities, it's not going under anytime soon. Accountants have a special name for the difference between assets and liabilities: "net assets." Anne Abraham points out several reasons why positive net assets are important: they can smooth the income cycle, finance capital needs for expansion, or be sold for income. This is why a strong equity ratio (net assets / total assets) is considered a proxy for long-term nonprofit financial health.<sup>1</sup>

But nonprofits have responsibilities and the constant potential to saddle themselves with more. They take out loans. They incur wage obligations. They pay purchase balances back over time. These liabilities cause a drag on finances, pulling net assets down or even toward negative. "Negative net assets" is when your nonprofit has more liabilities than assets. Any sailor will tell you that a ship needs some weight to keep itself upright, but many nonprofits have been pulled under the waves by the weight of their liabilities. If you want to kill your nonprofit, debt is your friend.

One of the most popular ways to get in over your head is through the purchase of buildings

Income diversification  
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(remember the rancorous dispute over the new Cooper Union building and its potential role in the nonprofit's financial dilemma?). But more often than not it is the occasional use of your credit line to smooth income that is the problem. You dip into the line of credit in order to pay a vendor but never make *quite* enough to pay it off. You keep dipping in for similar one-off situations, but the principal stays unpaid and the interest continues to accrue. Soon, your nonprofit is sinking under the waves in the same way many American consumers do—by taking on a little liability at a time until it pulls you under.

### *2. Operate in the red.*

Most nonprofit founders take the plunge because they want to provide a good or service that makes a difference: unlike for-profit profit maximizers, nonprofits focus on other outcomes. This can sometimes be a problem, however, since nonprofit managers often prefer to watch what they are doing and not what they are consuming. This leads to an easy and popular way to kill a nonprofit: starvation.

Starving a nonprofit is easy: simply spend more money than you bring in. The longer your nonprofit operates in the red, the greater the prospects of failure. Woods Bowman suggests that a nonprofit should not seek to balance its books but rather to become resilient and target small surpluses.<sup>2</sup> Sometimes, the issue takes root in the planning (such as adhering to the assumption that nonprofits are supposed to operate at a loss), while other times the revenue targets simply do not materialize. The process of starvation is versatile: it can be sudden or agonizingly slow, and it can involve a shock to income or a hemorrhage of stockpiled cash (or both)—but the mechanics and consequence are the same.

Often, everyone in the nonprofit knows that expenses are exceeding income to the point of danger, but no one stops to revisit the budget. This is a human problem: no one wants to look like a failure to the board, and we identify ourselves personally by the financial success of our nonprofits. But the only “failure” here is that of your fiduciary duty to your organization. If you want to go the starvation route, help ramp up expenses and

throw up roadblocks when conversations about the budget come up.

### *3. Poison the revenue mix.*

Starvation is one thing but an unbalanced mix of resources is another. The right balance of appropriate revenue streams will nourish a nonprofit, but both concentration on one revenue source and overreliance on too many can be damaging, if not fatal.

Income diversification can be a frustratingly healthy habit. Smart species eat different things in case the supply of one food type gets scarce. Likewise, John Trussel and Janet Greenlee have argued that diversification can help ward off financial calamity by spreading out the risk to any one income source.<sup>3</sup> This helps to avoid what others have called the “panda problem,” where the environment for a particular type of specialized nourishment becomes hostile (such as sequestration and government grants), endangering the survival of the individual and the species.

You might not be able to get your nonprofit to overconcentrate on one revenue source, but you may be able to get it to spread itself too thin by overdiversifying. First, the infrastructure needed to maintain pipelines for a bundle of income types—such as fundraising for private donations, locating and applying for grants, and handling the documentation requirements of government grants and contracts—can be overwhelming. Second, not all income types will be a good match for your mission: thrift shops may be all the rage, but they might not be in line with the mission of your Riverkeeper chapter. The genius here is that you look good by cultivating new ways of raising money for your nonprofit, whether or not it is ready to take on the burden of managing that income stream. People won't realize any damage this has done until it is too late.

### *4. Dehumanize your donors.*

Imagine for a moment that you have only one donor contributing to your operations. Maybe in the early days of your nonprofit this was more or less the case. That person cared about and bought into what you were trying to do, and you did all you could to keep that donor informed and engaged. You knew that the donor liked coffee but

not donuts. You knew that his daughter was in law school, and that he had recently become a grandfather. But you don't have just one donor—and if you once did, those days are long gone. Now you have many donors to keep track of. That provides opportunity to capsize the whole operation.

To be sure, a boatload of donors can be important in keeping your nonprofit afloat. However, understanding and meeting the needs of a thousand donors is dauntingly different from coffee and cash-flow conversation with just one. Your nonprofit will drift toward understanding less and less about each donor and treating each one like just another mark on the big development tote board. Now is your chance! To do some damage, don't follow up donations with a thank-you note and tax receipt; instead, communicate through print mailings (and send a lot of them). And, to top it off, misspell some donor names on those mailings. Treat your donors like cogs, and they will abandon ship in no time.

Adrian Sargeant and Jen Shang's textbook on fundraising notes that one big reason donors stop

giving is because they perceive other nonprofits as equally or more deserving.<sup>4</sup> Fundraising practices and strategy have a *lot* to do with this. When donors move slowly and subtly from deeply interested and engaged to distant and detached, your nonprofit will spend more and more time trying to replace those contributors as they lapse and move on. Fundraising costs will gradually displace spending on programs, and your nonprofit will slowly grind to a halt. Mission accomplished.

#### 5. *Stay forever young.*

Arthur Stinchcombe suggested that one of the reasons that young organizations die more often than older ones is because they don't have the internal processes that older organizations have built up.<sup>5</sup> Someone who has written dozens of grants will probably be more efficient and effective than someone who is just starting out, and an executive director who has coordinated a nonprofit's budget process for the last few years will know which actors should be involved, in what order, and to what degree. Both of those

To do some damage, don't follow up donations with a thank-you note and tax receipt; instead, communicate through print mailings (and send a lot of them). And, to top it off, misspell some donor names on those mailings.

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One of the greatest assets a nonprofit has is its reputation. It can take many years to build a sterling reputation and only a few minutes to ruin it.

experienced people should be documenting their process in order to help any successors who come behind them. This is how organizations overcome the “liability of newness.”<sup>6</sup>

Even for a more established nonprofit, a lack of internal processes can simply be a reflection of resource allotment—you don’t have enough people to do all the activities that need to be done, so naturally you want your staff and volunteers on the front lines of accomplishing whatever your mission is. Keeping detailed financial records is one of the first things to go when you are pressed for time, and catching up becomes harder and harder. As a custodian of public trust and funding, detailed financial records are essential. But who wants to spend time on paperwork when there is mission to accomplish? Who wants to track what has been done when there is still so much more to do? A mature nonprofit finds ways to make these processes routine. Dodge these details and you stay forever young and raw. This is how organizations lose tax-exemption status, how grants are revoked, and how nonprofits die.

#### *6. Cut your connections.*

While operating in the red might be thought of as starvation, the lack of connection to other actors in the broader community might be thought of as asphyxiation. However, if your nonprofit is broadly embedded in the community you operate in, you might find it difficult to cut off all of the oxygen supply. Nonprofits that have well-established and productive relationships with partners, suppliers, donors, regulators, sector advocates, and the media get lots of air, which translates into healthy operations. Honestly, that might be tough to strangle.

Joseph Galaskiewicz and Wolfgang Bielefeld came at this in an interesting way in their study of Minnesota nonprofits.<sup>7</sup> They wanted to measure how embedded a nonprofit was in the local community, but they didn’t think it would be useful to ask the nonprofits directly. So they asked other people about the nonprofit. First, they asked local elites (well-known professionals about town) the extent to which a given nonprofit provided essential or outstanding services. Second, they asked other local nonprofits the extent to which they

exchanged resources or information with the nonprofit in question. As it turns out, the nonprofits with the stronger reputations and network ties were the ones that survived and grew over time. Asphyxiation was more common when nonprofits were invisible or disconnected from others.

If your nonprofit is struggling for air already, then it might just be a matter of finding those few points of community connection and blocking them up a bit. If your nonprofit is essential, outstanding, resourced, and informed, then your best bet is a strategic hit on the air supply. Find and sabotage a relationship with a vital partner, donor, or other key stakeholder. This will leave your nonprofit panting for air, and maybe even down for the count.

#### *7. Stain your reputation.*

One of the greatest assets a nonprofit has is its reputation. It can take many years to build a sterling reputation and only a few minutes to ruin it. So your reputation can play strongly in your favor if you want to kill your nonprofit.

Nonprofits get some elements of legitimacy just by being nonprofits—people trust most nonprofits more than they trust most businesses. However, frequent scandals and sector fraudsters have eroded much of the inherent trust that nonprofits have enjoyed for so long. Thus, individual organizations have to build their name through painstaking quality and careful communication with clients, donors, and other constituents. Once built, reputation can take an organization a long way. People will want to give you money, other organizations will want to partner with you, volunteers will want to spend time helping you, and qualified staff will want to work for you.

The quickest way to ruin your reputation is to induce a scandal, maybe by implicating your executive director in some illicit ring. But we understand that not everyone can spawn a scandal. Thomas Jeavons has suggested another method for eroding the reputation of a nonprofit: internal sabotage.<sup>8</sup> Jeavons describes an international relief organization that earned the reputation of burning out its staff. Although it provided quality services, the nonprofit was seen as a place that “used people up” and was not a good place to work in general.

If employees are not treated well or the culture carries some edge of toxicity, burnout and turnover will slowly transform your work environment into a deadly swamp. We suggest you give this a try.

#### *8. Underinvest in infrastructure to support volunteers.*

This one can be really crippling, and many nonprofits take their operations down a notch or two this way—if not all the way to the grave. It could be that volunteers really just aren't that important to the work that you do. Or—and here's the real trick—they *are* important, but you act like they aren't. The truth is, volunteers are vital to the operations of many nonprofits. Legions of neighbors are the lifeblood of the programs and administration of many nonprofits. In order for those nonprofits to hit their strides, they have to invest in the recruitment, screening, task matching, training, supervision, communication, recognition, and evaluation necessary to make the relationship work.

The evidence is pretty good that these things matter to both volunteers and the effectiveness of the nonprofits they work for. With poor screening and task matching come volunteers who get frustrated working in jobs that don't really interest them. Without trained supervision by engaged staff, volunteers are disconnected from vital programs. When recognition is not tailored to the expectations of volunteers with diverse motivations and life histories, they can feel unwanted.

There's a nonprofit maxim that says, "Volunteers are not free." To take your nonprofit down, all you have to do is foster the idea among your colleagues that volunteers actually *are* free. It's easy! Volunteers don't have to be paid, so what do they need, really? Research at the Urban Institute a few years back showed that nonprofits in the United States notoriously underinvest in the care of their volunteers.<sup>9</sup> Most nonprofits in the study noted having a staff member responsible for volunteer administration—but this was, on average, only 30 percent of the staffer's responsibilities. Less than half of nonprofits said they screened, trained, or recognized their volunteers "to a large degree." The recent recession has only made this worse, as these days nonprofits beef

up on fundraising and starve out their volunteer programs. The strategy here is to catch that wave and make sure your nonprofit puts less attention and resources toward the effective use of volunteers. We can't guarantee that underinvesting in volunteer administration will actually kill your nonprofit, but you can at least seriously cripple it this way. And once crippled, you can use one of the other strategies here to finish it off.

#### *9. Chase dollars into competitive spaces; drift away from your mission.*

A couple of decades ago, Michael Hannan and John Freeman were studying the rise and fall of labor unions, and they ended up making some famous observations about which ones survived and which ones perished.<sup>10</sup> They noticed that in labor unions' early days, when there weren't many of them around and people didn't know what to make of them, several closed down because they didn't have constitutive legitimacy. However, as people got used to them, this problem wore off and unions flourished. The next problem came when there got to be too many unions and they were competing for scarce resources. Those that couldn't compete died off. So having too few nonprofits in an area is a problem, and having too many is a problem. How can you take advantage of this?

One way to try to kill your nonprofit is to steer it into a densely competitive space. This can be effected by a wholesale jump or slow drift in your mission. Nonprofits do this all the time: they twist in the wind, chasing money rather than adhering to their guiding mission. The smart nonprofit will have one ear to the ground and focus on community needs. The nonprofit with the death wish will look only to requests for proposals and chase dollars into a competitive resource niche. If you can get your nonprofit to value resources over mission, you can put at least one foot in the grave.

#### *10. Think that "good" is good enough.*

A well-worn proverb says that the road to hell is paved with good intentions; most assuredly, the road to nonprofit demise is paved with the same bricks. The world holds lots of worthy causes,

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often competing for the same revenue dollars. Your cause will stand out only when you can demonstrate your success. Not only will your cause not sell itself, the retention of donors and contracts may hinge on your ability to prove that you are accomplishing what you say you want to accomplish. John Sawhill and David Williamson acknowledge that measuring impact can be difficult for a nonprofit, but that doesn't mean it is any less essential.<sup>11</sup>

Several trends in the nonprofit sector emphasize the growing importance of impact measurement. First, sources of funding want to see how their money changes the world. Whether this is through a misguided emphasis on overhead or by demanding formal program evaluations, funders want justification that they chose wisely when they chose you. Second, the emergence of impact investing and social finance has brought with it an increased focus on metrics, evidenced by, for example, the comprehensive IRIS catalogue. Finally, the nonprofit landscape is crowded; to stay relevant, nonprofits need to actively and repeatedly justify their survival.

This is where you come in. Plenty of people in your nonprofit will not know what to measure or how to measure it. They will say that you don't have the resources or the staff to do proper measurement and reporting of outcomes. Get on board with them and play this up. If someone in your nonprofit starts to get on the outcome-measurement train, just smile around the room and say that a good client story is all you have ever needed.



So, that's not one, not two, but *ten whole ways* you can kill your nonprofit. Surely you can find one that will work for you. If not, stay posted—people come up with new and creative ways all the time to capsize, starve, overwhelm, alienate, asphyxiate, delegitimize, underinvest in, and otherwise off their nonprofits. The examples of harmful things people do are truly endless.

Of course, it might go without saying that if you want your nonprofit to thrive, you should carefully avoid all of the pitfalls we describe here. This is not easy! Killing a nonprofit takes less effort

than making one really effective. But if you want to go that route—the one where you try to make your nonprofit as successful as possible—we'll understand.

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