



School of Social Policy & Practice
University of Pennsylvania

Strategic Management and Leadership: A Special Academic Reader

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NPLD 786: STRATEGIC MANAGEMENT AND LEADERSHIP OF NONPROFITS

Chao Guo, Ph.D.

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Who “Owns” Your Nonprofit?

By Judith Millesen, Ph.D

Editor’s Note: NPQ is proud to say that this article written over a decade ago is a classic – because it is a question every board of directors should be able to ask and answer

What power have you got? Where did you get it from? In whose interests do you exercise it? To whom are you accountable? How do we get rid of you?
— Hon. Tony Benn, Labor MP

Few would argue against the notion that boards of directors are supposed to represent the interests of “owners.” Yet, despite the intuitive importance of specifying ownership, over 70 percent of nonprofit board members interviewed regarding their perspective on ownership and accountability believed that they were accountable only to their board– or to no one at all.

This finding was particularly alarming because it raised fundamental questions about how decisions were made. I would argue that in order to discharge its basic legal and moral responsibilities, the nonprofit board of directors must focus on its mission and develop a clear understanding of how the concepts of ownership and accountability influence its decision-making.

And, in light of recent media attention on administrative misconduct by nonprofits, nonprofit boards will likely become increasingly sensitive to issues of ownership and accountability.

This study of 12 nonprofit boards in New York and Connecticut was conducted over nine months (August 1999 to May 2000) and involved direct observation of some 40 board meetings and interviews of 58 board members. Participating boards governed a symphony orchestra, United Way, Girl Scout Council, and a range of human services providers. The sample included 10 local organizations, one statewide and one international.

Ownership and Decision-making

We all know that although a corporate board of directors may have multiple constituencies to whom it is answerable, its primary accountability is to the firm’s ownership, which has been explicitly defined as the corporation’s shareholders. What this means is that it is the board’s responsibility to make sure that owner interests are safeguarded whenever decisions are made.

Contrast this fairly straightforward definition of ownership to what I call the “dual ownership” in the nonprofit sector. Nonprofit boards have both a legal responsibility to discharge a public benefit purpose and an ethical obligation to meet the expectations of those on whose behalf the organization exists. This means that nonprofit boards are accountable to both a legal ownership and an ethical, or moral ownership. By law nonprofit ownership is vested the community, which has granted it certain exemptions and entrusted it with scarce resources to serve a particular social need.

In his Policy Governance Model, John Carver defines a nonprofit organization’s ethical ownership more specifically with a concept he calls “moral ownership.” Carver describes the moral ownership as “a special class of stakeholders on whose behalf the board is accountable to others.” Similarly, John Smith, in his book, *Entrusted: The Moral Responsibilities of Trusteeship*, draws attention to the fact that although boards may feel as though multiple stakeholders are pulling in competing directions, it is the role of the board to sort out these conflicts in a way that is faithful to its calling and to those the organization exists to serve.

When the board recognizes its public trust obligations and makes decisions that are mission-focused and responsive to constituent expectations, it makes clear the decision criteria by which it will sort and prioritize multiple, often competing operational expectations. As such, the resulting decisions are justifiable to a broad array of stakeholders. In short, by defining moral ownership, the board unequivocally specifies “who” is important and how the organization will meet its public benefit purpose, thus fulfilling its fiduciary obligation to the legal ownership.

Even though nonprofit boards may feel accountable to multiple stakeholder groups who place competing demands on organizational operations, moral ownership must be fundamentally linked to the basic purpose for which the organization exists. Without a doubt, all stakeholders have some ownership in the organization. However, as John Carver makes clear, a distinction must be made between those with whom the organization enters into exchange agreements and those on whose behalf the organization exists. Let me explain.

Nonprofit organizations and their governing boards often look to the external environment for resources needed to survive. What is important to remember, however, is that there is a voluntary element to resource exchange. Nonprofit organizations are not required to accept donations, grants, or contracts to provide specific services. In most instances, the organization is free to choose whether it will enter into an agreement with a particular resource provider or seek an alternative source of revenue.

Although it is true that these resource providers may have a stake in the organization— and the board may feel some obligation to these stakeholder groups—vendors, donors and funders are not owners. Owners are those stakeholders with interests and concerns the board is legally and morally obligated to acknowledge. As Carver explains, “The test for ownership is not with whom the board makes a deal, but whom the board has no moral right not to recognize.”

Specifying Ownership and Governing with Accountability

“Accountability, wow, that’s a really gray area,” explained the board president of a small nonprofit human service organization. “I guess it’s clearer in some places than in others—you know, like in churches, country clubs, or schools because you are accountable to the membership. But we don’t have a membership; I guess I would have to say that we are accountable to ourselves.” The president for another, even smaller social service organization board told me that because her organization had no membership, the board was accountable to “no one.”

Even though over two-thirds of the board members I talked to could not articulate a common constituency to whom they were accountable, there were three boards that took a leadership role

in specifying the ways in which responsiveness to “client” expectations helped them to be accountable to both the legal and moral ownership (although they did not use these exact terms). These boards were able to establish criteria for and to justify important decisions.

Let me give you an example of what happened when one board that was challenged to decide between a course of action that was reflective of “client” expectations and a decision that made “good financial” sense. Because this board recognized its moral obligation to the constituency served they were able to justify a decision that was not financially sound in the short-term but that was consistent with client-based, long-range programmatic goals and objectives.

I heard the following comment at a meeting of the board of directors for a human service organization, “This is the fourth year in a row that this program has been losing money. It has taken a loss of \$500,000 and I think it is time to throw in the sponge.” The board member who made this statement put forth a motion to dissolve the program. A startled hush fell over the room. The first impassioned response came from the vice president of the board, “Sometimes nonprofit organizations run programs that are of great benefit to the clients even if they cost the organization money...”

Another board member added, “There is a need for this program. I remember there being a waiting list. I feel strongly that we need to meet the needs in the community. We are a nonprofit, we are not in this to make money...” And so it went for 45 minutes, one antagonist trying “to stop the bleeding” against the rest of the board arguing that the program should continue because “We are a not-for-profit, we serve a disadvantaged population, and as long as we are financially sound we are okay.”

At the end of the discussion, the board voted to continue the program. Even though the decision may not have appeared to make financial sense, it was justifiable because it was responsive to the interests of the community (owner) and consistent with the organization’s mission.

Recommendations and Concluding Comments

Given the fact that nonprofit boards are answerable to multiple stakeholders with differing, sometimes conflicting, expectations and demands, there is often ambiguity around the issues of ownership and accountability. However, determining moral ownership and governing your organization with integrity and accountability can be done. I believe it requires the board to engage in three key activities.

1. Make explicit the moral ownership group to whom the board is accountable.

Few board members have difficulty understanding their fiduciary responsibility to the community. However, the board must recognize that in addition to its public trust obligation it must go through the process of distinguishing the interests of its moral ownership from those of other claimants. Moreover, it is essential that everyone on the board and in the organization be in agreement with regard to the organization’s moral ownership. In this way, board decision-making is justifiable, mission-focused, and responsive to a common constituency. Although nonprofit organizations may receive significant funding from donors or other sources, it is important to remember that these stakeholders are not owners. The board must avoid the temptation to allow resource providers to influence mission and purpose. To that end, the moral ownership must be reflective of the basic purposes for which the organization exists. Remember, only when the board goes through the process of determining moral ownership can it truly be accountable to the legal ownership.

2. Establish a clear mission that articulates a commitment to the moral ownership—the group for whom the organization exists.

A clear mission that board members are committed to, helps keep decision-making focused. Mission-clarity also keeps the leadership loyal to a shared purpose and common constituency—helping them to resist resource-based pressure to compromise the interests of the moral ownership. Consequently, the temptation to make short-term, financially attractive decisions that might ultimately distract the organization from their long-range primary goals and objectives is avoided. Moreover, when the mission has a clearly articulated value dimension, board decisions are justifiable and board action is accountable to a broader constituency (the legal ownership).

3. Establish a connection with the ownership.

Only three of the twelve boards I studied had members who were able to articulate a common constituency to whom they were accountable. Notably, each of these boards maintained elaborate information systems linking the organization's leadership to those it served. All three participated in comprehensive client surveys designed to elicit feedback on needs and expectations from program participants. These boards also invited organizational representatives and other guests (direct-care providers, service recipients, and volunteers) to board meetings to discuss program offerings and current levels of service with members of the board. One board even held a meeting at a service delivery site so that board members could visit the facility and speak directly with beneficiaries.

What distinguishes these activities from “token” attempts to pacify the moral ownership is that these boards not only solicited input from their constituents, they made these comments and concerns a central part of their planning and budgeting processes.

Specifying moral ownership is an essential aspect of nonprofit board governance. Tragically, more than two-thirds of the board members I interviewed were unable to identify their moral ownership. Conversely, when moral ownership was explicit, boards were able to sort between competing expectations and maintain accountability while resolving issues. These board members seemed to understand that when the board acted in ways that were responsive to the expectations of its moral ownership, it produced decisions that were faithful to its legal obligations as well.

Exploring the Puzzle of Board Design: What's YourType?

By David Renz, Ph.D

This article began as something of a challenge. Could we develop a basic typology of nonprofit boards that would offer nonprofit leaders a useful framework—a framework that would help them develop boards that are functional and truly add value to the execution of their missions and visions? The question of board types is really about design, and in reality, most of us are living with a board design that is not of our own choosing. In too many organizations, one might even question whether anyone actually designed the board. But if you had the option to choose a design, what type of board would you choose?

Thoughtful board design involves the consideration of many factors and, fundamentally, offers important choices regarding power, control, engagement, accountability, and autonomy. Designs that enable an agency to achieve its goals are grounded in a solid understanding of its mission, vision, core values, the nature of its work, and the characteristics of its operating environment. Building from this understanding of the context and results we seek, we can begin to clarify which types of boards may be better aligned with the needs of our agencies.

Nonprofit boards have shared roots in the legal structures of corporate and tax law, but beyond that, a good share have been created by mimicking each other—taking their bylaws and practices from other organizations with which their founders had experience:

What should we have in our bylaws? Let me give you a copy of the bylaws from this other board on which I serve—it seems to work pretty well!

But are these similarities just window dressing that obscures a more important set of dimensions from which board design should flow?

A few authors have suggested frameworks for typing nonprofit boards, usually by explaining boards as types that may be rated along a single continuum. It is our experience that the use of a single characteristic to explain variations and commonalities across all types of boards is overly simplistic and mechanistic. Therefore, we suggest an approach that builds on a mix of the constructs from both organizational research and nonprofit board literature but, perhaps not surprisingly, ends up focusing on two primary aspects of governance that many would consider most critical to the nonprofit sector.

The Two Primary Dimensions

When we distill the organization research concepts that are most germane to the world of nonprofit boards, the result is a core typology that emphasizes two dimensions: strategic focus and stakeholder engagement. This is because, when designing a nonprofit board, there are two central questions to address:

What is the work this board needs to accomplish to meet the needs of this organization?

How do we best connect this organization to the community and its most important constituencies?

Not everyone gives these questions explicit consideration (many boards are developed in a very ad hoc, intuitive manner) yet the answers to these questions fundamentally define the type of board the organization needs. Further, once implemented, the choice of type shapes the nature of the board's performance with regard to these two fundamental matters—whether the choice is productive or not! Developing these questions from the perspective of organization design, therefore, results in two primary dimensions of board type:

Strategic Focus: The degree to which the board's work emphasizes leadership, strategy, and policy, versus the implementation of operations and activities. Boards have no choice regarding whether they will work on long-term and strategic decisions for the organization; this is a core responsibility. However, to the extent that there is no staff or other volunteers, the board may invest a significant share of its time in the actual implementation of the organization's operations. The options along the Strategic Focus continuum are as follows:

Strategy and Policy: All board work is focused on the strategic, long-term direction of the organization, including external scanning, goal and strategy development, policy development, and overall evaluation and accountability.

Strategy, Policy, and Management: Most board work is focused on strategy and policy, but also includes some high-level management functions.

Management: The majority of the board's work is comprised of managing the operations of the agency, including planning, organizing, directing, supervising, and evaluating agency operations.

Management and Operations: The board spends most of its time managing the operations of the agency, but also serves as the actual workforce for certain administrative or programmatic operations.

Operations and Activities: The majority of the board's work is comprised of actually doing the frontline operational work of the organization, because board members also are the organization's staff or volunteers.

Stakeholder Influence and Engagement: The central question of this continuum focuses on the nature and scope of the involvement of key stakeholders in the decision-making processes of the organization. Usually, the stakeholder group comprises some mix of clients and other beneficiaries, key funders and donors, community leaders, and others. Is stakeholder engagement (involvement and true influence) in decision processes broadly inclusive of all stakeholders, or is it relatively exclusive? The range of variations may be described as follows:

Broadly Inclusive: All key stakeholders serve as members of the governing body and are directly involved in all decisions of the agency.

Inclusive/Representative: Board members are widely representative of all key stakeholders of the agency and make regular decisions; key stakeholders are directly involved in the major decisions of the agency.

Representative: Stakeholders are involved in the decisions of the agency through their official representatives, who serve on the board and are accountable to stakeholders.

Less Inclusive: Most decisions are made by a relatively select group with occasional involvement of select stakeholders (directly or via representatives) in the process of making selected decisions of the organization.

Exclusive/Elite: All decisions are made by an exclusive and select elite with no significant involvement or engagement of any stakeholders in the decision processes of the organization.

Table 1 illustrates the range of options and the “location” of five general board types within this framework. These placements are only illustrative of general tendencies, however. While the table illustrates a likelihood that a given board type will be located in one part of the table or another, there certainly will be boards that claim to be of one type, yet exhibit practices not consistent with this schema. This is symptomatic of the reality that there is a rather low level of consistency linked to the various type labels. It also reflects that, while these two dimensions are primary, secondary dimensions also help explain some significant variation among boards that appear otherwise to be of similar type.

The traditional type of board occupies much of the middle, because it tends to be a midpoint compromise for each of these primary dimensions, and its many variations blur across different characteristics. This is why so-called traditional boards look different from each other, even though they are the same type. Their existence in the middle may also reflect a lack of clear choice-making and design.

It is important to recognize that there is no single type that will be best for all organizations. It is equally important to recognize that each of these types has distinct benefits and shortcomings—and weighing the tradeoffs is the essence of the design issue for every organization. For example, the more a given board becomes involved in operations (e.g., the so-called “working” or operations board), the less time it has for the strategic thinking and community engagement functions that are so central to effective governance. And if they wait for a good time to handle strategic governance matters, it won’t happen—we know from experience that urgent matters interfere with the important; the immediate tends to overpower the long term. Further, many of us are living with designs adopted to serve an earlier stage of the organization’s development; we just never got around to refining our board design and the agency developed and grew up around us!

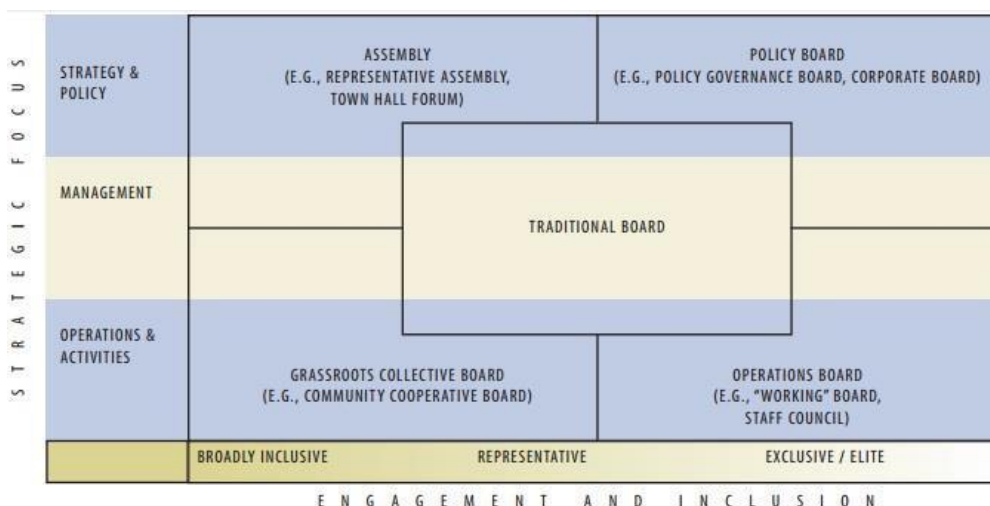


TABLE 1: BOARD TYPES RATED FOR STRATEGIC FOCUS AND STAKEHOLDER ENGAGEMENT

Secondary Dimensions

We have found three additional dimensions that are especially useful in helping complete the picture that the Strategic Focus and Stakeholder Engagement dimensions begin to paint. These

dimensions are as follows:

Board Autonomy: the degree to which the board is independent versus controlled by external entities. No board or organization is entirely autonomous, but a unique characteristic of many nonprofit boards is that they are independent and self-perpetuating (i.e., select their own members). These boards have much autonomy and are largely self-regulating. The alternative extreme is the board that has no power over who will be members. This is the case, for example, in membership associations, where organization members directly elect all members of the board.

Mission Accountability: this dimension explains the degree to which the organization's accountability for quality or performance is driven by the professional content of its work versus the extent to which the organization's accountability is driven by the needs and interests of its community or primary market. A hospital, for example, certainly cares about the community it serves, yet its key accountability standards come from the core content of the organization's work. Its accountability is grounded in the health professions and assessed by profession-based accreditors. The typical membership association, on the other hand, draws its benchmarks for accountability primarily from the expectations and demands of its members; there are no external quality assurance systems or criteria that play a significant role in defining acceptable performance for the organization.

Decision Centrality: this is the question of where primary decision authority lies. Are governance and leadership decisions made together by executive and board, or dominated by either the staff or the board? In some organizations, staff drives the strategic agenda and makes key decisions; in others, the board dominates the agenda and key decisions and the role of the staff is to implement. The midpoint of this continuum is the balance advocated in much of the prescriptive literature on boards, promoting the value of achieving a balanced partnership between the board and the chief staff position. A unique version of this is the founder-dominated board, where the founder (regardless of role) dominates all significant decisions of the agency.

There are other characteristics that influence the nature of the board, but we find they do not fundamentally differentiate one type from another. Often these are the outgrowth of a choice about board type. For example, board size (i.e., number of members) makes a difference in board dynamics, but the choice about size usually flows from the choice of a specific model (e.g., a "corporate board" will tend to be quite small and a "fundraising board" often will be quite large).

Thinking about Your Board Type

Board type is not independently important to an organization; its significance is in the context of what the organization needs from its board. Different types have different values, and the framework we outline is designed to help board leaders understand the degree and way in which their board's type is or is not aligned with the needs and values of their agency. We have included with this article a brief assessment tool for categorizing board type. As it is organized, an assessment should focus first on the two primary dimensions of board type (strategic focus and stakeholder engagement), and then be elaborated by assessment of the ways the secondary dimensions complement or interfere with the type.

Table 2 applies this framework to compare the characteristics of several of the commonly discussed board types, and illustrates the similarities and differences among them. Of course, not all real boards with a particular label will appear similar to these ratings, given that these were developed by considering common characteristics of generic prototypes.

This tool can be useful for an individual leader to use as they reflect on the implications of their board type for the work of their organization, but it will be more useful as a basis for dialogue among a group of agency leaders as they consider how their board works and the degree to which that type is suited to the organization and the community it serves. In other words, it offers a basis for boardroom discussion about how fully and in what ways the board's design provides the strategic leadership and stakeholder engagement that are central to effective nonprofit governance and leadership.

The framework proposed in this article is preliminary in nature, developed from our extensive research and consulting experience and informed by the literature of organization studies research. The next step in its development is to conduct empirical research to validate the framework and test its utility for board design and development. We welcome reflection and feedback from board and agency leaders, consultants, and researchers regarding the validity of the framework and its utility in explaining variation in board type.

Primary and Secondary Dimensions of Board Type

Primary Dimensions:

SCALE A: STRATEGIC FOCUS:

THE MAJORITY OF THE BOARD'S WORK ACTIVITY IS FOCUSED ON:

STRATEGY & POLICY

(4)
S

(3)

(2)

(1)

(0)

(1)

(2)

(3)

(4)
A

OPERATIONS & ACTIVITIES

SCALE B: STAKEHOLDER INFLUENCE & ENGAGEMENT:

STAKEHOLDER/CONSTITUENT ENGAGEMENT (NATURE OF INVOLVEMENT AND INFLUENCE) IN AGENCY DECISION PROCESSES IS:

BROADLY INCLUSIVE

(4)
I

(3)

(2)

(1)

(0)

(1)

(2)

(3)

(4)
E

EXCLUSIVE/ELITE

Secondary Dimensions:

SCALE C: MISSION ACCOUNTABILITY:

THE ACCOUNTABILITY AND FOCUS FOR THE ORGANIZATION'S WORK DERIVES PRIMARILY FROM:

PROFESSIONAL/PRACTICE CONTENT FOCUS

(4)
P

(3)

(2)

(1)

(0)

(1)

(2)

(3)

(4)
M

COMMUNITY-MARKET FOCUS

SCALE D: BOARD AUTONOMY:

THE DEGREE OF INTERNAL VERSUS EXTERNAL CONTROL OVER THE APPOINTMENT AND RETENTION OF BOARD MEMBERS IS:

SELF-PERPETUATING
SELF-REGULATING

(4)
SR

(3)

(2)

(1)

(0)

(1)

(2)

(3)

(4)
X

EXTERNALLY APPOINTED & REGULATED

SCALE E: DECISION CENTRALITY:

GOVERNANCE AND LEADERSHIP DECISION PROCESSES ARE DOMINATED BY:

CEO/STAFF DOMINANT

(4)
C

(3)

(2)

(1)

(0)

(1)

(2)

(3)

(4)
B

BOARD DOMINANT

TYPICAL BOARD LABELS OR TYPES	PRIMARY DIMENSIONS OF BOARD TYPE		SECONDARY DIMENSIONS OF BOARD TYPE		
	STAKEHOLDER ENGAGEMENT	STRATEGIC FOCUS	BOARD AUTONOMY	MISSION ACCOUNTABILITY	DECISION CENTRALITY
POLICY GOVERNANCE BOARD	<i>E</i>	<i>S</i>	<i>SR</i>	ANY	<i>B</i>
MANAGEMENT BOARD	<i>E</i>	-0-	<i>SR</i>	<i>P</i>	-0-
CORPORATE BOARD	<i>E</i>	<i>S</i>	<i>SR</i>	<i>P</i>	<i>C</i>
TRADITIONAL/CLASSICAL BOARD	-0-	VARIES	<i>SR</i>	-0-	-0-
OPERATIONS OR "WORKING" BOARD	-0-	<i>A</i>	<i>SR</i>	ANY	<i>C</i>
FUNDRAISING BOARD	-0-	<i>A</i>	<i>SR</i>	<i>P</i>	<i>C</i>
REPRESENTATIVE ASSEMBLY	-0-	ANY	-0-	<i>M</i>	<i>B</i>
COMMUNITY COLLECTIVE BOARD	<i>I</i>	<i>S</i>	<i>X</i>	<i>M</i>	<i>B</i>
TOWN HALL ASSEMBLY	<i>I</i>	<i>A</i>	<i>X</i>	<i>M</i>	<i>B</i>

Table 2: Prototypical characteristics of common board types

Reframing Governance

By David Renz, Ph.D

Many in the nonprofit world have expressed concern that the sector is not developing any new or different forms of governance. We're not, they complain, seeing anything that is more than a minor variation on our current designs and practices. I have shared this perspective for some time, as well. But recently I began to realize that this is not actually true. We have been creating the "new nonprofit governance" at a new level within our communities, and we have not perceived this shift because we've been so focused on the artifact that we know as "the board." It used to be that boards and governance were substantially the same—the two concepts overlapped. But with time and a radically changing environment (e.g., changes in complexity, pace, scale, and nature of community problems and needs), the domain of "governance" has been moving beyond the domain of "the board." Though never stated in this way, governance and boards have greatly diverged in many of the settings where we address our most complex and demanding community needs. The functions of governance are served less and less well by boards of individual organizations within these complex environments. Governance truly is leadership in these environs. And in this new generation of governance, which has been most actively evolving in those segments of the nonprofit sector where agencies strive to address these complex challenges, nonprofit organization boards are merely one element and no longer the primary "home" of the governance processes by which we address many of our most critical community issues.

The scale of these complex problems has outgrown the capacity of our existing freestanding organizations to respond—sometimes in terms of size but especially, and more important, in terms of complexity and dynamism. Therefore, we've organized or developed our response at yet another level—the interorganizational alliance. In the new mode, the organization may well be the unit from which services are delivered, but such service delivery is designed, organized, resourced, and coordinated (in other words, governed) by the overarching network of relationships (among organizational leaders) that crosses and links all of the participating organizations and entities. Similar dynamics are emerging in some parts of the nonprofit policy and advocacy domain, where different organizations' actions are orchestrated by a coordinative governance process that operates largely beyond the scope of any particular board, even as it deploys lobbying resources from various individual organizations.

Governance is a function, and a board is a structure—and, as it turns out, a decreasingly central structure in the issue of new or alternative forms of governance. Don't get me wrong—boards are still important in governance in the nonprofit sector. But they're not always appropriate any longer as the unit of focus for many of our key community problems and issues.

Governance processes—processes of choice-making among courses of action based on and grounded in a shared sense of mission, vision, and purpose—include the functions of setting stra-

-tegic direction and setting priorities; developing and allocating resources; adopting and applying rules of inter-unit engagement and relationship; and even implementing some kind of ongoing system of quality assurance that operates across all of the constituent organizations. In many key areas, these processes have moved above and beyond any one nonprofit organization. Individual organizations don't get to join or stay in the game if they do not work as an integral part of this larger whole.

Why don't we see these, even when we're looking directly at them? Because we're still prisoners of the hierarchical, control-oriented paradigm of conventional organizing—we keep looking for the central leader (whether person or unit). The new governance does not look like anything we're expecting to see (even though we talk about these issues quite a lot). For example:

- No one person or entity is always in charge (though some certainly have more influence than others) and, in fact, there often develops a kind of resistance to allowing any one entity to regularly assume the role of being in charge.
- The structure continually evolves and changes (though its general characteristics remain consistent).
- We have been “trained” to focus our attention on boards rather than governance.

Governance really is not about organization—it's a function that is essential to addressing a particular issue or need in our community. But for so long, it has been the individual organization that has been the appropriate unit to address our problems that we have been assuming it always would be. For the most critical and substantive of our community issues and problems, the single organization is no longer an appropriate match to the scale of these issues and problems. We've found it increasingly essential to develop alliances and coalitions—extra-organizational entities—to address the multi-faceted complexity of these critical needs and issues. And the most successful of the systems we've grown to govern these alliances reflect the same scale and kinds of complexity as the alliances themselves.

These systems of leadership mirror the design of social movements, with the fluidity and responsiveness that characterize the most effective of these movements. Similar to such movements, as anthropologist Luther Gerlach has described them, we find that these emerging systems of governance are:

- Segmentary: they are comprised of multiple groups and organizations, each of which is only one segment of the overall whole that is working to address the issue at hand;
- Polycentric: they have multiple centers of activity and influence that help to advance progress in addressing the cause of the whole, yet each is doing its own thing;
- Networked: the multiple centers of activity are linked via a web of strategic relationships, and an important source of the organizational power of this web comes from the nonformal relationships that exist among the various people playing leadership roles in the various centers of activity; and
- Integrated by a core but evolving ideology that crosses organizational (and even sectoral) boundaries as those who work to address the full range and complexity of an issue go wherever is necessary to engage in their work. In fact, it is not unusual to find that some of the integration is achieved by people who hold a formal position in one organization (e.g., a staff position in a government agency) while also serving in leadership roles in other organizations (e.g., a board member in a nonprofit agency and/or a leader in a relevant professional association)—wherein all of the organizations play certain roles in addressing the particular issue or problem and no one entity has the authority to actually be “in charge” (for example, people working for AIDS prevention units or health agencies while also active in advocacy organizations working on HIV/AIDS).

It is at the meta-organization level that the generative leadership and strategy are handled; the frontline action or delivery of services (i.e., operations) is handled by the individual organizations (cells of operation) consistent with and in furtherance of the accomplishment of the interorganizational entity's mission, vision, long-term goals, and strategies (all of the key functions, you'll note, that are the domain of governance). For these areas of community action, it is no longer about the "networked organization," it is about the "network as organization." These are systems of organized (but not hierarchical) influence and engagement that link multiple constituent entities to work on matters of overarching importance and concern. In this environment, the boards of individual organizations are at least guided by and often become accountable to the larger governance system. The frame of reference is larger than the constituent organization.

If you're really in one of these new systems of governance, your board has less strategic room to move and make choices. You're dancing to the tune of a piper (or even more likely, multiple pipers!) beyond your organization's boundaries. In other words, the governance of your work has moved beyond your organization's boundaries (and your organization no longer has the kind of sovereignty that it once had).

Does this mean that boards of individual agencies are no longer relevant? No, not any more than any one program in a multi-service human services agency is automatically irrelevant because it is part of the larger whole. The board is necessary, and there is a critical kind of value offered at the level of the agency board. But it's not the only level of leadership and governance that exists, nor is it the overarching and highly autonomous kind of entity that historically has had the luxury of assuming it is in charge. It's just not the only level anymore.

At their best, such governance systems demonstrate the ideal characteristics of an effective governance entity. They demonstrate resilience, responsiveness, fluidity, and an organic connectedness to the community and its changing needs. They exhibit processes of mutual influence and decision making, more fluid but no less real than that to be found in conventional hierarchical organizations. What are the elements or technologies that are changing with the emergence of this new governance?

- Governance needs to be understood from the perspective of the elements that have been articulated in the theory and research on interorganizational relations and, especially, the recent work to examine and explain the behavior and dynamics of networks—and organizations as integral but not autonomous units within the networks.
- What once was understood as the work of boundary spanning has become very different as it approaches boundary blurring (it's increasingly hard to tell where one organization's work ends and another's begins).
- Individual organizations are fundamental cells of activity and accomplishment, but their behavior and results (in and of themselves) are not adequate to explain what is being done and how at the community problem level.
- Fueling and enabling the emergence of this new mode of governance is the growth in so-called strategic alliances—and the growth in the number of organizations that have evolved the capacity to engage in alliances that exhibit the characteristics of true collaboration, with the mutual investment and shared control of resources and sharing of risk.
- All of the above dynamics pose a greater challenge in matters of accountability, because appropriate accountability must focus on the community level (not on an individual organization); accountability systems must include but cannot remain limited to focusing on the constituent organizations and their internal management and decision structures.

This evolution in governance makes sense from an organizational theory perspective. A leading perspective from organizational theory asserts that an effective organization's design will align with and reflect the key characteristics of its operating environment.

Thus, if the organization's operating environment (including the kinds of problems it must address) is increasingly dynamic, fluid, and complex (with many different facets to its problems), then the appropriate organizational response will be a design that is dynamic, fluid, and complex. These new levels of organizing (for which the "new governance" is emerging) have all the elements of an "organization"—but they can be confusing because these elements just don't look like our conventional organizational elements. Instead, they reflect an operating imperative that demands that they be different—so the successful model of organization and governance most certainly will need to be different, as well.

This networked dynamic also reflects an increasingly democratic mode of organizing—at its best, it ties the action (whether provision of services or community mobilization) more closely than ever to the community to be served (and that community often has members actively engaged in the governance processes in play). Further, this dynamic does not pay as much attention to sector boundaries as it does to capacity to do the work. Thus, the organizations in the networks addressing complex community problems are quite likely to include governmental organizations and even for-profit businesses, in addition to nonprofits. The mix of organizations depends upon the mix of assets they bring, and assets are defined by the nature of the problems and needs that are to be addressed.

One of the challenges of this emerging form of governance is that it moves the locus of control beyond any one organization. For better or worse, no single entity is in charge, and any agency that thinks it can call the shots is going to find that its power over others is muted. Interestingly, this includes governmental entities that may think (and still keep trying to act like) they are in charge. The fact that an agency has a legal or statutory mandate to address a given problem does not give it any real control over the kinds of messy problems for which these governance systems are emerging. For example, no urban redevelopment agency has ever had the capacity to resolve its urban community's problems without bringing other entities into the game and, increasingly, these other entities have demanded a substantive role in the decision-making process. Part of the power of this new governance is that it is better able to accommodate and engage this shared power dynamic.

We do see some individual organization boards that are beginning to look a little more like this, but the reality is that these are boards of organizations that exist at the network level, such as membership organizations comprised of all the service providers in a given domain of service (e.g., the coalition of all emergency services providers in a given metro region). These entities have been created for the very purpose of bridging and crossing boundaries, and their boards often have the explicit charge of providing leadership across agency and sector boundaries with the mission to address specific community issues. Most nonprofit boards don't look like this because they have not perceived the need. But even individual agency boards now need to rethink, as a result of this new mode of governance, how they should be designed for this new era, and consider how they will do their work as a part of (rather than trying to actually be) the new governance design.

Where might you find this new level of governance? When you look for it, using this new perspective, you'll actually find it in operation in many domains of nonprofit work. For example, in many metro regions we find a network of organizations that are allied to address the changing challenges of HIV/AIDS. These organizations have their own boards, but they also have a regional planning and funding structure that overarches them. This overarching structure sets priorities and coordinates the work of the individual agencies, including providing the venue for and organizing the processes for making region-wide decisions about fundraising, marketing, and programming. In these cases, it is not unusual to find that each of the key participating agencies' boards sends representatives to sit on the overarching entity's board (often these representatives

are a mix of their board members and chief executives). But the overarching entity's board is not comprised solely of people from the operating agencies—it also will include members from the community at large (e.g., local issue activists) who have equal standing with the agency representatives.

We see similar dynamics in many other areas of political and programmatic action—in urban redevelopment, in neighborhood revitalization, in provision of emergency services. In all these areas, we can find overarching governance systems that make strategic, community-level decisions that are the broad basis for the individual agencies to then develop and implement their own plans and operations.

This new mode of governance has some significant implications for the next generation of nonprofit board work. For example, it will require different kinds of knowledge, skills, and abilities. This is the work of leadership, not management. So it will be essential for its participants to be proficient in a different kind of leadership, especially skilled in the capacity to network, build multi-faceted relationships across boundaries and among diverse groups of people, and effectively exercise influence in the absence of authority. (John Gardner, in his outstanding book, *On Leadership*, aptly described this as “exercising nonjurisdictional power.”) The very ability to perceive this new level of operation is unique, requiring a multi-level systems perspective and a different kind of “mental model” from that to which the typical board member is accustomed.

The new governance poses unique challenges for accountability, as well. As difficult as it can be to hold a typical nonprofit board accountable for its organization's performance and impact, it is more difficult to implement systems of accountability at this new level. And it is especially challenging to hold these systems accountable from the outside—to create externally enforced Sarbanes-Oxley types of accountability for the systems being led and governed at this new level. The more diffuse and fluid nature of these designs makes them inherently hard to control (which is why influence is such an important ability). In reality, the locus of accountability for this new level of governance must exist “above” the individual nonprofit—at the community level instead of the organizational level—yet many philanthropic and governmental funders and regulators are likely to try to hold individual nonprofit agencies accountable for such community-level performance and impacts. They will continue to focus on individual agencies because they will have a difficult time determining how to establish systems of accountability at the new level. And they often will be frustrated in their attempts to do so, because there is too little control to be exercised at the individual agency level. This challenge becomes especially interesting in light of the current federal and state legislative discussions on nonprofit accountability and regulation, all of which treat the nonprofit organization as the primary unit of control!

This truly is a very interesting time in the development of nonprofit governance and our understanding of the work of nonprofit boards. We bemoan the absence of anything innovative or cutting edge, yet we already are growing a new generation of nonprofit governance—a generation that is more effectively aligned with and responsive to the needs of the organizations that are coming together to address the most dynamic and complex needs and challenges confronting our communities.

Indeed, this new generation of governance inherently is about a changing mode of community leadership as we (as a society) move from hierarchy to networks as the prevailing mode of organizing to meet the demands of a new time. As we keep musing, “Do we need boards?” and “Isn't there a better way?” we're actually missing the emergence of the next generation of nonprofit and public service governance.

The Importance of Linking Leadership Succession, Strategy, and Governance

By Thomas Gilmore

Editors' Note: *This article has been adapted from a Center for Applied Research (CFAR) briefing, and was previously published on the Nonprofit Quarterly's website on September 26, 2012.¹*

Many writings stress the importance of a board's thinking about leadership succession as its most critical task.² Yet, too often we frame succession as foreground without fully tending to the related background. Succession is often wickedly intertwined with the state of the board's functioning and the enterprise's strategy. Similarly, working on governance is often triggered by succession and linked to strategy in terms of new competencies that need to be on the board. It is rare that one of these three can be the sole focus without consideration of the other two areas, but their segmentation is clear in the three different professional groups that offer services in each of these areas:

- *Strategy:* Strategy consulting firms;
- *Governance:* Organizational development and process consultants; and
- *Succession:* Executive recruiters and search firms

There have been some recent incursions of each of these professional groups into the others' business: big search firms are moving into onboarding and coaching, and strategy firms are beginning to address governance issues in the wake of new attention to boards.

The optimal sequence of the above three key processes would be excellent, up-to-date governance approving a strategy that informs the selection of a great leader who executes and leads strategic renewal—as the environment demands—under the board's ongoing oversight. But organizations cannot count on taking up developmental issues in the optimal sequence, especially in today's fast-changing environment. This article offers an overview of the challenges of sequencing these intertwined issues, and the imperative that they be thought of in a woven, recursive way across time rather than a simplistic, linear sequence.

Three Common Dilemmas in Leadership Succession

The three processes of strategy, succession, and governance are linked in ways that often create the following three dilemmas:

Misalignment between the board's readiness and leadership succession. Often, a long-tenured leader leads to atrophy of the board's vitality and increases its dependency, especially when the leader is successful. So, when that leader leaves (on his or her own, or upon being invited to step down), a key support to the board is missing as members think about strategic shifts and the implications for succession. Leaders are often in denial about when their effectiveness is losing its edge and when is the appropriate time to leave. Ken Olsen, the legendary founder of the Digital Equipment Corporation, said, "There's only one measure of success and that is, five years after I'm gone, how is the company doing. I will accept no accolades until five years after I'm gone. I may avoid that by not going."³ Yet boards grow dependent on the CEO and often find it difficult, with a long-tenured leader whose earlier work boards greatly value, to have the conversation about leaving.

Misalignment of the strategy with succession. In facing leadership succession tasks, a "good enough" strategy is essential for a board to define the scope of the leadership role and to make a high-quality selection of a talented organizational leader. Yet, if there are major strategic dilemmas, an outgoing leader—especially if the departure is based on performance or a conflicted working alliance with governance—is not in the best position to support the board in working through its vision. This dilemma may be heightened if the leadership search is caused by major differences in opinion about the strategic direction of the organization among board members; candidates may be reluctant to apply under such conditions, and the board may have difficulty reaching a choice and supporting the new leader. In one organization studied by CFAR (the Center for Applied Research), the successful applicant made it clear to the search committee that he would only accept the position under the condition that they support a new direction. Yet a key board member had told the current staff that "we put the ship in dry dock, lifted up her skirts, and pronounced her shipshape," communicating to them his commitment to the current strategy. For several years, the new leader struggled with the splits in the board until a new chair brought in a third party to work through differences and align the board with the chosen leader.

- *Mismatch between the board's capabilities and strategic development.* A board's membership and tenure, often a valuable source of institutional memory, can be ill suited to its role in oversight of significant strategic change that its CEO is driving. In professional associations, people often rise to governance as an honorific for long, distinguished service. Yet, when facing significant changes in the environment—such as new technologies, new delivery mechanisms, and different preferences in younger generations—the board may lack members with sufficient experience with these new phenomena—work that requires "generative" thinking.⁴ Strategy work involves thinking about the future threats and opportunities and the needed core competencies for the organization to succeed—what Peter Drucker has termed "the theory of the business."⁵
 - Assumptions about the environment of the organization;
 - Assumptions about the specific mission of the organization; and
 - Assumptions about the core competencies needed to accomplish the organization's mission

If the CEO is driving this work, he or she may find splits in the board that hurt the working alliance with the leader. Sometimes, this work is taken up in conjunction with succession. But often search consultants do not have the depth of experience to staff good high-level strategic thinking or, especially, to work through significant differences that may have triggered the succession.

The corporate-sector case of Home Depot illustrated the interdependence of strategy, governance, and succession. The flat performance of the stock suggested questions about the strategy. This, combined with the high compensation of the CEO, led to the loss of his dominant coalition on the board, and he stepped away. This triggered a second order change, with four members of the board stepping down. The incoming CEO (an insider) put in play a significant shift in strategy. Let's look at some other cases that illustrate the intertwining of these three related processes and how different sequences play out.

Intertwining Strategy, Governance and Succession: Three Case Studies

When Strategy Leads.

The board chair and CEO of a professional society initiated a strategic planning process. Believing that the field was changing dramatically, they collaboratively created an ad hoc committee deliberately dominated by Young Turks and with only a few current board members. They crafted a strategy process as a Trojan horse for working on board changes by creating the visibility needed for these younger leaders to become board members. There were several important interactions with the board along the way, and a few key overlapping members prevented an unproductive split. Toward the end of the process, the CEO surprisingly announced his intention to resign for his own career reasons. At the final retreat, where the strategic committee engaged the board to get the plan adopted, the committee linked the strategy going forward to the key competencies that guided the job description for a new leader. An executive search firm found a new executive director with the competencies to fit the strategy, and the board supported transition work with the new leader to ensure good working alliances with the board, staff, and members. After a year with the new leader, the chair of the strategic planning process—now on the board—was charged with leading a yearlong board development process.⁶ The process focused the new leader and the board on the issues in implementing the strategic plan. As board members became more actively engaged, they realized that they needed more protected time for strategy. They committed to a two-day summer retreat during which they began to reshape the strategy of the organization with the active support of the new leader and her reconstituted top team.

When Board Development Leads.

The leadership of a freestanding hospital during the peak of the managed care era realized that the organization needed to align with one of the big systems in the city for bargaining power with insurers. The CEO realized that the board was neither knowledgeable enough nor strong enough to navigate the issues—likely to be highly complex and possibly divisive—in choosing a system to join. He hired an expert with deep knowledge of the significant trends in healthcare to brief the board, and engaged CFAR in facilitating histories of future scenarios⁷ that challenged the board members to best fulfill their stewardship role by looking back from a decade hence at each of the two alternatives to explore. The board was able to come to a decision (by one vote) on which system to join. Leadership changes followed, in the wake of this decision, as the hospital became one of several in a system. A new strategy to take advantage of its system membership also followed.

Of the three issues discussed herein, board development is the least amenable to being addressed in isolation. An encapsulated “board development” frame often labors mightily to shuffle structures and process with little progress in actual results. Talented people have very limited time, and the most powerful way for the board to develop is via strategy conversations or leadership search work. One organization was able to make significant changes in governance (smaller size, true corporate board versus representation of member hospitals) because it looked deeply at future challenges and saw the need for the changes. At another institution, when a new leader was appointed, the board chair invited the new CEO to propose to the board nominating committee some people whom would bring strengths related to the directions that she and the board had agreed to in the succession.

When a Leadership Transition Leads.

An advocacy policy institute had hired a leader who left within a year when both he and the board realized the misfit. A second search, shaped by insights from the failed succession, yielded a new leader who was charged by the board with developing a new strategy. This individual came in, engaged the staff, and selected board members in crafting a new strategic direction that ended up consolidating some programs and adding new competencies in communications and development to the organization. In the wake of the new strategy, especially with regards to development, the board took on new challenges. In hindsight, it seems that this effort would have been more powerful if the leader had built his team before undertaking the strategy work (perhaps six months to a year after taking over). We often see a new leader taking up strategy in compliance with the board’s request, rather than within the rhythms of his or her transition and understanding of where the organization is in its annual cycles (of budget, planning, work, and so on).

In each of the situations presented above—whether the entry point is board development, leadership succession, or strategy—there are inevitably developmental pressures on the other two areas. Thus, one might see a sequence that begins with a board undertaking a quick reconnaissance into the strategic landscape to get a sense of what is likely and what is ruled out. This can inform a leadership search, which is also a learning process, like taking a product (in this case, the posted job opportunity) to the market and seeing what the response is. One gets enormous insights from interviewing people and hearing their ideas and reactions to the presenting challenges.⁸ Once a new leader is hired, work has to cycle back, with the new leader diving deeper into the strategy. This process may take a year, and its outcomes may in turn shape both membership and process changes in governance.

Five Tips for Navigating These Interdependent Processes

Once one recognizes the intertwined nature of these issues, how should one go about navigating them? Below are some tips based on lessons learned:

Go as far as you need to inform the next step, but value incompleteness and retained flexibility.

The concept of “minimum critical specs” has been used in emergent redesign of work processes.⁹ This concept states that one should only develop the minimum specifications necessary to take the next steps. In that way, an organization acts into its future—it values the retained flexibility at each stage to adapt to what it has learned and ways the environment may have changed. Thus, the strategy might be broadly directional, perhaps with a few options left open as the context for a chosen leader who can then join and take the next steps in fleshing out the strategic implications. Once those are underway—possibly linked to a change in board leadership—there might be implications for the board in terms of membership, committee structure, and working processes.

Never take up one of these tasks without using the occasion to reflect on the other two. For example, in working on a leadership succession, ask questions about the state of the board’s functioning and dynamics, and the connections between board turnover (especially the chair) and

the leadership transition. If the work is board development, ask questions about issues related to strategy, such as splits on significant issues that may be sending mixed signals to the CEO. If the foreground issue is strategy, is the board too dependent on the CEO who fills the time with excessive PowerPoint briefings instead of enlivening conversations about the tough choices facing the organization and engaging the diverse perspectives of the members? Another case study—this one a warning—may be useful here: one innovative, newly appointed president was deeply driving an effective strategy process, yet failed to pay enough attention to keeping the board's support. He changed a member of his team without realizing the depth of a long-working alliance of this individual with the board. As his strategy work was nearing completion, he was asked to step down over “strategic differences in the direction of the university.”

Actively manage the transitions from one phase to another. Boards that have been overly involved in a leadership search often pull back in relief too quickly once the candidate is named.¹⁰ Yet, a good search surfaces many more insights than may be used in the act of choosing. Furthermore, much of that learning needs to be shared constructively with the successful candidate. Upon completion of the search, creating a “lessons learned” or “after-action report” with the search firm, the governance leadership, and the successful candidate can be a major contribution to a successful transition. This provides a mechanism for setting expectations, flagging early concerns, discussing key stakeholders and their values, and surfacing key strategic choices. All of these can help the new working alliance of governance and leader get off to an effective start.

One transition issue is the relationship of the outgoing leader to the new leader. This relationship is often under-managed. Sometimes the former leader goes on the board or is retained in some consulting transition capacity. This can be developmental or can serve as a hedge if the new appointment stumbles, but it can often inhibit the new leader from fully taking up the role.¹¹ It is more useful to ensure a rich exchange of information from the former to the new leader as background, not as covert influence. By not having the board leadership change at the same time as the CEO, the chair can be a link across the discontinuity in executive leadership and can host some of these conversations linking past, present, and future.

Respect the time needed for different phases. Too often, a board charges a new leader with “doing a strategic plan,” or the new leader too quickly decides to use a strategy process as his or her entry process. This may be necessary if the organization is in crisis; however, the new leader often just needs to listen, learn, and build his or her working alliances before jumping into strategy.¹² We have seen several situations where a strategy process undertaken by a leader immediately upon taking over was hampered by too much influence from some holdover staff, and not informed by a few key hires that came on too late in the strategy process to both influence and be influenced by it. Furthermore, a new strategic direction might benefit from some key changes in board membership first.

Respect that people may be in different places in all of these processes. During the intertwining of these three related strands, different stakeholders are likely to be in different places on these issues. Some board members who are new may be arguing against a coalition of the “old guard” and a long-tenured executive for new strategic conversations. The new leader may bring a much sharper sense of new realities and may have to develop data to break through board complacency while also worrying about long-tenured staff's relationships with board members. Searches often create tensions stemming from who was involved in the search and who was not, and these tensions surface—especially if the newly chosen leader begins to experience difficulties. By being alert to the intertwining of the three areas of governance, succession, and strategy, one can better trace what often surfaces as interpersonal conflicts back to the important substantive stakes that the organization faces and to different players' bases of experience. Stakeholders never say they are “resistors to change” but, rather, see themselves as champions of core values that the Young

Turks might put in peril. Infact, these two groups represent different ends of an important polarity between change and tradition that needs to be engaged.¹³

The Recursive Linking Challenge

The interdependencies of board development, leadership succession, and strategy suggest that we should think of each as strands in a tapestry that have to be taken up in related ways—with one often being figure, and the other two background and context, respectively—and then the “good enough” work in one area becomes part of the context for the focus on another strand. This often repeats in a deepening spiral.

For example, an arts organization board had a daylong retreat with the artists, the top staff, and a board delegation to work on their relationships in anticipation of a search for a new president. The board development and relationship work was done via discussion of the strategy and the implications for hiring a new president. When the recruiting firm began the search, there was an explicit exchange of insights from the board retreat to jump-start the recruiting.¹⁴

Likewise, a university president—even though chosen from within the institution—spent the first year getting on top of the organization and its challenges, then took on governance changes on the occasion of a new board chair. With revitalized board processes, the president then took up a creative mode of strategy that linked it to fundraising and board and faculty development via intensive, well-staffed working sessions on critical issues that had been identified by the board. This created excitement and learning among both board and faculty.¹⁵

Lastly, consider the experience of William G. Bowen. A year into his presidency of the Mellon Foundation, he learned that the board chair, with whom he had a strong working alliance, was retiring. Bowen anticipated difficulties in his collaboration with the individual expected to succeed as chair. He took a risk and discussed the issue with a few trustees, and with their support he reached outside of the current board to recruit a new chair. He notes, “It would have been easy for me to simply let nature take its course in the selection of a chairman following the retirement of Baker [the former chair]—and it would have been a huge mistake.”¹⁶ This is the action of a leader who knows the value of linking succession, strategy, and governance in the service of an organization’s performance.

The world comes at us in complicated ways that challenge us to make this same link rather than segmenting these issues into separate (perhaps horizontal) silos.

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Codifying Governance Lessons Learned the Hard Way: Sweet Briar College's New By-Laws

By Ruth McCambridge

As *NPQ* readers may remember, [Sweet Briar College almost closed a year ago](#) after the board decided that it was ready to throw in the towel. Faced with declining revenues and a keening from the field about the impending demise of small, single-sex colleges, the board gave up after a few false starts at trying to reorganize. The decision came as a surprise to the students, the faculty, and the county of Amherst, Virginia, where the school was situated. Apparently, it did not account for the enormous fidelity and energy that surrounded the institution in the form of dedicated alumnae, many of whom were now mature, accomplished, professional women with mad skills and connections of their own.

Over a period of five months, the alumnae organized with faculty, students, and Amherst. They won a court case allowing the institution to move forward under a new board, even while meeting and exceeding all of the financial and other requirements set by the court. But how this all got done was the truly phenomenal part. The community took to social media and every other forum available to communicate each advance, discovery, and disappointment. It mobilized and essentially established a new governance system that refused to be denied.

Once it had wrested control away from a board that had no faith in the future of the college, the new board needed to demonstrate clearly that it was a different kind of governing body—one which recognized that the power of the stakeholders to revolt when necessary could also be the power to sustain. But shifting from revolution mode to sustenance mode required clear new governance practices from this board.

We have covered some of the ways the board approached the engagement of the alumnae network in previous articles, but here we want to share with you the changes the new board has made to their governing by-laws. We think they are important because they embody a set of learnings this system had about how to engage supporters in the creation of a vibrant and assured future.

The changes laid out in the summary below speak to the dangers of an executive committee with too much power and to the benefits of enlisting the intelligent support of its natural networks. Our purpose in sharing them is to allow you to consider how your board might create some of the same kinds of systems of inclusion to build a stronger and more protected organization.

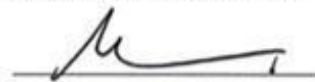
Dear Sweet Briar Community,

- The Board adopted the attached By-Laws on April 23, 2016, replacing in whole the By-Laws of the former Board.
- At its very first meeting on July 9, 2015, the Board's Governance Committee approved the Preamble to the By-Laws acknowledging, as recognized by the Virginia Supreme Court and the Hon. James Updike, that Sweet Briar College is a Trust; and that its Board members are Trustees, subject to Virginia Trust law, with a fiduciary duty to work to ensure that Sweet Briar College thrives in perpetuity.
- The By-Laws provide that judicial approval is required for any asset held by the Trust to be sold or transferred, or for the mission of the College to be amended. Neither the Executive Committee nor Board can take such action without judicial review.
- In accordance with best governance practices, the By-Laws provide that the Board's role is to develop policy and strategic initiatives to be implemented by the President and the College's administration.
- The By-Laws embrace the ideal of shared governance as recommended by the American Association of University Professors (AAUP) by recognizing that the faculty is responsible for developing the curriculum and academic program of the College, subject only to the policies of the Board.
- The faculty, under AAUP recommendations and the practices of Sweet Briar College, has a special place in the shared governance of the College. Specifically, the Board understands that the development of curriculum is the responsibility of the faculty in concert with the President and the Dean. The Board therefore encourages the faculty and the President to maintain a high level of communication and engagement that protects the mission of the college. As set forth below, the By-Laws also provide mechanisms for direct faculty engagement with the Board including serving as voting members of the Board's Working Committees. The Board is absolutely determined to provide adequate opportunities for collegial engagement with the faculty and to make sure that the faculty's legitimate interest in all aspects of the college's governance is acknowledged and respected.
- The By-Laws adopt a strong Working Committee model of Board governance. The Executive Committee, unlike the practice of the prior Board, cannot act for the Board. Rather, the Executive Committee is empowered only to recommend items for consideration to the Working Committees.
- The Working Committees are charged with developing and vetting ideas and proposals that are then presented to the entire Board for discussion and approval.

- The By-Laws provide that Board Working Committees include, as voting members, appropriate stakeholders such as faculty, students, alumnae, and other members of the Sweet Briar community.
- The inclusion of such groups on the Working Committees provides a best practice mechanism, under the standards of the Association of Governing Boards and the AAUP, for ensuring effective communication and cooperation between and among the Board, the President, faculty, alumnae, students and residents of Amherst County.
- The Board recognizes that the work of the College's alumnae during the spring and summer of 2015 prevented the closure of the College. The Board approved the creation of the Alumnae Alliance on September 26, 2015 as the means for ensuring the continued engagement of the alumnae. The By-Laws envision that the Alumnae Alliance will partner with the administration in student recruitment efforts, fundraising, reunion and other alumnae relations projects, and also will serve as a voice for all alumnae, through the Alumnae Alliance Working Groups, to report on alumnae activities and concerns, and partner with the Board in helping to develop strategic initiatives.
- The Board recognizes that the College's students are the ultimate beneficiaries of the Trust established by the College's visionary founder, Indiana Fletcher Williams. The By-Laws provide for students to report regularly to the Board on their activities and concerns and to propose initiatives to the Board; the By-Laws also provide for student representation on relevant Board Working Committees.
- The Board recognizes the support of the Amherst community in helping to prevent the closure of the College. The By-Laws provide for members of the community to present to the Board ideas for enhancing the relationship between the College and the Amherst community. The By-Laws also provide for representation of Amherst residents on relevant Board Working Committees.
- The By-Laws require a commitment to diversity in the membership of the Board. This means that the Board will be composed of persons who bring diverse talents and experiences to the Board's deliberations in furtherance of the mission of the College. The Board invites nominations of Board members from the alumnae, faculty, students, and the larger community.
- The Board views its By-Laws as a "living document." It believes that governance must adapt to existing conditions, and that By-Laws are subject to periodic review and amendment as appropriate to protect and advance the mission of the College. The Board feels that the resolution of issues at any point in time is not locked in concrete, but is open for continuing review. To that immediate end, the Board, through its Governance Committee, invites comments from all members of our community for consideration at future Board meetings.
- In addition to the mechanisms in the By-Laws providing for community engagement with the Board, the Board is committed to holding regular Town Hall meetings and other electronic methods of communications, as well as community social events at the College, designed to bring our community together so that Sweet Briar College thrives in perpetuity.



Hon. Teresa Pike Tomlinson
Chair,
Sweet Briar Board of Directors



Prof. Georgene Vairo
Vice Chair,
Sweet Briar College Board of Directors &
Chair, Governance Committee

These points mirror [an analysis by Mark Jones of *The Pulse*](#), reinforcing the critical importance of engagement of stakeholders and it is a great general reminder for all nonprofits with constituencies that can be mobilized. I shortened Jones's points here and changed the word "alumni" to "stakeholders" (wherever you see bolding), but the column is worth reading in the original.

1. **Stakeholders/constituents** can and should be integral partners in advancing our institutions: While the utility of our graduates is often measured solely by their financial contributions, philanthropic support is only one way that alumni can engage with and support our mission, goals and needs: They can also help identify and recruit future students, provide advice and counsel to our leaders, offer career guidance to current and former students, sponsor internships, participate in lobbying activities, and participate in a range of other volunteer programs. And as institutions that have done this effectively, if you engage alumni via these other avenues, their strengthened connections to their school tends to eventually prompt greater financial support.
2. When we marginalize, dismiss or ignore our **stakeholders/constituents**, we do so at our own peril.
3. For **constituents** to be true partners, we must keep them informed—and do so with both truth and candor: A colleague of mine often says, "If you keep people in the dark, their natural response is to imagine the worst."
4. If **constituents** don't know about our challenges and needs, they can't help us with them.
5. To achieve full **constituent** engagement, we must take the initiative to invite **them** to the table: **Constituents** should have opportunities to shape the future of their institutions.
6. Beware of creating "insiders" and "outsiders" among our **constituents**.
7. A focus on mega-gifts donors can marginalize those who aren't: Our growing reliance upon "mega-gifts" and the efforts to cultivate those who can make them may be exacerbating the divide between "insiders" and "outsiders."
8. Keeping promises matters.
9. Self-perpetuating boards become insular and lose touch with other **stakeholders**.
10. **Stakeholder/constituent** engagement and fundraising are not spigots that can be turned on and off at will.
11. **Stakeholder/constituent** engagement and fundraising programs are more like huge heavy flywheels: In his celebrated 2001 book, *Good to Great*, Jim Collins employed the metaphor of an enormous, stationary flywheel (one he described as 30 feet in diameter, weighing 5,000 pounds,

and rotating on a two-foot-thick axle) to explain the level of effort, patience and persistence necessary to transform an organization. Collins noted that it takes substantial initial force and exertion to get the metaphorical flywheel to move, as well as consistent application of energy in one direction over time to build real momentum and to ultimately achieve a breakthrough.

12. Building powerful, productive **constituent engagement** and fundraising programs takes time: If we want to realize truly effective, productive and transformative results in our alumni programs and our fundraising efforts, we have to make adequate strategic investments in those programs, exercise patience and allow time for them to take develop, and never take our foot off the pedal once we achieve the outcomes and momentum we are seeking.

Mission Haiku: the Poetry of Mission Statements

By Christopher Finney

Whether you are a grassroots start-up or a generations-old foundation, your mission statement deserves your attention. Mission statements are the cornerstone of both external communication and internal vision. And because mission statements represent the reduction of a complex vision into a few carefully chosen words, they are similar to Japanese haiku, poems that capture concrete images with metaphysical implications in just 17 syllables.

Why Focus on the Mission Statement?

Your organization's mission statement deserves to be elegant, precise, and even poetic because these words embody the reason your nonprofit exists. The mission statement will be your north star when sailing stormy boardroom seas; when discussion gets contentious, we look to the mission statement for clarity. These few words will guide future generations of our organizations' leaders. Outside the organization, we can use a strong mission statement to communicate the core of our work in just a few lines. To serve these purposes, mission statements must be carefully crafted. History has seen few more exacting wordsmiths than the great haiku poets, and nonprofits can learn much from them.

Using the Principles of Haiku

Poetry is reductionism at its most powerful, cutting away everything from an image except the content of a few words, but leaving its complexity intact. Haiku, the Japanese form consisting of only 3 short lines (totaling just 17 total syllables) exemplifies this reductionism. Consider the following haiku by Matsuo Basho, one of the form's preeminent authors, translated by former U.S. poet laureate Robert Hass.¹

The old pond—	<i>furuike ya</i>
a frog jumps in,	<i>kawazu tobikomu</i>
sound of water	<i>mizu no oto</i>

With remarkable precision (the original Japanese poem includes only seven words), Basho establishes not only a concrete image, but also a sense of our fleeting impact before the immensity of the universe. Without diving too deeply into the pond of literary interpretation, we can see that Basho uses his 17 syllables fully, presenting multiple meanings. In fact, the Buddhist priest Moran wrote in 1765 that this poem “is indescribably mysterious, emancipated, profound and delicate. One can understand it only with years of experience.”²

Basho's haiku is an excellent example of the multiple levels on which we must employ language to communicate effectively. On the surface, words have denotations; this haiku is about a particular frog that jumps into a particular pond. Poet Chijitsuan Tosai wrote that Basho's haiku "describes a scene exactly as the poet saw it. Not a single syllable is contrived."³ Your organization's mission statement must be similarly concrete. The first test of a poetic mission statement is whether it conveys the honest, uncontrived truth of the organization's purpose.

On another level, every word has connotations, or suggested meanings. Basho's frog has often been read as evocative of the ephemeral nature of human life. Similarly, every word in your mission statement carries connotations, and those connotations must be carefully managed in order to communicate everything you want (and nothing you don't). Basho's frog evokes solitude and a brief moment in the long course of time; what does your mission statement evoke?

Mission Statements

On a concrete level, how can we apply the craftsmanship of poetry to mission statements? Think carefully about each word of your mission statement, about the range of denotations and connotations it carries, and about the effect it will have on readers. As you write or revise, consider your mission statement a poem, that is, a carefully-worded piece in which every syllable holds meaning. Interpreting an existing mission statement as a poem can provide meaningful insight into your organization's purpose and approach. The Nature Conservancy's mission statement is a good example:

"The mission of The Nature Conservancy is to preserve the plants, animals and natural communities that represent the diversity of life on Earth by protecting the lands and waters they need to survive."

First, the word *preserve* is powerfully precise; preservation (as opposed to *conservation*) refers specifically to maintaining natural lands intact, TNC's main mode of action. Second, the Nature Conservancy works to preserve *communities that represent the diversity of life on Earth*. This is an important phrase. Ecological communities consist of all of the species that interact in a particular place and time, and communities, not species, are the basic unit of a functional ecosystem. Larger and more complex than individual species, but still small enough to be readily preserved, communities are the ideal unit of science-based environmental protection. These communities are said to represent *the diversity of life on Earth*, because TNC works at a global scale, preserving representative places from diverse ecosystems. Further, life and diversity evoke powerful ethical concepts that are almost universally accepted. Finally, TNC addresses the *lands and waters* these communities need to survive, underscoring the importance of land preservation, the organization's main program. The Nature Conservancy's mission statement is powerful because its precise language distills the essence of the organization's wide-ranging work and vision into a few key phrases. In doing so, the mission statement provides a banner for environmental protection rooted in science and ethics. Your organization's mission statement can provide a similar rallying point if well-crafted and well-applied.

An example: As you use haiku to develop the language of your mission statement or use another organization's as a sample, have fun with the process. The mission of the American Library Association is as follows:

"The mission of the American Library Association is to provide leadership for the development, promotion, and improvement of library and information services and the profession of librarianship in order to enhance learning and ensure access to information for all."

Two possible haiku to capture this mission statement are:

<i>Ensure access to Information and Library services</i>	<i>Develop, promote, Improve library service To enhance learning</i>
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The first haiku focuses more strongly on the inclusive nature of quality library services, one final result of the ALA's work. The second haiku stresses the ALA's direct work on improving librarianship. Neither poem alone includes the full extent of the American Library Association's mission, but each captures a different understanding of its essence.

Conclusion

If you are writing or rewriting your organization's mission statement, approach the process as if you were composing a purposeful poem, keeping each word's denotations and connotations in mind. If you are reading an existing mission statement, you may recognize imprecise language, and a revision might be in order. The process can even provide an opportunity to engage in a meaningful discussion of your mission. If your mission statements are already what you want it to be, examine the wording carefully, it will probably conjure the spirit of your organization more clearly than a decade of year- end reports.

Finally, once you have crafted your mission statement and understand it fully, give it life. Make sure everyone involved in your organization knows the mission statement by heart and can use it to describe your work and vision. Sometimes we have only a few seconds to capture the attention of a potential ally, and a poetic mission statement may be the exact vehicle necessary to capture your audience.

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1. Hass, Robert. *The Essential Haiku: Versions of Basho, Buson, and Issa*. Ecco Press 1994. Hopewell, NJ.
 2. Ueda, Makato. *Basho and his Interpreters: Selected Hokku with Commentary*. Stanford University Press 1991. Stanford, CA.
 3. Ibid.

Values in Your Organization and What They Have to Do with Raising Money

By Simone Joyaux

Part 1

I believe that values are the starting point of an organization, the fundamental foundation, the critical framework.

How do we found a nonprofit organization? A group of people who share the same beliefs get together to fix something...or to provide an opportunity...or to fill a gap...or...

Sure, there is often an initiator. That person is called a founder. But the best founders bring together other people—pretty much immediately. A founder *never* owns a nonprofit. A nonprofit is a community-based organization, owned by the community.

(Here's an aside rant about founders: A founder doesn't control anything! Not even the articulation of values or mission. A founder has no veto power. And once incorporated with a board, the board can fire the founder. Once of these days, maybe I'll write about being a founder and observing other founders.)

Anyway, back to the issue at hand: values.

What do I mean by values?

A value is an enduring belief that a specific mode of conduct is personally or socially preferable to another. Think of this as a shared code for behaving and operating. A value possesses intrinsic worth, desirability, and utility to the individual or group.

That's why shared values are the most critical element for building any type of community. And your organization is a community.

Back in 1966, psychologist Louis Edward Rath [formulated a seven-step process to determine values](#):

1. **Prized and cherished.** A value is something that the individual or group prizes and cherishes.
2. **Publicly affirmed.** The individual or group must be willing to publicly affirm the value.
3. **Available alternatives.** A value is not mandated. One must be free to choose other alternatives.

4. **Chosen intelligently.** A true value is chosen after intelligently considering the consequences.
5. **Chosen freely.** Individuals and groups choose values freely after considering consequences.
6. A true value means acting on one's belief. The final test of a value is action.
7. **Repeated action.** A true value demands repeated action in a consistent pattern.

I find Rath's steps very powerful. Use these to test your organization's values. Definitely use these to define your shared values in the first place.

Individuals have values

These values guide our actions and judgments. Our values are the standards that influence us as we make choices among alternative courses of action.

And values don't change much or that often. Our values are relatively permanent frameworks that shape and influence our behavior.

Groups have values, too

Yes, groups have values, too. And what's an organization but a group?

Individuals get together to form a group. Typically, the group shares common interests and a shared purpose.

But first and foremost, individuals get together because of shared values. And the shared values—fundamental beliefs—aren't negotiable.

Groups operate best through unity of purpose and action. But even with unity of purpose and action, groups can still struggle, even fall apart, without shared values. Shared values are the essential glue within the group. And, of course, that means the individual's values must match those of the collective entity.

Start with values

For me, the first thing a new organization does is articulate its values. The values precede mission.

Because groups are composed of individuals, the group must articulate its values to ensure some commonality. Don't assume that everyone shares the same values.

Group articulation allows the individual to be assured that her or his values fit well enough with those of the collective entity. Think of this as a shared code for behaving and operating. These values then provide a framework that guides the actions and judgments of the group.

Continue with shared values

Of course, we often get involved in organizations that already exist. Now what?

Very simple: Values serve as a screening device before hiring staff or recruiting volunteers. When I'm being interviewed to join a board, I ask about values. But mostly, I watch to see if the organization introduces its values statement before I mention it.

If board or staff candidates don't subscribe to your values, then don't invite them to play. Remember, your values are fundamental.

Part 2

Effective organizations possess clearly articulated values and behave in accordance with these values. Values form the foundation for all organizational activities, choices and decisions, and actions. Values are management and governance tools that...

- Help test mission and determine vision and program;
- Serve as a screen to determine the worthiness, appropriateness, and robustness of all operations;
- Provide the framework for policies and procedures, program delivery system, communications, and fund development strategies; and
- Evaluate whether new people align with organizational values and are invited to join.

In their study of visionary companies (*Built to Last*, 1994), James C. Collins and Jerry I. Porras observed that companies last specifically because they have clearly articulated values. These values remain fixed even while business goals and products, strategies, and practices change in response to the changing world.

The most effective organizations continually distinguish between that which is core—unchanging and constant—and that which can and often should change. These organizations discuss how a value affects a particular decision. These organizations identify value conflicts and have a process to make ethical decisions. These organizations regularly assess whether or not behavior is aligned with values. And these organizations ask individuals to leave who do not publicly affirm and act upon the group's values.

Watch out!

As groups grow and change—when some people leave and new people join—the values still form the foundation for existence. But be wary. Sometimes, the values lose their position in the forefront of the group.

Perhaps the new people and incumbents didn't use values as a screening device. Individuals may join the group without understanding the values and agreeing to follow them.

Maybe board meetings ignore the values lens during conversations and decision-making. Maybe expediency dominates. Maybe complacency sets in. And suddenly, the organization no longer adheres to its values.

I've seen all this. It's sad and ugly.

I've watched organizations kill themselves without articulated and lived values. It makes me angry.

Groups must keep their values alive, practiced, and promoted. This is a choice. This is an intentional act. Values are most definitely not just a piece of paper. Just like plans shouldn't be shelved, values shouldn't be either.

Aligning Behavior with Values

Articulating shared values is relatively easy. Finding consensus, particularly around this core, shouldn't be too difficult. Otherwise, why (and how) would you all have gotten together in the first place? The real challenge is aligning behavior with values. To use the oft-repeated cliché, we have to “walk the talk.”

Once the organization articulates its values, make the values part of the corporate culture. Keep the values alive through behavior, formal and informal assessment and feedback, and through organizational policy, procedure and systems.

Your organization can use several strategies to help people understand and behave according to group values.

- When you interview candidates for board and staff positions, share the values statement and describe how these values are displayed in the actions of the organization and its individuals. Emphasize that all staff and board members must adhere to these values when working with your organization.
- Include the criteria “adheres to our stated values” as part of the performance appraisal for staff and board members.
- Help each person within the organization hold herself accountable and extend that accountability to his and her colleagues. Provide feedback to each other when behavior does not appear to support the organization's values.
- Begin meetings by asking attendees to pull out the values statement and read it silently.
- When a difficult situation arises, review the values statement to set the stage for deliberation.
- Annually assess the degree to which behavior is aligned with values. Use a survey to compare individual and group behavior to each value. The survey asks respondents to rate their own individual performance and the performance of various teams or groups within the organization.
- Every three to five years, use the strategic planning process to reevaluate values and assess how well the organization is behaving. Convene group discussions and circulate surveys.
- Examine organizational policies and procedures to ensure that they reflect values. As necessary, develop new policies and procedures to support values.
- Compare performance to values when you appraise the performance of staff and volunteers.
- Periodically, start a board meeting with a quick review of values. At the end of the meeting, discuss how the group's behavior and actions reflected the organization's values.
- When you face a particularly difficult decision, talk about your values first. This discussion will offer you insights into decision-making.

One final note

Sometimes organizations ask me how often they should review and redo their values. My answer: *Not often. Not much.*

And the same holds true for mission, by the way. This is not an annual editing issue. (Although it certainly is an annual “let’s remind ourselves of our fundamental truths” action.)

I typically review values and mission during the strategic planning process, which typically happens formally every three to five years. I say “formally” because I believe that organizations should annualize their multi-year strategic plan, considering environmental changes and strategies each year.

Organizations don’t (and shouldn’t) redo their values too often. Values are long-term foundational attributes, not ever-changing items that vary based on whoever is in the room at the moment.

You can read more about values—and strategic planning—and so much more in the 3rd edition of my book, *Strategic Fund Development: Building Profitable Relationships That Last*.

P.S.

Are you wondering what this has to do with fundraising?

I think of the *Donor Bill of Rights* and AFP’s *Code of Ethical Standards* as values statements that the institution should adopt.

I think of fundraising in terms of my piece, “[Philanthropy’s Moral Dilemma](#)”—and I think that organizations should consider those values.

I think of social justice and think all organizations should talk about whether or not to recognize donors by gift amounts.

Marrying Mission with Strategic Planning & Evaluation

By Karen Topakian

Editors' Note: This article is reprinted with permission of the Grassroots Fundraising Journal. NPQ [*highly recommends a subscription*](#). It is always full of great practical advice about fundraising, mixed with smart thinking about organizational development and social justice work.

People serve on an organization's board of directors because they have a passion for the group's mission and vision, not because they love strategic planning. But strategic planning falls squarely in a board member's lap of responsibility. Fortunately, board members can share their laps with people outside of senior management to include other staff members and constituents.

Two organizations on two coasts—Rhode Island Coalition for the Homeless and California Rural Legal Association—both found successful and innovative ways to include more voices in their strategic planning processes. A third organization chose a participatory method to evaluate their programs. What follows are some of their best practices and tips for making organizational strategic planning and evaluation as inclusive and effective as possible.

Rhode Island Coalition for the Homeless: Inviting Constituents to the Planning Table

The Rhode Island Coalition for the Homeless, a 25-year-old statewide member-driven organization that pursues solutions to homelessness, started their strategic planning process with a Capacity Building Pilot Project grant from the Rhode Island Foundation. The grant provided funding to hire an organizational development consultant. The Coalition selected Gayle Gifford, ACFRE, co-founder of Cause & Effect, to lead the organization through the process.

Since an integral part of the Coalition's proposal included reaching out to constituents and raising their voices, Gifford advised them not to adopt a top-down approach to planning but to include constituents in the planning process.

Though 3 of the 10 staff members have experienced homelessness along with 5 of the 23 board members, the Coalition's Executive Director, Jim Ryczek, wanted to bring even more homeless constituents into the organization's governance. Ryczek aspired to do so since he started at the Coalition in 2006. Bringing these voices into the planning process started the organization on

that road.

To insure participation by a broad spectrum of the community, the Coalition formed a steering committee comprised of board members, staff and constituents. This group held a brainstorming session designed to think about the best people to serve on three Learning Groups:

1. Ending homelessness in Rhode Island;
2. Building a stronger coalition; and,
3. Meaningful constituent involvement.

All staff members and most board members served on a Learning Group.

The Coalition urged steering committee members to reach out to their networks and think beyond the geography of the greater Providence area with a goal of identifying 20 to 30 people per Learning Group. Committee members issued invitations to join the Groups followed by phone calls to discuss the Group's intent. In the end, 15 to 18 people signed up to participate in each Group.

The outreach effort didn't end there. "Each of the Groups had a list of groups to invite to broaden their perspective, to broaden the topic," said Ryczek. The Learning Groups met monthly for a year. All three Groups limited their meetings to 90 minutes. The funding allowed the Coalition to hire a consultant to facilitate a Group and provide technical support and accountability.

Before the planning process ended, the Coalition decided to start living up to their principles of including constituents in their governance by forming the Community Advisory Committee (CAC). The CAC, comprised of homeless and formerly homeless constituents, advises them on their programs, policies, advocacy, legislation, and organizing efforts. The CAC continues to meet every other week at the Coalition office.

Not everyone involved in the planning process felt comfortable including constituent voices. "We got a lot of flak for asking constituents. It's the whole charity (thing), 'We're giving them something, how dare they question (it),' " said Ryczek, whose staff already worked with constituents in other capacities. He said some people's criticism seemed to imply, "Those few homeless people (in the CAC) can't speak for all homeless in the state." Ryczek countered with, "They certainly do have a right to talk about the experience of homelessness."

In the end, the Coalition's board approved formation of the Community Advisory Committee. "I needed the backing of my board, and I got it," said Ryczek whose board includes community allies and community service providers. "It made us be mission driven." The Coalition's mission includes "pursuing cooperative and collaborative solutions to the problems of housing and homelessness."

Though the Coalition had a long history of working with constituent groups, they didn't always give them a seat at the table. "The whole strategic planning cemented the constituent voice," said Karen Jeffreys, associate director.

During the planning process, the Coalition took the next step in expanding their outreach to constituents by agreeing to serve as the fiscal agent for a grassroots organization of currently and formerly homeless people, the Rhode Island Homeless Advocacy Project (RIHAP). According to Ryczek, the two organizations "hammered out a Memorandum of Understanding, which delineated roles and how we wouldn't interfere with their governance and decision-making

process.” RIHAP initially intended to stay with the Coalition until they received their own tax-exempt status, but they still remain with the Coalition today.

Coalition staff members and interns attend RIHAP’s weekly meetings. RIHAP members serve on the Coalition’s Community Advisory Committee and attend their board meetings. “We all view [RIHAP] as a peer organization that has an important voice. They can be more direct and radical in their approach. We can’t go to the lengths that RIHAP can,” said Ryczek, who recognizes the need for the Coalition to maintain good relationships with the governor or members of the Rhode Island General Assembly. RIHAP’s first major victory was winning a statewide Homeless Bill of Rights, the first in the country. According to Jeffreys, RIHAP’s partnership with the Coalition was invaluable in providing resources and time to win this campaign.

In addition to focusing on strategic planning, Gifford, the Coalition’s organizational development consultant, raised the issue of fundraising. Though they hired a fundraising consultant to help raise funds, Ryczek listened to Gifford’s advice that fundraising work must be done internally. “In the end, it’s our board president and I who need to build relationships with donors,” said Ryczek. Ryczek readily admits he used to think that since the Coalition’s work and the issue of homelessness often appear in the news, people would just give. “Gifford would say, ‘Have you asked them [for money]?’”

The Coalition currently wants to turn the 6,000 people who have expressed interest online by becoming a “fan” on Facebook, following them on Twitter, or signing up for action alerts on the website, into donors. “How do you change them from interested in what you do to supporters of what you do?” asked Ryczek.

Upon reflection, Ryczek offers a few words of caution to those about to undertake a participatory planning process: “Don’t underestimate the time investment, from an energy perspective. We are all accustomed to doing tasks, but you need time to think and retreat.” He also suggests finding a consultant who is well versed in organizational culture to keep you on task with clear outcomes.

California Rural Legal Assistance (CRLA): Creating Space for Clients, Staff and Board in Planning Processes

Mike Courville, director of community programs and development at California Rural Legal Assistance, Inc. (CRLA), said they started their planning process “after he held up a mirror to his executive director, Jose Padilla, to show him where he’d seen potential growth areas in finance and development.” That action brought attention to what Courville refers to as “potential areas of misalignment,” which included competing mission and vision statements.

From that revelation, Courville began what he prefers to call enhanced planning, which he describes as, “distinct from strategic planning. It’s more about analyzing the organization to see where to grow, to see where you want to be in 5 to 10 years.”

According to Courville, money became the primary driver behind their organization- wide planning process because the federal grants they received kept decreasing. “Fundraising was the initial impetus for possibly making changes,” said Courville. “The driver was about organizational sustainability.”

Courville knew that CRLA, which fights for justice and individual rights alongside the most exploited communities of our society, needed to complete a few more steps before it could increase its fundraising capacity. “Fundraising is first about good strategy and good planning,” said Courville. “If you want a large development department, it has to be tied to planning, to well-articulated programs and mission. Development is about building upon existing strengths.”

CRLA Executive Director Padilla led the process, which included hiring consultants through a James Irvine Foundation grant. Padilla also hired a coach to help with internal leadership development. Courville knew that the enhanced planning process would include “lots of challenges and progress because you’re asking folks to think and act differently.” When asked about the experience, Courville says, “We were in a renewal state.”

Courville and Padilla formed three groups to accomplish the work:

1. a strategic planning group that included program and litigation directors, every senior director as well as some directors from their 15 plus regional offices, board members, and clients;
2. a group of all 160 staff members who provided input on the new mission statement; and
3. a subset of board members and clients who worked on crafting a new mission statement.

Outside facilitators conducted the strategic planning group’s daylong meetings. The group met before or after board meetings approximately every month for two years. They dedicated one entire meeting to discussing structural changes addressing supervision and management, including exploring the idea of creating regional director positions. This group also created CRLA’s Theory of Change, and reviewed and sent out the newly crafted vision statement to the entire staff and board.

According to Courville, CRLA would have preferred to include the input of more board members and community members in the planning process, but that would have required more work and energy than the staff could provide. However, the final decision on the mission, vision and theory of change fell to the entire strategic planning group and full board.

Courville, the consultant, and Padilla conducted some work in small groups outside of the main planning group. In between meetings, staff only handled clerical tasks. “If it weren’t done in full groups, it wouldn’t be trusted,” said Courville. “There was a fear that someone would be left out.”

At the end of the long process, Courville says, “We developed new leadership, new voices.”

LA CAUSA YouthBuild: Training Students to Evaluate their High School

Before LA CAUSA (Los Angeles Communities Advocating for Unity, Social Justice, and Action) YouthBuild, a Los Angeles-based nonprofit organization and social justice charter high school, could start its strategic planning process, it needed to evaluate its programs. But they couldn’t evaluate without outside help.

In the spring of 2011, help arrived in the form of an invitation from a professor at the University of Southern California’s Annenberg School for Communication and Journalism. The professor, Barbara Osborn, asked LA CAUSA to serve as a partner organization in a doctoral seminar in community-based participatory research.

LA CAUSA and several other organizations accepted Osborn’s invitation to present their needs to her students. Tony Bautista, sustainability director at LA CAUSA YouthBuild, presented his organization’s need to develop a report that outlined his program’s strengths and weaknesses. He would use the results to move their strategic planning process forward and to report back to funders. “We matched our interests with what the organizations had to say. We worked with the lead person who showed up at class. In my case, two other students, Stephanie Dixon and Robin Bishop, were interested in LA CAUSA, too,” said Evelyn Moreno, a student in the class who wanted to help LA CAUSA fulfill its needs and experience a successful community partnership.

Bautista embraced the opportunity to work with the three researchers. He invited them into LA CAUSA to learn about its culture and programs. “We met with Bautista to find what he wanted to learn,” said Moreno. “He had a sense of what was working, but it was not quantifiable.”

The researchers framed their methodology based on Bautista’s question: Are LA CAUSA’s current resources and practices producing the intended and desired YouthBuild program outcomes? Moreno drew on her own experience working with focus groups and qualitative methods in the project.

The three graduate students looked at how YouthBuild worked with low-income high school students to help them rebuild their lives and communities. The researchers started their inquiry process with the five-student member leadership group. After talking with these high school students, the researchers designed a pilot together—a simulated focus group. Then they tested the simulation on the student leaders.

“From there, [the high school students] gave us their feedback: ‘change this; we didn’t understand that’,” said Moreno, who used the feedback to test the protocol and make adjustments.

After the researchers felt confident with their model, they trained the student leadership group to conduct focus groups themselves. “[The students] were able to administer the focus groups amongst their peers,” said Moreno, who thought LA CAUSA students would show greater openness to their peers than to the researchers. Out of an average class size of 50, the 5 student leaders reached 16 YouthBuild students.

This duplicating effort provided the researchers with more answers, information, and a wider range of opinions.

Moreno and her colleagues encountered challenges while formulating their research process. “We started with big questions,” said Moreno. “When we came to our senses, we had to scale down.” They wanted to dive deeper but didn’t have the time to do so given the confines of an academic calendar.

The researchers also learned about the challenges facing nonprofit organizations. “It’s complicated to work with organizations that are limited in time and in cash,” said Moreno. “They are so busy that doing something like this project is difficult for them.” She and her fellow researchers appreciated the time and effort that Bautista put into the partnership with them. Moreno advises partnering organizations “to definitely have one person or more dedicated as point people to work with the researcher because it’s important to have constant partnership. There has to be a commitment on both ends to have trust in the research partnership.” She advises researchers, “Try to tackle things they think they can achieve by the deadline; be mindful of the organization as a whole, not just the component they are working on; and try to have a holistic approach.”

Moreno’s relationship with Bautista and LA CAUSA continued beyond the confines of the research project. Last year, he invited her to train another cohort of students to conduct focus groups, this time on food justice issues.

All three of these social change organizations chose to search for new voices in their planning and evaluation processes. They chose the voices of those affected by their programs that are rarely heard and frequently ignored: the poor, immigrants and students. In doing so, they chose to improve their organization’s effectiveness and to stay true to their mission.

The Matrix Map: A Powerful Tool for Mission-Focused Nonprofits

By Steve Zimmerman, M.B.A. C.P.A. and Jeanne Bell

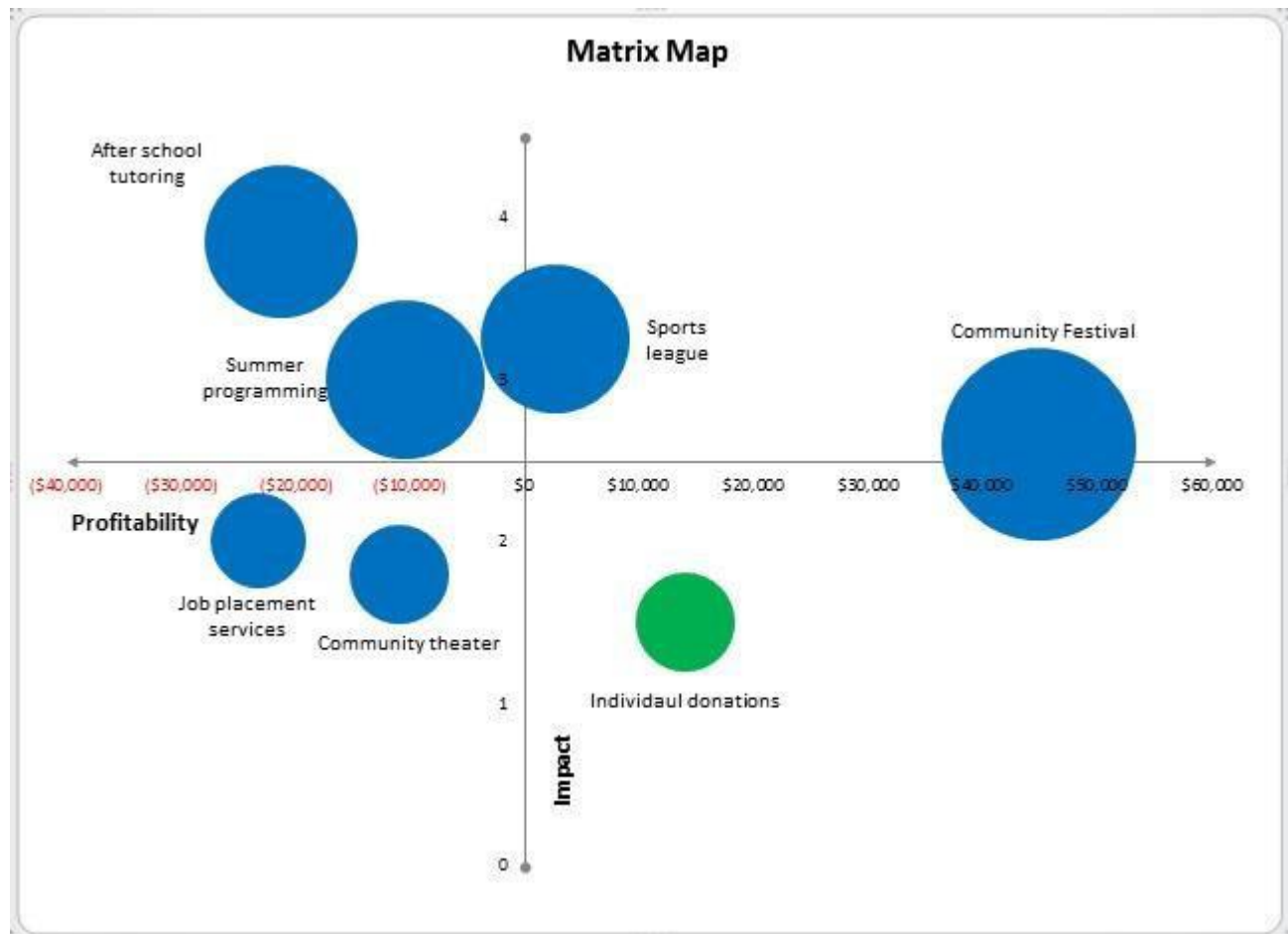
PART ONE: How to Create the Matrix Map

It's easy to embrace the concept of the Dual Bottom Line, but harder to apply it in a real-world board setting. For example, board members—and many staff—are seldom familiar with *all* of the programs and activities of the organization. While there may be a strong sense that “all our programs are great,” there may not have been any discussion about which programs are, in fact, those with the greatest or most important impacts. Even people with financial expertise may feel uncertain about how to make decisions that are more nuanced than “stick to the budget and at least break even.”

Board meetings unintentionally support this kind of fragmentation. They take each subject on its own: first the financial report, then the program report, and then the fundraising report. The Matrix Map aims to change that.

The Matrix Map is a visual tool that plots all of the organization's activities—not just its programs—into a single, compelling image. By illustrating the organization's business model—through a picture of all activities and the financial and mission impact of each one—it supports genuinely strategic discussions.

Below is an example of a Matrix Map for a community center. Each circle represents a business line. You can see that circles higher on the map have higher impact than those lower on the map. You can see the relative size of each activity, and which ones make money, which break even, and which require subsidy from the organization's unrestricted funds.



The resulting image often provides an “Aha!” moment for board members. After years of hearing about seemingly unrelated programs, they can now understand how they all work together to support the impact and viability of the organization they care about.

How to make a Matrix Map of your organization

To create a Matrix Map there are four steps:

- Identify your “lines of business” or activities
- Assess relative mission impact
- Determine profitability and
- Map the results!

Here is a more thorough explanation of each step:

1. Identify your business lines—all of them: A business line is a programmatic or fundraising activity in your organization that requires effort. Counseling, dance performances, citizenship classes, and forest restoration are all business lines.

fundraising phone-a-thon is a line of business, as is a special event or major donor solicitation.

2. Assess relative mission impact: In many nonprofits, there's an implicit assumption that all programs are effective and important—and that's typically true. But everyone also realizes—yet seldom says—that some programs have higher impact than others. We may not discuss impact levels in order not to sound as if we are criticizing a worthwhile program (or its director), but it's precisely these judgments about which programs have the highest impact that the management team and the board should discuss as strategic choices are made.

Each organization will have different criteria for impact—after all, impact is defined by each nonprofit differently. And remember, this is an informed self-assessment, not an evaluation. We suggest a survey or discussion with the management team and the board that asks individuals or the group to rate each business line on a scale of 1 to 4 using four criteria. Organizations can identify their own criteria for impact; here are a few we've found useful:

- **Alignment with core mission:** How closely does this program align with our core goals? Some programs may be excellent, but not as central to our mission.
- **Excellence in execution:** Organizations are simply better at delivering some activities than others. A business line may be important to our mission, but we may not have the right skills or financial resources to implement it with excellence. This is a nice way of separating planning from execution.
- **Scale:** How many people does each business line affect?
- **Depth:** How deep an intervention or contact does each business line provide?
- **Building community or constituency:** How does this business line contribute to building, for example, the environmental movement or the Hillside Neighborhood (not just our organization)?
- **Fills an Important Gap (FIG):** If a business line were to go away, would your constituents be able to go across the street to another agency or would they have nowhere to go?

Remember, you only need to choose four or five criteria and you don't need to use any of these suggestions. After you've rated all of the business lines, take an average of the scores each line receives across the criteria and that will be its mission impact score. For example, if tutoring were to receive the following scores:

- Alignment with Impact: 4
- Excellence in Execution: 3
- Fills an Important Gap: 3
- Building Community or Constituency: 2

The mission impact score would be the average: 3.0.

3. Determine the profitability of each business line: Look at how much a business line is contributing financially (profit) or how much it needs subsidy from the organization's unrestricted funds (loss). (Unrestricted revenue should be attributed to the fundraising vehicle [business line] that was used to raise it, such as major donors or direct mail.)

	After school tutoring	Sports league	Summer programming	Community Festival	Job placement services	Individual donations	Community theater	Admin	Total
Revenue	41,488	60,590	56,473	145,258	-	40,750	15,000		359,559
Direct Expense	51,360	49,500	52,890	79,500	17,860	21,052	22,000	36,251	330,413
Shared Costs	5,802	2,800	7,320	9,750	2,560	2,450	1,132	2,123	33,937
Administration	5,608	5,697	6,782	11,331	2,809	3,305	2,842	(38,374)	-
Total Expenses	62,770	57,997	66,992	100,581	23,229	26,807	25,974	-	364,350
Surplus / (Deficit)	(\$21,282)	\$2,593	(\$10,519)	\$44,677	(\$23,229)	\$13,943	(\$10,974)		(\$4,791)

4. Map the results: Once these steps are done, you can map each business line on a grid. We put impact on the vertical axis (x axis) and profitability on the horizontal axis (y axis).

Here you see the Excel worksheet:

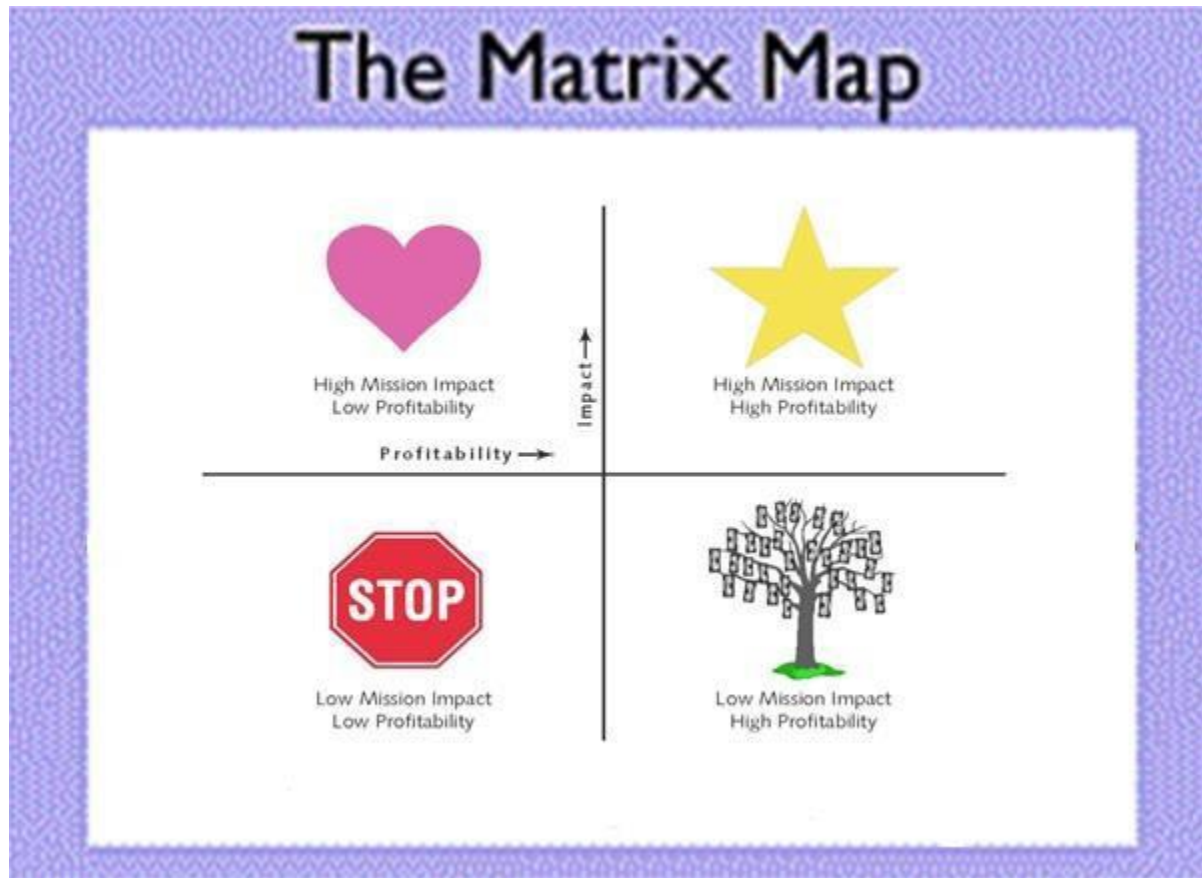
Our Youth Community Organization			
Matrix Map Data			
Business Lines	Profitability	Mission Impact	Expenses
After school tutoring	(\$21,282)	3.85	\$62,770
Sports league	\$2,593	3.25	\$57,997
Summer programming	(\$10,519)	3	\$66,992
Community Festival	\$44,677	2.6	\$100,581
Job placement services	(\$23,229)	2	\$23,229
Individual donations	\$13,943	1.5	\$26,807
Community theater	(\$10,974)	1.8	\$25,974
	(4,791)		364,350

Then using Excel's chart function, select "Bubble Chart" to create the Matrix Map seen at the beginning of this article.

More than just a picture, though, the Matrix Map can help engage board members in strategic discussions about how to strengthen the organization's business model – understanding that the implications of their decisions will affect both impact and finances. And staff can see the whole organization at a glance in a way that focuses attention on activities and impact rather than as an organization chart.

PART TWO: Strategic Imperatives

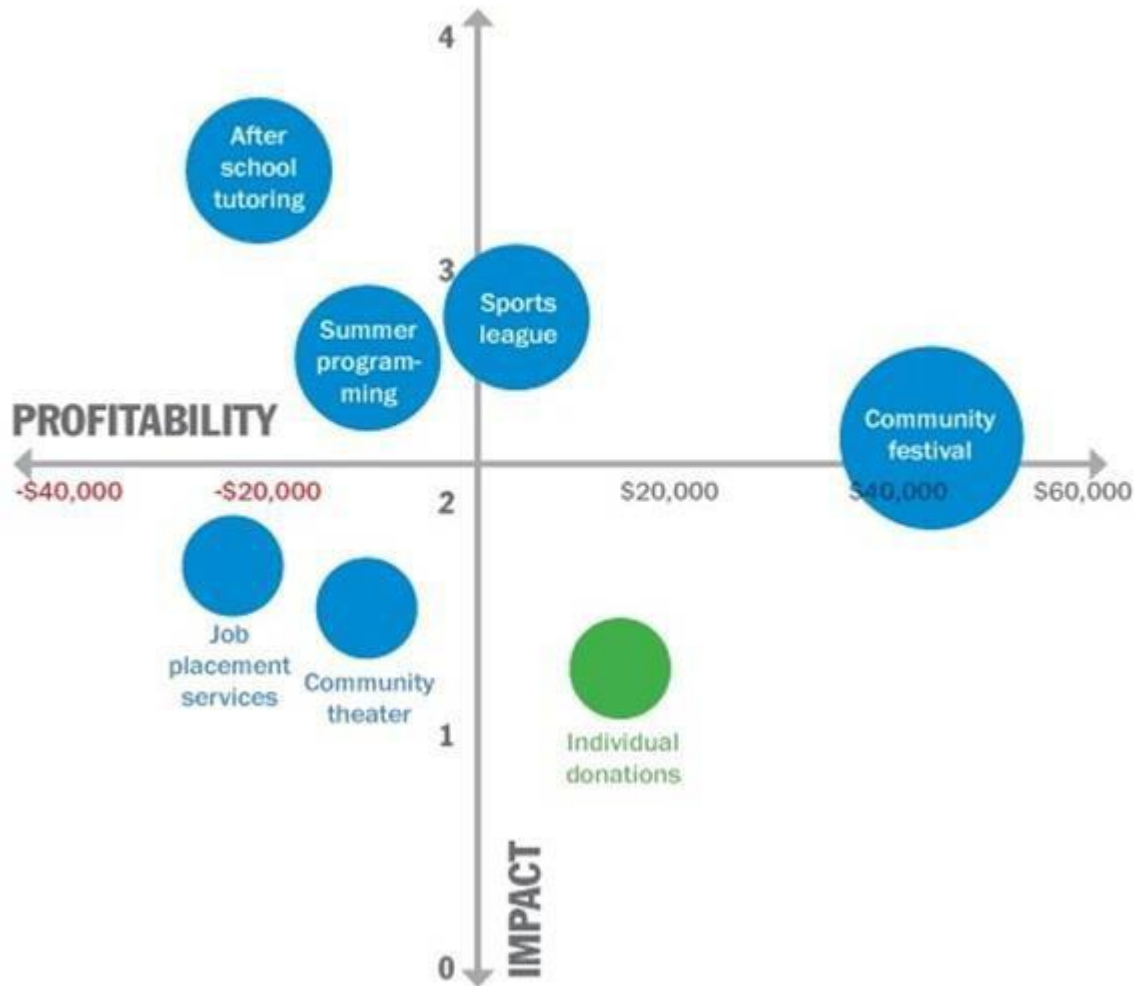
For many board members, the Matrix Map provides sudden clarity on how the organization's different activities inter-relate. But beyond helping them understand the business model, the Matrix Map can help nonprofit leaders strengthen it.



You'll recall that putting together a Matrix Map calls for plotting your organization's business lines according to their mission impact and financial profitability. Depending on where an activity is placed on the map, a strategic imperative emerges. These strategic imperatives are the actions that would most likely strengthen the business model and increase the organization's sustainability.

The Matrix Map below for a community center shows that the after-school tutoring program has the highest impact and is subsidized by the community festival and individual donations. The map showcases the integration between mission impact and financial profitability, or what is sometimes called the dual-bottom line of nonprofits.

Matrix Map for a Community Center



For each quadrant of the Matrix Map, the strategic imperatives are as follows:

a. High Impact, High Profitability: the Stars (upper right corner)



Invest attention and resources.
Grow if possible.

In many organizations the programs that are high performing and highly funded appear to almost “run themselves.” They are rarely in crisis mode and can take up little time from the executive director because they are performing so well. That is also the temptation: with so many other areas in need of strengthening, why should we focus on a strong program?

The strategic imperative for Stars is exactly the opposite: Rather than turning away from Stars to pay attention to problem areas, leaders must invest their time and attention and financial resources in order to grow them. When we are choosing which areas to grow, the first (not the only) choices must be those that are our highest impact, financially viable programs and activities.

Note that not all Stars are programs. For instance, a strong annual fundraising dinner may be a Star: it may raise crucial unrestricted funds, convene and celebrate the organization’s constituency (such as a neighborhood, people working on minimum wage levels, a dance troupe, etc.), and bring visibility to the organization and its work.

For the community center, the Stars are the sports league and community festival.

b. High Impact but Low Profitability: the Hearts (upper left corner)



Keep & celebrate.
Contain costs.

Nonprofit organizations are filled with activities that directly help us accomplish our mission but lose money. They may not be suitable for earned income, or they may be too controversial or new to be able to fund. Such programs require subsidy from the organization’s unrestricted funds. We call these activities Hearts.

The strategic imperative for Hearts is to keep them, but to contain their costs. Not every activity needs to break even. For most nonprofits, being able to provide services that lose money is important to mission. We want Hearts, but we can’t allow them to drive the organization into bankruptcy. For a social service organization, containing costs may mean reducing the level of service or limiting the number of people who can be served.

Every program needs a limit for how much unrestricted subsidy it gets from the organization. The temptation may be simply to raise more money, but fight this urge. Organizations can afford some Hearts, but too many make it unsustainable.

For the community center, the afterschool tutoring and summer programming are hearts. These programs were what the organization was founded around, but as they have aged they have lost foundation funding and have no earned revenue strategy.

c. Low Impact, High Profitability: the Money Trees (lower right corner)



Opposite the Hearts are our Money Trees, those activities that are lower in impact and generate surpluses usually used to subsidize the Hearts. They typically include our fundraising vehicles such as golf tournaments, raffles, and galas, as well as commercial activities such as parking lot rental income or food sales.

The strategic imperative for a Money Tree is to keep it, nurture it, and increase its impact. We often neglect Money Trees and expect them to continuously produce income year after year. But just like real trees, Money Trees require care and attention to stay fresh, stay healthy, and grow.

It is also common to think of our Money Trees in only one frame: the amount of money generated. The strategic imperative reminds us we should also look at them as a way of increasing our impact. Money Trees create awareness and at a minimum provide an opportunity to educate audiences about the importance of your mission. This should be nurtured and looked after as well.

Individual donations represent the Money Tree for the community center.

d. Low Impact, Low Profitability: the Stop Signs (lower left corner)



Most organizations have a few activities that not only lose money but are also low impact. They are the activities that consume time and energy as we rework them yet again, trying to improve the marketing or search for a funding source. Common examples are poorly attended workshops, stale fundraising events, un-used resource libraries, and outdated “pet projects.”

The strategic imperative for these Stop Signs is to close them or give them away to another organization. It's not that these activities are useless, but they may be taking more of our resources than they warrant. The Matrix Map looks at relative impact and raises the question of opportunity cost. What if we invested the resources we spent on our low-impact program on one of our Stars? What if the time and attention our Stop Sign requires were focused on our Money Trees?

For the community center, the job placement services and community theater represent Stop Signs. Job services were initiated by the organization when they saw a community gap. Since then a vocational service center has opened with a more comprehensive program and better attendance. In terms of the community theatre: the center took this on when the local theatre closed its doors. Unfortunately, despite the desire to support the theatre, the center has not been able to strengthen programming enough to attract either audience or funding.

The imperatives for Stop Signs are often the hardest to implement because they involve letting go of something that was once a great idea. But the strategic imperative can also be a relief. Rather than admitting failure, we're focusing on our strengths and building a stronger, more sustainable organization. As part of this strategic imperative we should look around our community and ask who else is providing this service. It may be possible that another organization is offering a similar program that is stronger. By referring our constituents to them everyone may benefit.

Looking at the choices in context of the whole

Taken together, the strategic imperatives offer choices towards increased sustainability. These choices are not easy to make, nor can they be made "once and for all." What is sustainable is constantly changing as the environment in which we operate is constantly changing. Funding sources may shift, and constituents' needs may shift; what was once a Star may now be a Stop Sign. We must continually shift our programmatic and revenue strategies for our organizations to remain viable.

Making strategy choices require judgment. The Matrix Map is a tool for board members and staff to make judgments informed by impact and finance, and in the context of the whole organization. Strategic imperatives provide a common ground for discussing the choices that face the activities in each quadrant of the map. And ultimately, making strategic decisions about each business line is what leads an organization towards a more sustainable future.

Business Line	Quadrant	Imperative	Action
Community Festival		Invest & grow	Formed a committee to explore ways of expanding and committed resources to growth.
Sports League		Invest & grow	Expanded sports offerings and developed marketing plan for more participants.
After School Tutoring		Keep. Contain costs.	Set limit of number enrolled to maintain average time with each student.
Summer Programming		Keep. Contain costs.	Set limit of number enrolled to maintain student/teacher ratio.
Job Placement Services		Close or give away	Transferred services to local organization.
Community Theater		Close or away	Stopped production. Some productions picked back up as all volunteer effort.
Individual Donations		Keep watering. Increase impact.	Focused message on impact. Refreshed annual ask.

For years, the community center had been discussing expanding their after-school tutoring. The Matrix Map helped them realize that they couldn't expand it, lose more money, and still be sustainable. Rather, they remained committed to offering both after-school tutoring and summer programming at the same level of enrollment. They transferred their job placement services to another agency in town and used the money they saved to explore ways to increase the impact of the summer programming. They shut down the community theater and expanded their sports league by offering more sports and increasing marketing to draw participants. Lastly, by continuing to nurture and grow their community festival, they augmented its impact and secured their place in sponsoring the festival for years to come.

These are not easy decisions with easy answers. Rather, the answer is often unclear. The Matrix Map offers a way to engage the entire board in the discussion, drawing on everyone's minds. And ultimately, making strategic decisions about each business line is what leads an organization towards a more sustainable future.

This article is adapted from sections in [Nonprofit Sustainability: Making Strategic Decisions for Financial Viability](#) by Jeanne Bell, Jan Masaoka, and Steve Zimmerman. It was originally posted on [blueavocado.org](#) in two parts.

Measuring Fundraising Performance vs. Fundraiser Performance

By Simone Joyaux

Part 1

So I was doing a workshop about measuring fundraising results.

I pursue this topic regularly. I write about it. I present. I modify. I love the topic and I know where I want to go and what I'm hoping the participants embrace.

But guess what happened several months ago?

I was talking about measuring fundraising results. However, the participants wanted to talk about measuring the *fundraiser's* performance.

We had a good chat.

And I promised that someday I would write about measuring the fundraiser's performance. Because I haven't done that before, and because far too many bosses and boards inappropriately measure the fundraiser's performance.

So here goes. Part 1, and then Part 2.

Starting with distinctions that make a difference

Of course, I'm starting here, with some distinctions and definitions and general guidelines. Because these things matter a whole lot. And far too many organizations and their people don't know this stuff.

And without knowing, how can you measure?

The organization's fundraising performance and the fundraiser's performance are *not* the same thing. Yes, the fundraiser certainly has an important role and responsibility for the organization's fundraising performance. However, the fundraiser is *not* totally accountable for the organization's fundraising performance.

Here are two examples from my own experience:

1. As the chief development officer of a regional theatre company, I was analyzing why our charitable giving was plateauing. I checked everything I could.

I then suggested that a possibility might be the dissatisfaction with the quality of the productions. At the time, our artistic director was distracted by his work at another theatre—and, frankly, maybe it showed.

The leadership team was annoyed by my observation. So we didn't discuss *that* again. I left within a year or so. Of course, the topic *did* come up later, after I had gone; the truth will out.

The quality of the program/service does impact fundraising. I raised the issue. They denied the issue.

As the fundraiser, I'm a senior manager, part of the senior team that is supposed to be looking at the whole organization. Part of the team that is expected to examine the entire system and its various parts.

As the fundraiser, I am not restricted to fundraising only. As a professional, I'm bigger than my own narrow field or department.

2. Same job. Our annual face-to-face solicitation campaign with 500 individual and corporate prospects had been going well. But the solicitors of several top corporate prospects weren't making these key asks. I kept nudging these three solicitors. They still didn't carry out their responsibility or fulfill their institutional accountability.

I told my boss, the managing director, that I planned to take the prospects away from them and make the asks myself. I would do this graciously—no worries. My boss knew that I could do that. I assumed he would say yes.

But he didn't. My boss said, "No. Leave them alone." I responded that we would lose approximately \$50,000, which I could secure by making the requests myself. And we wouldn't alienate the non-performing solicitors, either.

But my boss still refused. So I told him, "Please put a note in my personnel file that I'm not accountable for this loss. And I expect that not to affect my performance appraisal."

We lost the \$50,000 that year. I was not penalized because it wasn't my fault. There was no way I could find another \$50,000. And, my boss knew full well that I had done all that I could to get these three men to make their calls.

Everything inside the organization affects fundraising. Things like the quality of the program/service. Recruitment process for board members. Loyalty strategies. Solicitation strategies. The way that the organization treats its customers, volunteers, and donors.

This is systems thinking. And even if you haven't read the *Great Fundraising Report 2013* (commissioned by Clayton/Burnett [UK], now called Revolutionise, and with research conducted by Adrian Sargeant and Jen Shang—you can [request a copy here](#)), good professionals know that systems thinking matters. In fact, it's pretty old news how much systems thinking matters.

Everything outside the organization affects fundraising. Things like: Economy. 2008's Great Recession. Corporate mergers. And so forth.

I sure hope that your organization didn't budget for increased charitable contributions during the 2008 fiasco. That's just bad planning.

What's the difference between effort and outcome?

If the development officer tried as hard as possible to raise money but failed, what is the nature of the failure? Is it poor application of the body of knowledge and best practice? Is it lack of knowledge about body of knowledge, best practice, or contemporary issues? If that's the case, then the fundraiser's performance is lacking.

But what if the boss refused to send the direct mail letter that followed best practice and body of knowledge—because the boss just didn't like the letter?

What if most board members refused to help with relationship building and refused to help with solicitation? What if several board members didn't give a contribution?

What if the organization does not have a clearly stated policy that stipulates performance expectations required of all board members?

What if the fundraiser did all she could to enable board members to help? She provided guidance and tips. She modeled the right stuff and also tried to partner with the board members. The fundraiser did reminder calls and sent funny postcards and candy bars. And still, board members didn't help.

How does the fundraiser compensate for that? How does a small—or even a large— development officer compensate for poor board member performance? And did the boss and governance committee make any changes within the board?

What happens when your organization is known for rather lousy customer service? Callers get caught in voice-mail hell. Donors complain that their names are misspelled. Where does the accountability lie?

Far too many organizations blame the fundraiser for issues that are not hers to control. Far too many organizations don't allow the fundraiser to join in institution-wide conversations about issues far beyond fundraising specifics—but that nonetheless impacting fundraising.

Okay. That's the end of Part 1: setting the context and defining the distinctions between measuring the organization's fundraising performance versus the fundraiser's performance.

And remember, setting the context, distinguishing important differences, helping others understand...all this is your job. That's what professionals do. That's what leaders do.

Don't let your boss or your board hold you (or the development office) solely accountable for the organization's fundraising performance. Help your boss and board understand the multiple dimensions and the distinctions that make a difference.

And don't let them assign you goals and measures. You facilitate them. You guide them. You explain which measures matter and why.

Part 2

Here's where we left off:

- Measuring fundraising results is different than measuring the fundraiser's performance. And it's a distinction that makes a very big difference!
- Fundraising performance belongs to the entire institution. Neither the fundraiser nor the development office is solely accountable for the institution's fundraising performance.

As you read in Part 1, lots of things affect the institution's fundraising performance and results. For example:

- Quality of program/service/product.
- Engagement of CEO, board, and board members in the process of relationship building and soliciting.
- Policies related to board member performance.
- Screening process for board member candidates.
- Operating as a donor-centered organization. And so much more.

I actually think that measuring the institution's fundraising performance is easier to do than measure the fundraiser's performance. I think that defining measures, establishing annual benchmarks, and reviewing progress and results is a major conversation that staff, development committee, and the board should have – regularly.

Here are some of my favorite quotations about measures and data. I've been collecting quotations since I was in high school. Quotes from novels and songs and...and quotes from business books, and still more novels!

How about using these quotes to inspire your organization to probe about the purpose of measures and which measures and the analysis of trends and their implications?

- "Data itself is nothing unless one uses it as a resource from which to draw conclusions."—*Dune: The Machine Crusade*, Brian Herbert and Kevin J. Anderson.
- "A great organization is one that delivers superior performance and makes a distinctive impact over a long period of time...In business, money is both an input (a resource for achieving greatness) *and* an output (a measure of greatness). In the social sectors, money is *only* an input, and not a measure of greatness."—*Good to Great* and *Good to Great and the Social Sectors*, Jim Collins.
- "In a metric-minded organization, it's very tempting to focus on things that are easy to measure instead of those things that are *important* to measure...Numbers-based innovations are easy to sell...but numbers-based innovations are rarely home runs. They rarely cause people to look back in awe at the amazing thing they've done. It's the emotional stuff – the stuff that some smart

people don't think will work – that you need to be part of.”—*The Big Moo*, by the Group of 33, edited by Seth Godin.

For more details about measuring fundraising performance, see my previous *NPQ* columns about measures: [here](#) and [here](#). There's an [entire list of measures](#) available [in the Free Download Library on my website](#). And, my book [Keep Your Donors: The Guide to Better Communications and Stronger Relationships](#) also devotes a couple chapters to measure.

The role of the fundraiser: Some general tips

Let's explore the role of the fundraiser—and how to measure her or his performance.

First, start with the job description. Check out [the example](#) in the Free Download Library on my website. Pay particular attention to the qualifications.

Other tips:

- Check out the [test content knowledge at CFRE International](#).
- Look at the chapter focused on the chief development officer in my book [Strategic Fund Development: Building Profitable Relationships That Last, 3rd edition](#). Also see the chapter on leadership in the same book.
- Read “[The Great Fundraising Report](#),” summarizing research conducted by Sargeant and Shang.
- Visit www.afpnet.org to learn about the content covered in the Fundraising Diploma and Advanced Fundraising Diploma.
- Read [my previous columns](#) about [interview questions you should ask candidates for top development positions](#)...and the questions you should hope they ask you.

The role of the consummate professional—no matter the job or industry

Stop counting the money!

A human resources person once told me, “We hire for skills and promote for competencies.” Check out Wikipedia to better understand the important distinctions between [skills](#) and [competencies](#).

Being a great fundraiser includes lots more than the fundraising-specific stuff. This is about being a good performer—a leader—in any business.

So here are a few of the competencies I expect in any top performer anywhere for anything in any business...

Attitudes and behaviors

- Challenges the status quo. Risk taker. Change agent.

- Welcomes pluralism and promotes diversity of all kinds.
- Recognizes that privilege (particularly the unearned kind) and the resulting power help cause injustice.
- Lives as a global citizen. Interested and engaged in the world, life, communities, people.
- Studies and applies ethical, shared leadership. Develops other leaders.
- Behaves in concert with Jen Shang's U.S. research about descriptors for good people: Kind. Caring. Compassionate. Helpful. Friendly. Fair. Hard-working. Generous. Honest.
- Lifelong learner. Curious. Avid reader within and outside of one's specific profession.
- Possesses emotional, social, and cultural intelligence.
- Paraphrasing Philip Glass: You have to learn the technique so you can go against it or approach the issue differently than the particular technique.
- Serves as an organizational development specialist not just a technician/tactician.
- Helps build the institution's adaptive capacity: External focus. Network connectedness. Inquisitiveness. Innovation.
- Embraces systems thinking and learning organization business theories.
- Critical and strategic thinker.
- Operate as Jim Collins' Level 5 Leader.

Now, what about fundraisers? What makes a great fundraiser?

First, read "The Great Fundraising Report." Then read CompassPoint's "[UnderDeveloped](#)" report."

Now consider these thoughts from me:

1. Recognize philanthropy as an end in itself, not merely a means to an end, *e.g.*, the organization's mission.
2. Be a philanthropist, giving time and money to charitable organizations. And this includes serving on a board. Otherwise, how can you adequately understand the NGO sector?
3. Know the body of knowledge in fundraising!!!!!!!!!!!!!!
4. Embrace loyalty as the Holy Grail of fundraising. (So says www.theagitator.net.)
5. Lead the creation of a donor-centered organization and a culture of philanthropy.
6. Serve as the expert resource (leader) of fundraising, guiding the CEO, the board and its members, and everyone else.

7. Operate as a donor-centered relationship builder.
8. Know that emotions trigger all human decisions.
9. Know that fundraising is not about money. Instead, it's about people giving through your organization to fulfill their own aspirations and values.
10. Passionate storyteller.
11. Create extraordinary experiences for donors and prospects.

Well, okay. That's just what a fundraiser should know and be and do.

But I haven't yet talked about how to measure that individual's performance.

Part 3

Now, let's talk about measuring the performance of the fundraiser.

What does measuring mean?

Too often, "measuring" means metrics, and metrics seem to mean numbers only.

- How much money did you raise?
- How many donors did you talk with each month?
- How many new donors did you bring in?
- How big were the donor gifts?

But what about the qualitative stuff? How satisfied were the donors with their treatment by the development office? How donor-centered are your organization's operations? How effective are your donor communications?

So much to consider when measuring fund development. So much to consider when measuring anything.

Read Jim Collins' monograph [*Good to Great and the Social Sectors*](#). Collins talks about qualitative and quantitative measures. He talks about inputs, *i.e.*, money put into the organization to help raise money). He talks about outputs, like money.

But what about the outcomes? Always remember, money isn't the outcome. Service is the outcome.

However, I digress. Let's go back to measuring the performance of the fundraiser.

Performance appraisal ratings

What scales do you use? See below. Yes, these are somewhat "subjective." But you'd best use them as objectively as possible.

- Exceeds expectations: The individual is making an exceptional, significant contribution to the organization. This person constantly accepts responsibilities beyond those of the job held and

continuously exceeds expectations regarding completion of work assignments. There are few areas regarding performance of job responsibilities in which she could improve.

- Meets expectations: The individual is a steady, consistent, dependable performer and carries out duties in a fully responsible and effective manner. Meets and occasionally exceeds expectations regarding job responsibilities and completion of work assignments. Even though present performance is acceptable, there may be areas regarding performance of job responsibilities in which the person should improve.
- Needs improvement: The individual falls below standards or expectations. It is expected that with the appropriate improvement plan, performance will reach a fully satisfactory level within a specified time period.

The regular stuff to measure for any employee

Right now, forget about fundraisers and fundraising. I'll return to that topic later.

First, think about any employee. What are the basics that you expect to measure? I looked through an old file of mine that had samples (unfortunately with no attribution). And you can certainly look at the Internet for more ideas.

Here's what I expect of all employees, things like:

- Productivity (amount of work produced)
- Quality (degree to which work is error-free and complete)
- Reliability (absences, lateness)
- Dependability (requires only limited supervision, or none if in a senior position)
- Initiative (works independently, initiates work and completes it)
- Creativity (introduces new and original ideas and sound courses of action)
- Communications (effectiveness both orally and written)
- Job knowledge
- Working relationships (interpersonal skills)
- Stability (withstands pressure and remains calm in crisis)

Those are just the basics. Here's what I want for supervisor types...and definitely for senior staff.

- Planning and budgeting
- Organizing and directing
- Designing, supporting, and managing change

- Problem analysis and solution
- Recruitment, supervision, and retention of other staff
- Leadership (and we're all aiming for Collins' Level 5; also see Chapter 5 in the 3rd edition of my book, *Strategic Fund Development*, Wiley 2011)

I expect all my senior staff to be organizational development specialists. I don't want senior staff that are experts only in their specific job arena, *e.g.*, finance. I want them to know about governance, because they'll likely be working with a board committee and that means governance. I want them to know a bit about fund development, because the nonprofit will likely require charitable gifts.

Visit the Free Download Library on my website and [read my monograph](#), "Choosing Your Road: Organizational Development Specialist or Just Another Fundraising Technician?" Eliminate the term "fundraising" and substitute "just another finance technocrat" or "focused only on program and not interested in anything else."

Check out [the performance appraisal process for the CEO](#), also located in my Free Download Library. You'll find lots of performance measures there that just require a bit of modification to apply to any senior staff person. For example:

- Assures a work environment that recruits, retains, and supports quality staff and volunteers. (You don't even have to change anything in that performance measure.)
- Works effectively with the board, its officers and committees to define their roles and responsibilities. Helps evaluate their performance regularly. (That didn't need any changes either.)
- Fosters a culture of philanthropy and assures a donor-centered organization that nurtures loyalty through a comprehensive relationship-building program. (For all senior staff, I'd edit this as follows: Helps foster a culture of philanthropy and operation as a donor-centered organization.)

I insist/demand/expect my senior staff to effectively enable other staff and volunteers. You'll find my list of enabling functions in my Free Download Library. You'll find a short description of each function in my book, [Firing Lousy Board Members—And Helping the Others Succeed](#). And you'll find comprehensive details and examples in my book, [Strategic Fund Development, 3rd edition](#).

Of course, I expect all senior staff to keep informed of developments in the organization's mission area, general business management, governance, philanthropy, and so forth.

Okay. Okay. Now you want fundraising performance measures for your fundraiser.

So here are some of my favorites. You can also visit my Free Download Library and review the job description for the chief development officer.

Of course, you'll apply the same performance ratings as noted earlier in this column. And you'll work with the fundraiser to outline any necessary performance enhancements before the next appraisal.

1. Fosters the development of a culture of philanthropy and a donor-centered organization

2. Keeps CEO, board, and board's fund development committee fully informed regarding the status of fund development and all internal and external factors influencing effectiveness and productivity
3. Recommends appropriate measures, both qualitative and quantitative, to the CEO and board regarding fund development
4. Partners effectively with other agency departments, staff, board, board members, and committees to assure the organization's relevancy, effectiveness, and results
5. Assures that appropriate policies, standards and controls, systems and procedures, materials, and resources are in place to guide and evaluate the fund development operation
6. Provides general oversight of all fund development activities, manages day-to-day operations, and assures a smoothly functioning, efficient operation
7. Assures a comprehensive gift management/CRM system, analysis, and reporting to support quality decision-making in philanthropy and fund development
8. Helps ensure (and enable) board members to carry out philanthropy and fund development activities
9. Guides the process to identify, cultivate, and solicit donors and prospects
10. Assures a top-notch relationship-building program that incorporates donor-centered communications and extraordinary experiences to build loyalty and lifetime value
11. Provides training and information, advice and counsel for all fund development activities of the organization

I suspect that what you really want to do—the boss and the board—is to fire the fundraiser that didn't make goal. Really? How about figuring out why the person didn't make goal?

Make sure you pay attention to the variables that affect whether the fundraiser can make the goal. And probe a bit. For example:

- Dead donor, and no replacement at that level yet: How robust is your organization's relationship-building program? What is the process for identifying the predisposed, qualifying them as prospects (or not), nurturing the relationship, etc.? Are your board members helping? Is your chief development officer enabling people effectively, planning well, etc.?
- Bad economy, or even a recession: Did your organization budget more charitable income during this time? Did your chief development officer recommend not doing so? What are your loyalty rates? Are you retaining lots of your donors, even though they aren't giving more?
- Corporate donor goes out of business, or relocates, or changes its giving focus: Did your chief development officer stay in touch with the corporation—and then warn you that the corporation

was changing its focus? Do you have a sufficiently diverse donor base that you are not overly reliant on any single source or solicitation strategy?

- Do you pay attention to your fundraiser when she says that the current database doesn't provide sufficient information to make good decisions? Do you listen when your fundraiser recommends a lower charitable contributions goal during budgeting, explaining why?
- As the boss and board, do you support your fundraising team when they tell you what the body of knowledge says, what the research means? Do you make sure that the entire organizational system supports charitable giving?

The key is: What can you hold the fundraiser accountable for—and what *can't* you hold the fundraising accountable for?

Just look back at [my theatre stories in Part 1 of this three-part column](#). Read [CompassPoint's UnderDeveloped report](#) and [my commentary on it](#), located in the Free Download Library on my website.

Now you tell me...what are you going to measure?

Because money isn't the only measure. Money is not even the best measure.

Beyond Financial Oversight: Expanding the Board's Role in the Pursuit of Sustainability

By Jeanne Bell

Throughout the ten years prior to the recession, it seemed that whenever anyone talked about boards and finances in the same sentence they were making a point about accountability. They were warning us that our Form 990s were now on GuideStar, so we'd better make sure that our boards were reading them. They were telling us to have an audit committee and a "Conflict of Interest" policy. They were telling us that we should study Sarbanes-Oxley and apply whatever we could to our own boards. They were making constant reference to a handful of nonprofit fraud cases, suggesting that this was what awaited us if our boards did not get very serious about oversight and accountability.

Now, as community-based organizations continue to weather the severe, and in many cases permanent, shifts in their operating environments caused by the recession, those accountability concerns seem downright quaint. The truth is that one of the roles that most decently functioning boards play quite well is providing financial oversight.

Compared to other board functions, financial oversight is relatively clear: there is a dedicated officer role, the treasurer; nearly all boards have a finance committee; and there are tangible products such as an annual budget to approve, financial statements to distribute, and an auditor to select.

The problem is none of those tangible products in and of themselves has anything to do with nonprofit sustainability. And it is sustainability that is keeping executive directors up at night, not financial oversight. In a new book I coauthored, *Nonprofit Sustainability: Making Strategic Decisions for Financial Viability*, my colleagues and I define sustainability as being both programmatic and financial:¹

Sustainability encompasses both financial sustainability (the ability to generate resources to meet the needs of the present without compromising the future) and programmatic sustainability (the ability to develop, mature, and cycle out programs to be responsive to constituencies over time).

In other words, board finance committees can look at annual budgets, financial statements, and audits forever, but if some group of board members is not considering those financial results in light of the organization's programming mix and its results, then their efforts are very unlikely to contribute to sustainability.

Our boards, not unlike many of our staffs, are artificially siloed into groups that consider financial results, groups that consider programmatic results, and groups that consider fundraising results. Yet, for those of us without an endowment or many wealthy annual donors, program results in large part drive financial results. It is how many clients we case-manage that yields a particular contract reimbursement. It is how many units of housing we build that yields a particular

developer's fee. It is how popular our new play turns out to be that yields a particular box office revenue. And just as critically, it is how many people respond to our direct mail campaign and to our special event invitation that determines how much subsidy we can raise for programs that don't cover their own costs. Put another way, if the board finance committee doesn't like the financial results it is seeing as it provides oversight, what is it going to do about it? It has to look to the programs and the fundraising activities of the organization to yield different financial results; that's the only way to make the financial statements say anything better.

So while financial oversight is absolutely critical, it is hardly sufficient. Boards of directors charged as stewards of an organization have to be fundamentally knowledgeable about and actively engaged in the business models of the organizations they govern. And nonprofit business models are typically the antithesis of siloed; they are instead a very interdependent mix of programs and fundraising activities that work together to achieve a set of impacts and financial results. How engaged are most boards in that interdependence? And if they are *not* engaged, how can they meaningfully assist with the dogged pursuit of sustainability in which so many of their executives find themselves?

The complex challenges facing community-based nonprofits require that we shift our mental model from boards being primarily about financial oversight and accountability, to boards being concerned in an ongoing way with the financial sustainability of their organizations.

Is Your Board Sustainability-Focused?

If you are considering making the pivot from an oversight orientation to a sustainability orientation, consider using these discussion questions to start off the conversation at your next board meeting:

1. How financially literate are we as a group? If we have knowledge gaps, how will we work together to close them, and by when?
2. Is our finance committee engaging in the key business-model questions facing our organization, or is it focused primarily on monitoring budget variance and preparing for the audit?
3. What major sustainability decisions are before us as an organization, and how will we structure our board and committee-meeting agendas over the next three to four months to ensure we make those decisions effectively?
4. Overall, how healthy is our organization financially? Is it healthier today than it was three years ago? Why or why not? When our board terms end, where do we want to leave the organization financially?
5. How strong is our partnership with staff leadership around issues of sustainability? Are we sharing information and ideas across staff and board in a way that truly leverages our individual and collective strengths and networks as board members in the sustainability pursuit?

When pivoting a board of directors from a strictly oversight orientation to a sustainability orientation, there are a number of things to consider. For instance, a board with a sustainability orientation requires board members who are financially literate. By this I mean that everyone has, or is actively developing, an understanding of the financial statements they receive. They have the fluency, for instance, to ask how a core program is performing both financially and programmatically. If only two or three people on the board can read the financial data, the board is unlikely to have holistic conversations that take both mission impact and financial return into account. With a sustainability orientation, financial statements become a useful tool in the ongoing discussion of where the organization should go next rather than merely reports that the treasurer assures everyone she has reviewed on their behalf.

Practically, this means that board chairs and executives need to team up in creating a board culture that expects and supports financial literacy from all members. During the recruitment and orientation of new board members, thorough and transparent discussion of the organization's business model and its current financial challenges and opportunities should be central. A board with a strong sustainability orientation will most likely pass on the potential recruit who uses stale language such as, "I am not a numbers person. I leave that stuff to the treasurer." The response should be, "Our board is focused holistically on the sustainability of this organization, so everyone engages with our financial results. We will train you and support your development as a financial leader, but you have to be committed to our stance on this point to be successful on this board." In addition to this kind of strategic recruitment and orientation, board chairs and executives should prioritize financial training opportunities and consider mentoring among board members to support members who are in active development of their financial literacy. Once a year, all board members should receive a one-hour refresher on how to read and interpret the organization's particular set of monthly financial statements.

To signal and reinforce this sustainability stance, chairs and executives should consider renaming their finance committees and adding nontraditional members—folks who are financially literate but who have program or fundraising as their primary orientations, for instance. A board committee called "Finance and Sustainability" that is composed of both finance experts and programmatic folks actively engaging with the business model's concerns will support the pivot to a "beyond oversight" board. When a diverse group of members is reviewing and discussing the numbers, not only can it go beyond merely reporting to the full board how close to its budget the organization is or is not, it can also frame for the board the questions of "why?" and "what might we do about it?" With this approach, the treasurer role evolves from that of a CPA, who is among the only people able and willing to review financials, to a full leadership role that supports the full board's meaningful focus on the complex questions and difficult decision making of the sustainability pursuit.

Another key shift required for a sustainability orientation is the normalizing of profit. Profit, like program impact, is fundamental to sustainability. A board of directors that is uncomfortable budgeting for surplus and unwilling to face the brutal facts about the prospects for profitability of core activities is not operating with a sustainability orientation. It is important not to conflate profitability with earned income, however. Many community-based nonprofits achieve profitability—that is, consistent annual surpluses—through a mix of earned and donated income. A special event can be just as profitable as a fee-based service to the community. The key is for boards to be looking for profit wherever it can be generated in the model, and to be ensuring that, as a set, the organization's activities yield more than they consume.

Through the recession, many leaders have had to face the reality that they can no longer subsidize core activities that do not cover their own costs. The fact that an activity is core to an organization's mission and very needed by its constituency does not necessarily mean that the organization can afford to keep it in its business model. So many executives I talk to now lament not having faced those realities sooner. I attribute this reticence to act on unsustainable deficits in part to boards of directors not deeply engaging in why and how their organizations were incurring deficits. That is,

they didn't deeply understand which activities in their business models were losing money, and how much; instead, they talked in macro terms about the organization's overall "not hitting budget." Part of pursuing sustainability is determining the desired profitability of every core activity—programmatic and fundraising. While most community-based organizations will elect to subsidize a handful of money-losers—allow the profits from an annual event to offset the losses in the government-funded job training program, for instance—the board should be very clear on these decisions and ensure that those subsidy decisions do not result in deficits for the organization overall.

The nature of financial plans and reports shifts too with a sustainability orientation. Ironically, the classic tools of annual budget, monthly financial statements, and an audit can actually keep a board focused on oversight rather than business model sustainability. When boards focus too much on annual budget variance, for example, I find that they are often not sufficiently engaging in projection. Rather than focusing all of their analytical energy on how close the organization is to numbers it predicted six or eight months ago, members of the Finance and Sustainability Committee want to be anticipating the next several quarters' results, too. We spend too much time providing oversight on things that already happened, and not enough time considering the financial road ahead. For-profits engage in rolling projection, and I believe that nonprofits should do this as well.

Rolling projection moves the board of directors away from the silly obsession with "hitting the year-end budget" and toward the capacity to make earlier and better decisions given the economic forces happening in real time. Fiscal years are artificial time frames. All major decisions will have economic impact far beyond the current fiscal year. Put another way, it is just as important to have a good July as it is to have a good June. When boards focus only on predicting the coming twelve months (annual budget), monitoring variance from that increasingly outdated prediction (monthly financial statements with budget variance), and reviewing the past year's statements (audit), they risk not actually engaging in the pressing and emerging business issues facing their organizations right now. Again, financial oversight is critical but insufficient for sustainability.

A board that is focused on sustainability will be working a handful of key business-model issues all the time. In this economic climate, very few community-based organizations do not have to rethink some aspect of their business models. The Finance and Sustainability Committee members will partner with staff leadership to articulate those issues and find meaningful ways for the full board to understand them and, where possible, contribute to their resolution. For instance, the committee may come to the realization that the organization needs to close or transfer its drop-in program for teen dads because, while valued by the community, it has lost money for three years in a row, and its government contract is unlikely to survive the next round of county budget cuts. A committee member can partner with the executive director to craft a presentation to the full board, laying out the data and framing the key questions for board decision making: Are we prepared to end this program, and if so, by what date? Are there elements of this program that we can transfer to a collaborator or competitor? Are there financial implications of closing this program that we need to understand (for example, laying off staff, alienating a key funder, or losing the contract's modest contribution to defraying overhead costs)? One board member can be engaged in reaching out to another community organization about the potential for program transfer; another board member can join the executive director in breaking the news to the government funder; and so on. In this fashion, the full board is actively engaged in decision making and execution on a business-model issue essential to the organization's sustainability.

For too long, too much of our boards' finance focus has been on reviewing the past. For many nonprofits, this meant decision making was too slow in the face of the mounting recession. Modest reserves were depleted, and organizations were left exceedingly vulnerable during a time of great community need. The lesson of the recession is that boards must engage not only in financial oversight but also in the pursuit of sustainability. To do this well, boards have to be composed of

financially literate members who engage in real-time analysis and focus on answering the complex business-model questions their organizations face today.

NOTES

1. Jeanne Bell, Jan Masaoka, and Steve Zimmerman, *Nonprofit Sustainability: Making Strategic Decisions for Financial Viability*. San Francisco: Jossey-Bass, 2010.

Models and Components of a Great Nonprofit Dashboard

By Hilda H. Polanco and Sarah Walker

Editors' note: This article was adapted from a webinar presented by the Nonprofit Quarterly on February 17, 2016. The webinar was led by Hilda Polanco, founder and CEO of FMA, the go-to capacity builder to which foundation and nonprofit leaders turn to address nonprofit financial-management issues. Polanco was a founding member of the selection committee of the New York Nonprofit Excellence Awards, established by the New York Times and the Nonprofit Coordinating Committee. When not speaking publicly or leading FMA's team, she provides direct capacity-building, training, and coaching services to foundations and nonprofits across the country. This article is from the Nonprofit Quarterly's spring 2016 edition.

Nonprofits are complex enterprises. They are built around mission and desired outcomes but must be supported by the right revenue and expense models—which together comprise an integrated enterprise model. As an organization's goals, strategy, and operating context shift over time, a dashboard allows a nonprofit to monitor both the effectiveness of this enterprise or business model, as evidenced by the organization's financial health, and the impact of the programs and services being provided.

Ideally, dashboards are presented quite simply and graphically, so that decision makers can see at a glance whether and where the organization is on the path it has laid out for itself. Dashboards focus the conversation at the board and staff levels, clarifying the goals and strategy of the organization for both groups. Additionally, dashboards can be used with funders and other stakeholders to transparently show progress toward the desired goals.

This article focuses more on the financial component of a dashboard than the programmatic one, and it uses examples from organizations that deliver a relatively more “countable” service than those doing less tangible advocacy work. But the examples demonstrate many of the critical principles involved in dashboard creation, and are a good start to understanding the components of a great dashboard. The aim of this article is to set readers on the path toward creating an effective dashboard or improving one already in use.

The Process of Developing a Dashboard

The hard work in developing a dashboard starts with setting a strategy, establishing goals, and defining the associated metrics. This process should involve the board and key staff from across the organization in rigorous, team-based discussions. These discussions should be ongoing, because no dashboard is final. While some baseline metrics, especially financial measures, might be a semipermanent fixture on a dashboard, parts of any dashboard may be experimental. They should illustrate a hypothesis in a form such as, “If we do more of *this*, then we expect *this* outcome as a result.” Due to environmental, technological, or market changes, however, formulas that work one way today may function differently tomorrow, and it is important to continue to question, evaluate, and reset not only goals and strategy but also the metrics being used to measure success.

A dashboard must do the following:

- Align definitions of success across the organization;
- Encourage dialogue about progress toward goals;
- Facilitate timely identification of successes and challenges;
- Ground decisions in concrete data and evidence; and
- Illuminate relationships between different activities.

Successful dashboards also do the following:

- Effectively communicate strategic-level results;
- Present data in a user-friendly visual format;
- Create a snapshot of current status as well as trends overtime;
- Clearly show performance against defined targets;
- Highlight out-of-the-ordinary results; and
- Include a manageable set of key performance indicators (KPIs).

Selecting the Dashboard Elements

Deciding what data you will track and understanding how that data will influence decision-making are two of the most critical points in the process. There is no one-size-fits-all approach to creating a dashboard, though much can be learned by looking at other dashboards in (and also outside) your field of practice. One key question to clarify

as you begin the dashboard design process is whether the dashboard will track metrics at an enterprise level or just for a particular program or function. Another question is that of audience: Will this be a reporting tool for your board, staff members, or funders—or some combination of the above?

As you begin to define what to measure, one of the issues to consider is interrelationships between data points. If you thought, for instance, that controlling staff turnover would improve the way patients experience service at your health clinic while at the same time lowering human resources costs, how would you test this idea? Your goals may be to control costs and provide better service and patient outcomes in some kind of measurable way, but first it is important to test your hypotheses about how one thing affects another. Dashboards can help you to connect the dots through carefully selected metrics. Then again, you may decide on a more independent goal, like developing a particular level of reserves or achieving a proportion of revenue that is unrestricted. These goals are related to financial stability and liquidity, and while there certainly may be some correlation between these goals and overall organizational performance, goals of this nature are less of an “if this, then that” proposition.

What Should We Measure?

The metrics measured on a dashboard are commonly referred to as *key performance indicators*, or KPIs, and should be chosen in a deliberate, thoughtful, and team-based process. KPIs should be identified by means of an understanding of your organization’s business-model drivers—on both the expense and the revenue side. Consider each revenue stream and the factors that influence the reliability and predictability of that stream; examine key expense categories and what contributes to the rising or falling of those costs; finally, define the program delivery mechanisms that are influencing results—enrollment levels, quality of patient care, member retention—whatever it is that drives engagement in your program delivery.

With this information in hand, select the KPIs that focus the organization on data that will support decision-making. Consider whether you need a dashboard that reflects trends over time or performance against goals—or both.

Successful KPIs do the following:

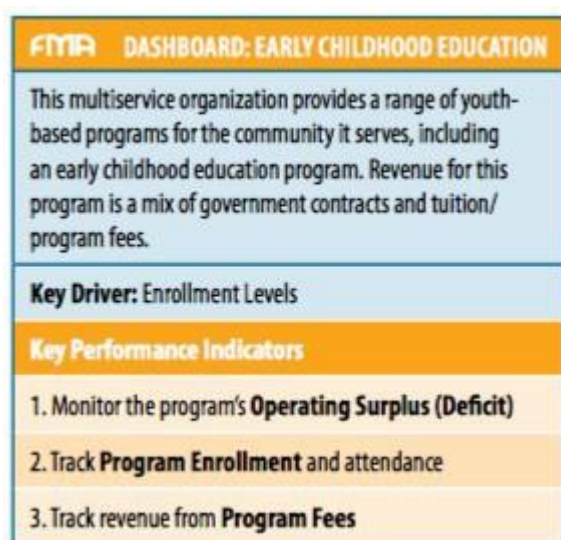
- Represent business model drivers;
- Reflect progress toward intended outcomes;
- Guide priorities and decisions (“what gets measured gets done”);
- Are limited to a number that can realistically be monitored (the *key* in KPIs is important); and
- Are periodically reassessed (a set of KPIs isn’t forever).

Business Model Drivers

Different types of nonprofits have different enterprise models with different drivers for success. In many cases, we can learn a great deal from examining the dynamics of organizations that have drivers similar to our own—sector notwithstanding—but there are times when we will need also to look at the specifics. As we proceed, we will look at specific business models to clarify how to identify the drivers in each model and design KPIs relative to those drivers on a dashboard.

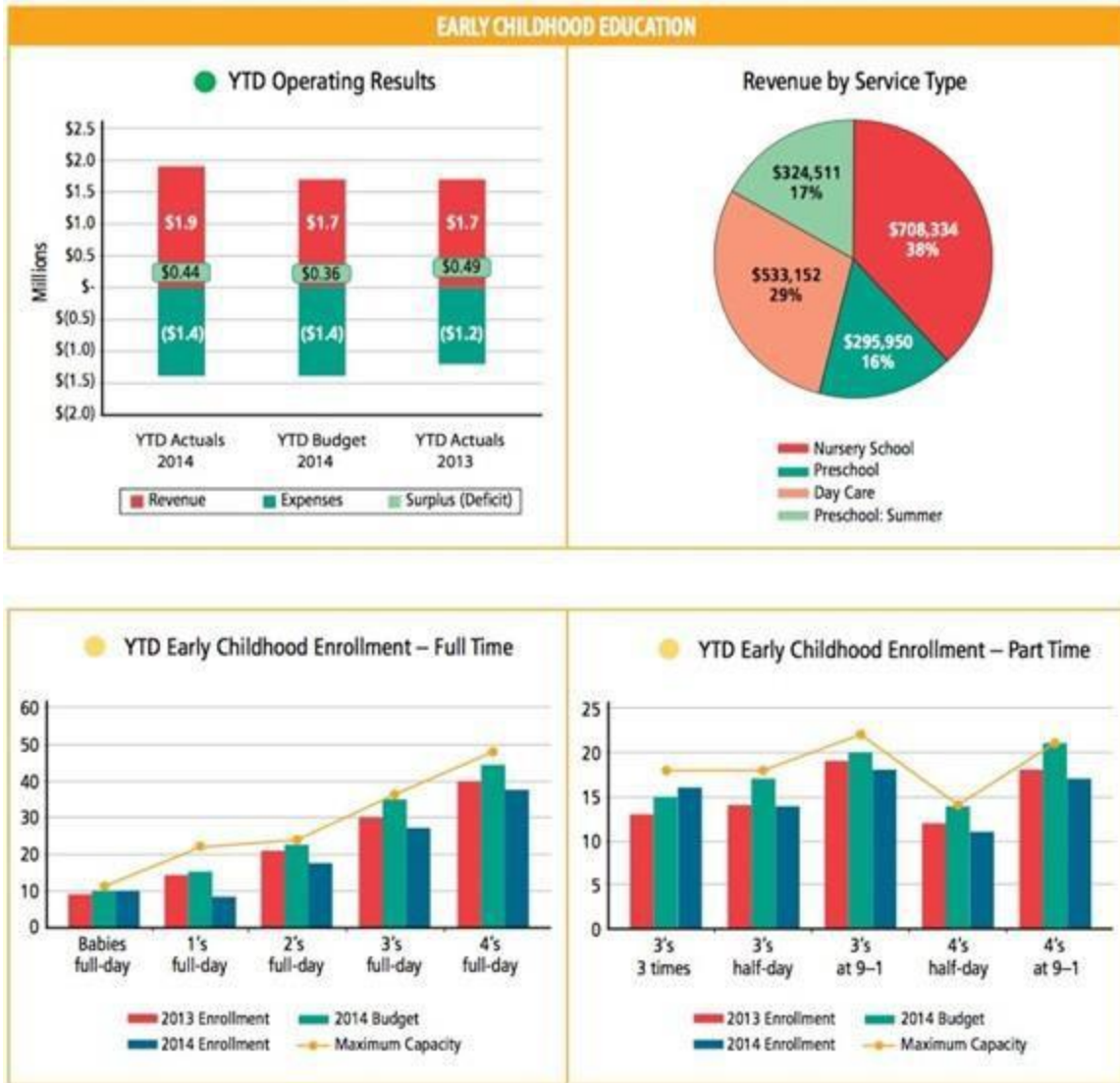
Early Childhood Education: Key Driver – Enrollment

We will begin with an organization that provides early childhood education. Whenever you have a fee-for-service delivery model, as in this example, it is important to monitor enrollment levels and the profitability of the programs given those enrollment levels. So, in this case we're going to look at three particular things—we're going to track enrollment; we're going to track the resulting revenue from our enrolled program participants; and we're going to monitor the overall surplus/deficit of the program. The questions we want to focus on as we analyze the results may include: Are we charging the right amount in fees? Are we collecting on those fees? Are we underenrolled? Are our costs low enough for us to generate a profit?



Below is a picture of what a dashboard for an early childhood education program might look like. A key thing to note is that, with respect to the year-to-date operating results, we want to look at actuals against budget as well as against past performance. When we compare this year's actuals to these two other data points, we can see right away how the organization is doing against its current plan, and how it is doing compared to last year's performance.

Another key area to highlight is demonstrated in the picture's bottom two charts. These charts address this idea of enrollment, separating out the data between full-time participants and part-time participants. The charts not only give us the enrollment for the past year (what the organization is hoping to accomplish) and where it is as of this point in time, but also make reference to maximum capacity. When it comes to enrollment as a key revenue driver, the question of whether the organization is achieving maximum capacity is an important one. At FMA, we often speak to program directors who feel challenged by the fact that they are asked or expected to budget at full capacity, when in fact, historically, they've never reached full enrollment. So, how realistic is that budget? In contrast, the early education dashboard allows us to see where the organization is really pushing: on the half day, for the four-year-olds, it's budgeting at maximum capacity. It hasn't reached that level in the past, and it's not quite on track to reach it now, but that's where the push is. We can see in other classes that there's an acknowledgment that the organization hasn't reached maximum capacity in the past and is not expecting to reach it this year, either.



These measures give a sense of how this organization is planning relative to the past, and they emphasize the primary importance of program enrollment as a business driver; the organization will never realize its revenue goals if it doesn't have the individual children in the individual seats at the right pricing. The conversation around this dashboard, therefore, brings program managers into a very deep engagement around the financial outcome of enrollment, and it helps program staff understand the consequences of not reaching the stated goal.

Community Health Clinic: Key Driver – Liquidity

Community health organizations are another type of direct service provider, and, in the healthcare world, operational efficiency is a very important driver. In this vein, the key things that community health clinics may want to look at include the optimization of the revenue cycle as well as the cost per patient served. In this type of organization, there is also often a heavy facilities component. So, if you run a clinic—or any type of organization that requires funds to maintain buildings and capital equipment—you want to keep your eye on whether you have the reserves you need, the cash flow, and the ability to carry the level of debt that may be required in order to maintain the necessary facilities and equipment.

The business model of a clinic ultimately depends on the organization's ability to deliver high-quality patient care; but, on the financial side, the key is getting the cash to come in the door as quickly as possible to fund the operations. As soon as the mechanism for billing starts to slow down, liquidity comes to a halt. It's a different model than that of a foundation-funded organization, where there is a \$100,000 grant that comes in at the beginning of the year and the organization is set. In this world, revenue optimization has to be continuously refined, with attention paid to the engine that drives the cash while at the same time ensuring a focus on patient quality of care. You can see how significantly the priorities of this model differ from the enrollment statistics from the previous dashboard example.

FMA	DASHBOARD: COMMUNITY HEALTH CLINIC
Designated as a Federally Qualified Health Center (FQHC), this community health clinic offers medical, dental, and behavioral health services to the rural population it serves. Revenue sources are a mix of patient fees, Medicare/Medicaid, and payments from private insurers.	
Key Driver: Liquidity	
Key Performance Indicators	
1. Monitor the Operating Surplus (Deficit) by business line	
2. Track Access to Capital , including reserves, cash flow, and debt levels	
3. Analyze the efficiency of the Revenue Cycle	
4. Track the Cost per Patient Visit	

Anyone who has attended an FMA workshop or webinar has heard us talk about months of *liquid unrestricted net assets*—or *LUNA*, for short. LUNA is essentially equivalent to the idea of operating reserves. In this particular case, the goal is to have three months of LUNA—and they're working on it, but they're not quite there yet. So, you can tell right away that there's a goal, and that it hasn't yet been reached—and you can ask what it will take to get there. There are charts that track cash flow and debt—all in service of making sure the organization has the resources it needs to remain sustainable, flexible, and able to meet any challenges it may have in maintaining adequate facilities in which to provide services.

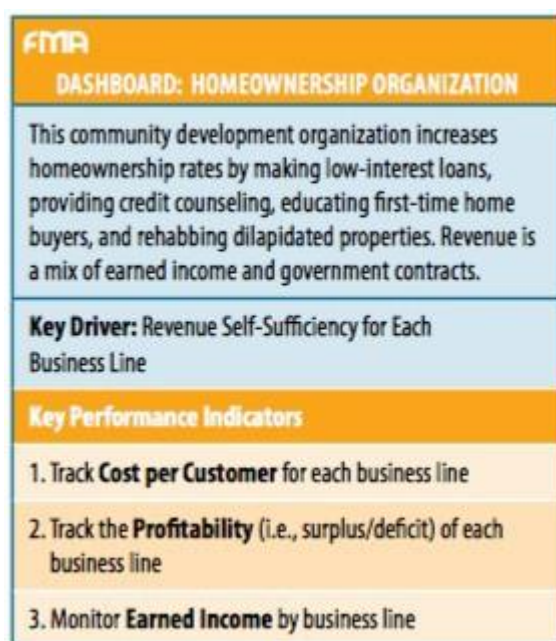
If you focus on the metrics related to the optimization of the revenue cycle, you can see the days in accounts receivable—often referred to as *accounts receivable aging*—which tracks how long it's taking claims or bills out to insurers to come back paid. There are also two other metrics that are indicative of what's behind the scenes driving the aging of the receivables: average time to process claims and initial claim denial rate. For this organization, the processing time of the claims is very important, because the sooner it can process the claim, the sooner the claim can be turned into cash—and cash, of course, means liquidity. On the community health clinic chart, below, you can see there is a goal of processing claims within two business days, which the organization is currently failing to meet. And you can tell right away that something happened in the last quarter that caused the processing time to increase. Interestingly, the goal is not just about processing a claim and getting it out the door as quickly as possible; it's also about getting it out the door and getting it *right*. So, the organization looks at the time to process together with denial rate, and then the resulting impact on receivables.



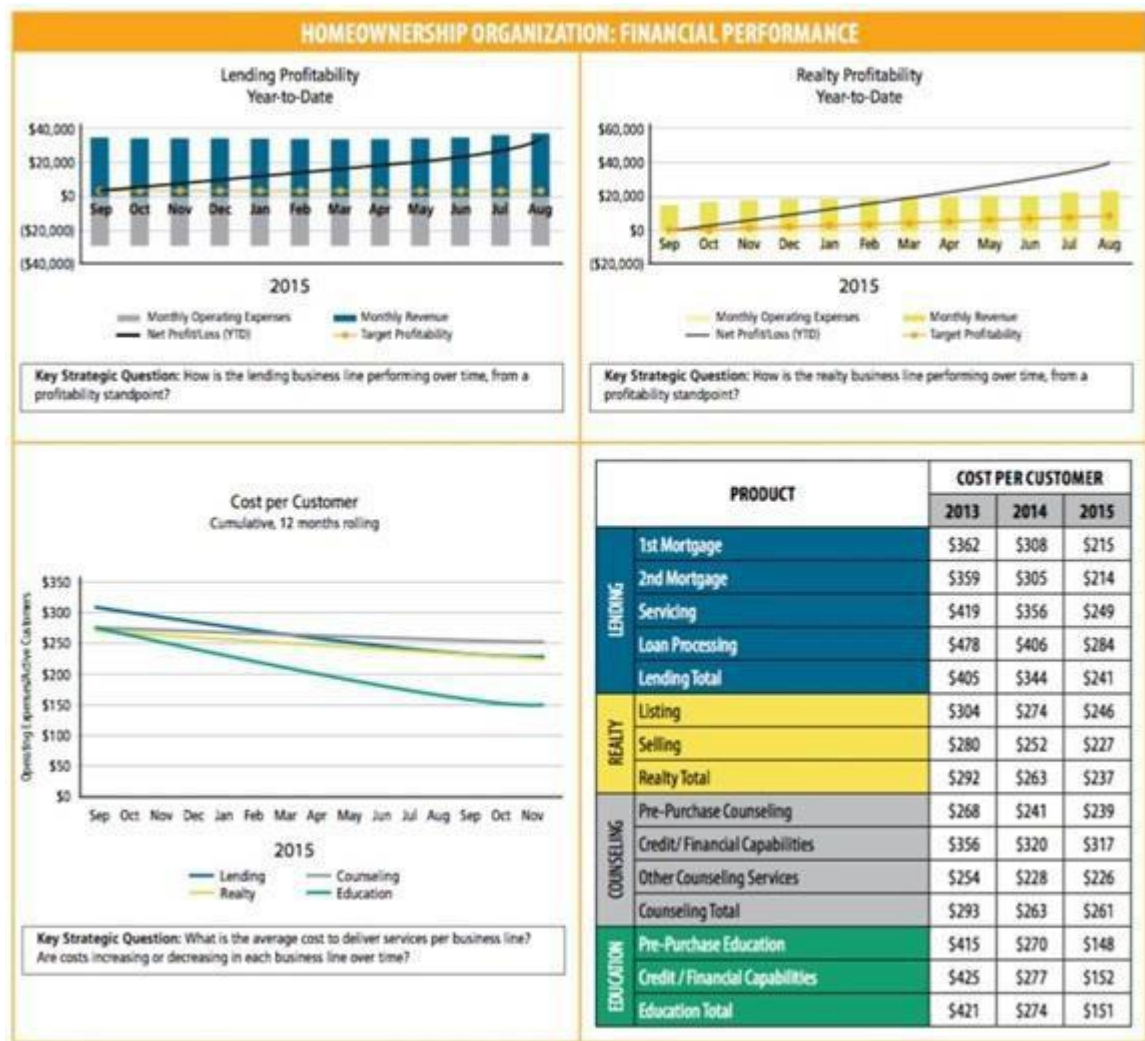
If we presented this dashboard to the clinic's program and operational leadership, we could talk about what they need to do differently. Obviously, they're doing something right when it comes to reducing claim denials—so we would talk about what they changed and why it worked. Then again, claim processing time is inching up. There should be a discussion about what is driving that increase and what can be done to bring it closer to the goal. This is the beauty of KPIs and dashboard reporting: now leadership is talking in teams about data and discussing how they can use that data to inform the next steps in a cycle of continuous improvement.

Homeownership Organization: Key Driver – Reduced Funding Dependence

The next example focuses on a community development organization that runs a program to increase homeownership within its community. With this dashboard, the organization is addressing the question of self-sufficiency for each of the business lines related to its homeownership program. The reason for this particular focus is that the organization's leadership is aware that government funding—which currently supports these activities—will be slowly phasing out over the next few years. Therefore, if these programs are to survive, they must attain a certain level of revenue self-sufficiency. To understand how close they are to this goal, leadership needs the dashboard to help them answer the following questions: How much earned revenue is each business line generating? How much is it costing to serve each customer? Is the earned revenue sufficient to cover the costs? This organization needs a dashboard that focuses on a single priority: understanding profitability by business line.



With any organization where the business model relies on the ability to earn enough dollars to cover the cost associated with running programs, you will see a focus on costs and how to keep those costs as low as possible while still delivering a quality service. In this example, the dashboard is tracking the cost associated with serving each customer, over time, broken down by business line (see the homeownership nonprofit chart, below; note that we are only breaking out two of the business lines in the top two charts—the bottom two include all four lines). On the bottom-right side of the dashboard, there is a new element that hasn't been included in any of the previous dashboard examples: a table showing three-year trends in cost, by the subcategories that make up each business line. Sometimes the devil is in the details, and graphing out this much data on one chart would have been either overwhelming or illegible. So, if a board member or a program manager wants to drill down and see more detail, a chart like this might provide a deeper perspective on why a business line is doing better or worse, what the trend has been over time, and how its individual components are changing.



To further enhance the table in the bottom-right corner, the organization could consider adding the goals by category for 2016, so that leadership can start to shape what they will do to achieve those goals.

Looking at the lending profitability table (top left of chart), you can see how this organization is tracking profitability for their lending business line. Monthly expenses for the program show up in gray in negative numbers, while the earned revenue that comes in each month is charted in positive territory in blue. The target profitability for this business line is just above break-even, as represented by the orange line, and marks the point at which this program is self-sustaining. Actual profit (or loss) is charted cumulatively, compounding on a monthly basis over time. The data shows this business line to be on track, but as program leaders or board members look at this data, they should consider the following questions: What defines success for this business line? What might the organization do to adjust profitability and effectiveness?

Performing Arts Organization: Key Driver – Retention

Performing arts organizations have some similarities to our first example; in fact, they are like child-care centers in a number of ways. There is a finite number of seats or slots and the organization wants to make sure it is maximizing the revenue potential of this seating, which turns into dollars for the organization.

FMA	DASHBOARD: PERFORMING ARTS ORGANIZATION
With a mission of making dance more accessible to the public, this organization has both a dance company and a school. Its goal is to increase revenue so it can afford to hold more free performances for the community.	
Drivers: Optimizing Pricing and Maximizing Attendance	
Key Performance Indicators	
1. Analyze the Median Revenue for Performance	
2. Monitor Enrollment in the summer workshop series	
3. Track the Retention Rate at the academy	
4. Monitor the Percentage of Performance Weeks , when they are able to offer a free public show	

In the performing arts example we present here (below), in addition to the performance side (which is a dance company) there is also a school, and the school is intertwined with the dance company. Just as the performance side needs the same customers to come back as audience members for each new production, so does the school want to retain their students at the academy. So, on both sides there are some questions about retention.

You'll see that this dashboard is constructed differently from the other ones we've presented here. For one thing, this dashboard is less about history and trends and more about tracking progress toward goals. But, more to the point, in order to highlight the impact of a more simply constructed dashboard tool, we've included this as an example of a format that does not rely on charts, graphs, and pictorial representations of data, but rather is just a simple table that can be created and updated in the most basic of word-processing platforms or spreadsheets. This is the easiest type of dashboard to create and maintain over time, though it does take a bit of work to ensure the information is as meaningful as what we see in dashboards with a more complex presentation.

PERFORMING ARTS ORGANIZATION				
Recording Period: June			Fiscal Year End: December	
Category	Key Performance Indicator (KPI)	Last Period	Current Period Actual	Target
Balance Sheet Strength	Months of Liquid Unrestricted Net Assets (LUNA)	2.2	2.5	> 3 mos Meets Target 1–3 mos Within Range < 1 mo Off Target
Operating Results	Fiscal YTD Operating Margin (Surplus/Deficit as % of Revenue)	2%	8%	> 5% Meets Target 2–5% Within Range < 2% Off Target
Program Financial Performance	Median Revenue per Performance	\$10K	\$13K	> \$15K Meets Target \$12–\$15K Within Range < \$12K Off Target
Program Financial Performance	Percentage of Performance Weeks with Free Public Show	12%	10%	> 20% Variance Meets Target 15% to 20% Within Range < 15% Off Target
Program Financial Performance	Summer Workshop Enrollment	325	310	>= 315 Meets Target < 315 Off Target
Program Financial Performance	Academy Retention Rate	88%	96%	> 95% Meets Target 85% to 95% Within Range < 85% Off Target
Legend: ■ Meets or Exceeds Target ■ Within Range of Target ■ Significantly Off Target				

As in the dashboard for the health clinic, here we are also looking at months of LUNA— but in this case for a different reason. Performing arts organizations are often faced with the reality of production costs that are front-loaded: performers, directors, set designers, and the like must be paid during the preproduction phase, before any ticket- sales revenue is realized. For this reason, it is critical that a dance company have sufficient liquid resources to float these costs well before the box office receipts come in. Here, you can see that the organization has set a goal of three months of LUNA in reserve, but it is falling somewhat short of that target as of this reporting period.

Note that in this example, we are using spotlight color coding. How you define your targets (i.e., what will show up as red versus yellow versus green) is where performance management really becomes a philosophy for the organization. The question is: How will you determine that you're way off course or that you're within range but not there yet? Defining those categories is easier in some cases than in others. In the case of summer workshop enrollment, the organization needs to have at least 315 students enrolled or it is off target (as is the case here). But retention rates for the academy are more nuanced: over 95 percent retention is the ultimate goal, but between 85 percent and 95 percent is still within range (i.e., yellow). So, defining what's close enough to avoid going on a red alert is where you engage your board and your management staff. It's wonderful when you ask the staff for input on what success looks like to them, to what they want to be held accountable, and what celebration will look like. This is a discussion that builds accountability through engagement. Whether a result is defined as red, yellow, or green is a very simple idea, but coming up with those targets is where a common understanding of success can really be forged.

If the organization's board were looking at this report, it would be immediately clear that the focus should be on enrollment in summer workshops and the number of free shows offered to the public. All of the other metrics are either on target or within the range of the desired goal. This is the benefit of setting and displaying clear, color-coded targets on a dashboard tool: they filter out the noise and focus your decision makers on the areas where action is needed.

Creating and Implementing Dashboards



How to Jump-Start the Dashboard Process

When creating a dashboard, start with the big picture: Identify the audience and understand how to engage it. Have the conversation to define business model drivers and key levers inherent in your program service-delivery model. Choose KPIs in a thoughtful, team-based process that is inclusive of the right staff and board members. Recognize that defining and reevaluating KPIs is an ongoing process: as your organization's strategies, goals, and operating environment change, your KPIs will need to shift as well. If it doesn't yet exist—which is the case for many organizations—begin to cultivate a culture of data-driven decision making among the staff and

board. Ask whether your team is comfortable with interpreting and using data, and if not, what help they might need to get there.

When it comes time to put the dashboard-reporting framework into action, a new round of (potentially overwhelming) questions will emerge: Where is the data for the dashboard going to come from? Who will be accountable for collecting the data? How will the dashboard be updated, and how often? What platform should we use to create the dashboard? If building, populating, and maintaining a dashboard is a team effort, how do I ensure the team has the necessary skills to navigate different databases and spreadsheets and visualize data in the most effective way?

But in the end, in some cases, a simple one-page, table-based dashboard—such as the performing arts example—is all you need to jump-start the process of dashboard reporting. Rather than getting bogged down in questions of presentation, analytics, and software platforms, focus on the most important part of the process: defining those key drivers and metrics, and putting something in front of your board and staff that—with simple stoplight coding—will immediately shift attention to the most pressing issue at hand.



10 Ways to Kill Your Nonprofit

By Mark Hager and Elizabeth Searing

Editors' note: This article is featured in NPQ's new, winter 2014 edition, "Births and Deaths in the Nonprofit Sector."

For 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.

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.¹

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 (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.² 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.³ 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.⁴ 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.⁵ 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 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."⁶

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.⁷ 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.⁸ 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.⁹ 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.¹⁰ 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, 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.¹¹

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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Deaths, Near Deaths, and Reincarnations

By THE EDITORS

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 nonprofit 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. This article is featured in NPQ's new, winter 2014 edition, "Births and Deaths in the Nonprofit Sector."*

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.

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*See www.indiana.edu/~socpsy/ESA/.

The Death of Hull House

By Daniel Flynn and Yunhe (Evelyn) Tian

Much 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.”¹ 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.”² 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 swimming pool, public gymnasium, public playground, and citizen preparation classes.³ 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."⁴ 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.⁵ 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."⁶ 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).⁷ 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.⁸ 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.

Table 1: Financial Vulnerability Measurements and Changes In Program Services Expenses ^a					
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.					

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). 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.

Table 2: Saving and Debt Ratio Analysis ¹⁰				
	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			

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.¹¹ 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 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.¹² 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 2010.¹³ 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."¹⁴ 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.¹⁵ 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 2012.¹⁶ 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.”¹⁷ 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.¹⁸ 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.¹⁹ 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."²⁰ 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.²¹ 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.²² 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."²³ 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.²⁴ Hull House's original approach to helping people meet their basic needs or gain life skills only faintly resembled current notions of 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."²⁵ 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.²⁶ 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.²⁷ 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.

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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?

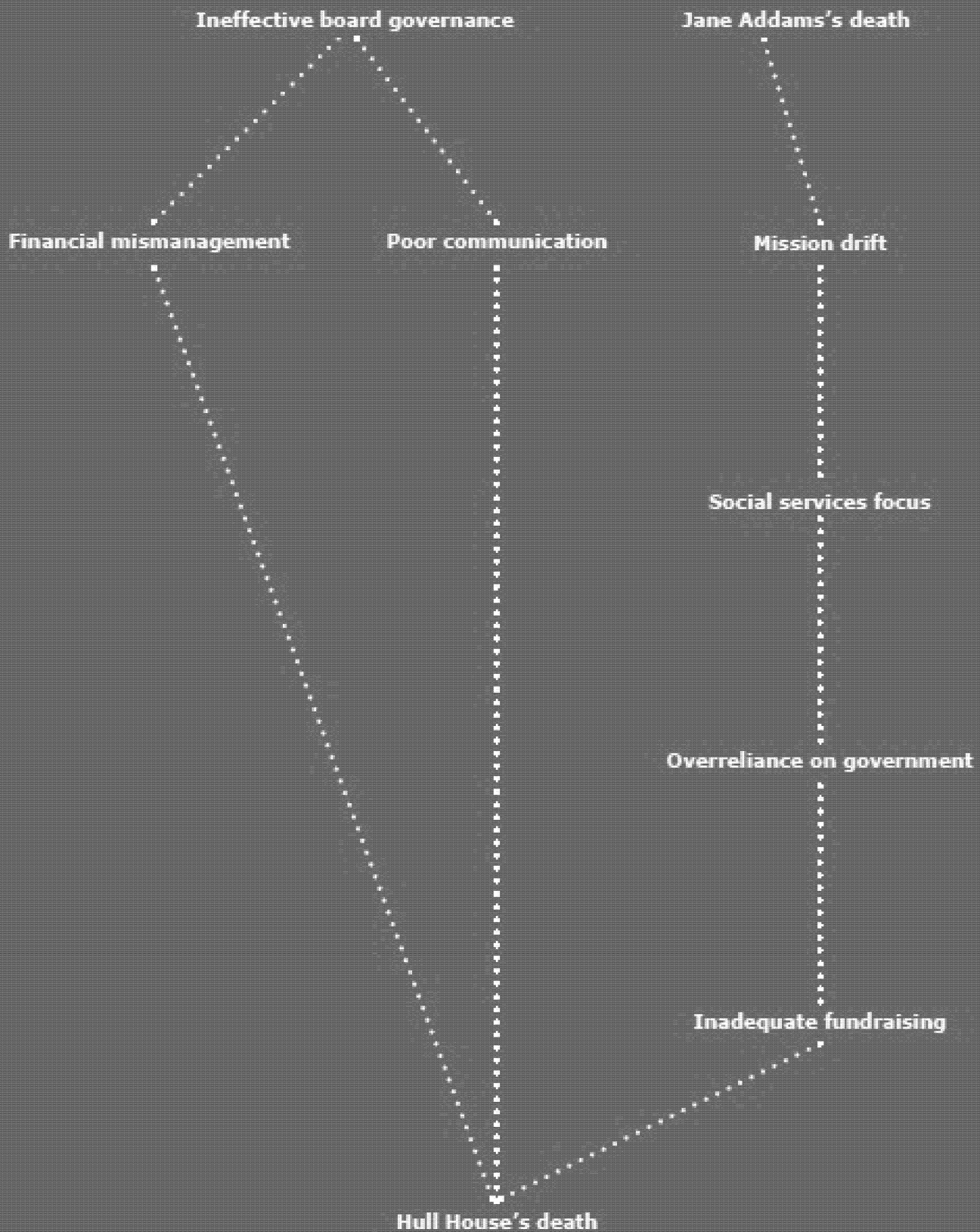
If there were a single devastating cause of death for Hull House, what might that be? A compelling argument could be made that Hull House suffered from "reverse founder's syndrome": no subsequent leaders at Hull House possessed the prophetic vision of Addams, and the organization's operations and integrity 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, 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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EVENT STRUCTURE Hull House



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

By Barbara Berreski

How 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.¹ 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.²

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.³

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.⁴

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.⁵

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. *NationalCrossTalk* 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."⁶

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 *Cross-Talk* editorial in December 2010, Callan declared that at its inception, "we expected the National Center to operate for about ten years."⁷ 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—withstanding 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.⁸ 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 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.⁹ 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.¹⁰

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 2012.¹¹ 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.”

Notes

1. Unless otherwise specified, all direct and indirect quotes from Patrick Callan are from an interview with the author.
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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

This 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.¹

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)²—which housed elderly Holocaust survivors, among many other educational and supportive services.³ 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.⁴ 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.⁵ 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.”⁶ 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.⁷

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.⁸ With debt mounting, the Housing Corporation placed OSHA on its supervision list (an intervention method) out of concern for the organization’s financial troubles.⁹

Failure to resolve OSHA’s deficit would result in the Housing Corporation’s seizing its assets.¹⁰ 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.¹¹

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.

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;¹² prior to rezoning, one property was valued at £2 million and afterward was sold for £30 million.¹³ 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."¹⁴ In total, property profits raised £57 million.¹⁵ 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.¹⁶ OSHA also distributed funds to AJR, Jewish Community Housing Association, and Jewish Blind and Disabled, which received more than £500,000 each,¹⁷ 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.¹⁸ 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.¹⁹ 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.²⁰ Six Point describes itself as a spend-out, grantmaking 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.²¹ 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."²²

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.²³

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 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.

Notes

1. Ronald Stent, "Jewish Refugee Organisations," in *Second Chance: Two Centuries of German-Speaking Jews in the United Kingdom*, Werner E. Mosse et al, eds. (Tübingen, Germany: J. C. B. Mohr, 1991), 597.
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4. Otto Schiff Housing Association, "A Brief History of Our Time," courtesy of Ashley Mitchell.
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14. "How to Make £57 million in Sales."
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22. In an interview with Susan Cohen.
23. Otto Schiff Housing Association, “A Brief History of Our Time.”

EVENT STRUCTURE Otto Schiff Housing Association

Comparable service providers available

Maintenance costs cause deficit

Population begins to thin

Financial crisis

Ashley Mitchell is named board chair

Mitchell rezones, sells properties

Funds are given to other nonprofits

Creation of Six Point Foundation,
a spend-out organization

Original organization is dissolved

Impending death of Six Point Foundation

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

By Sarah Burke and Chloe Singer

This 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.¹ 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."²

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.³ 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.⁴ 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."

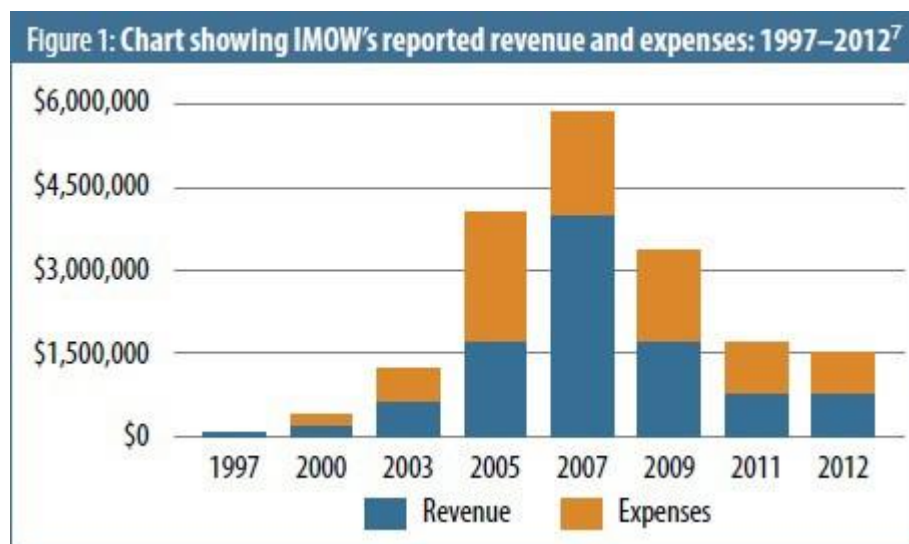
Partnership with the Global Fund for Women

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?"⁵ 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."⁶ 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 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 \$770,000.⁸ 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.⁹

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,¹⁰ 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.”¹¹ 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 \$120,000.¹² 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.¹³ 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.¹⁴ GFW invests nearly \$9 million each year in women-led organizations.¹⁵ 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.¹⁶ 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”¹⁷—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.¹⁸

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:¹⁹ “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.”²⁰ 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.

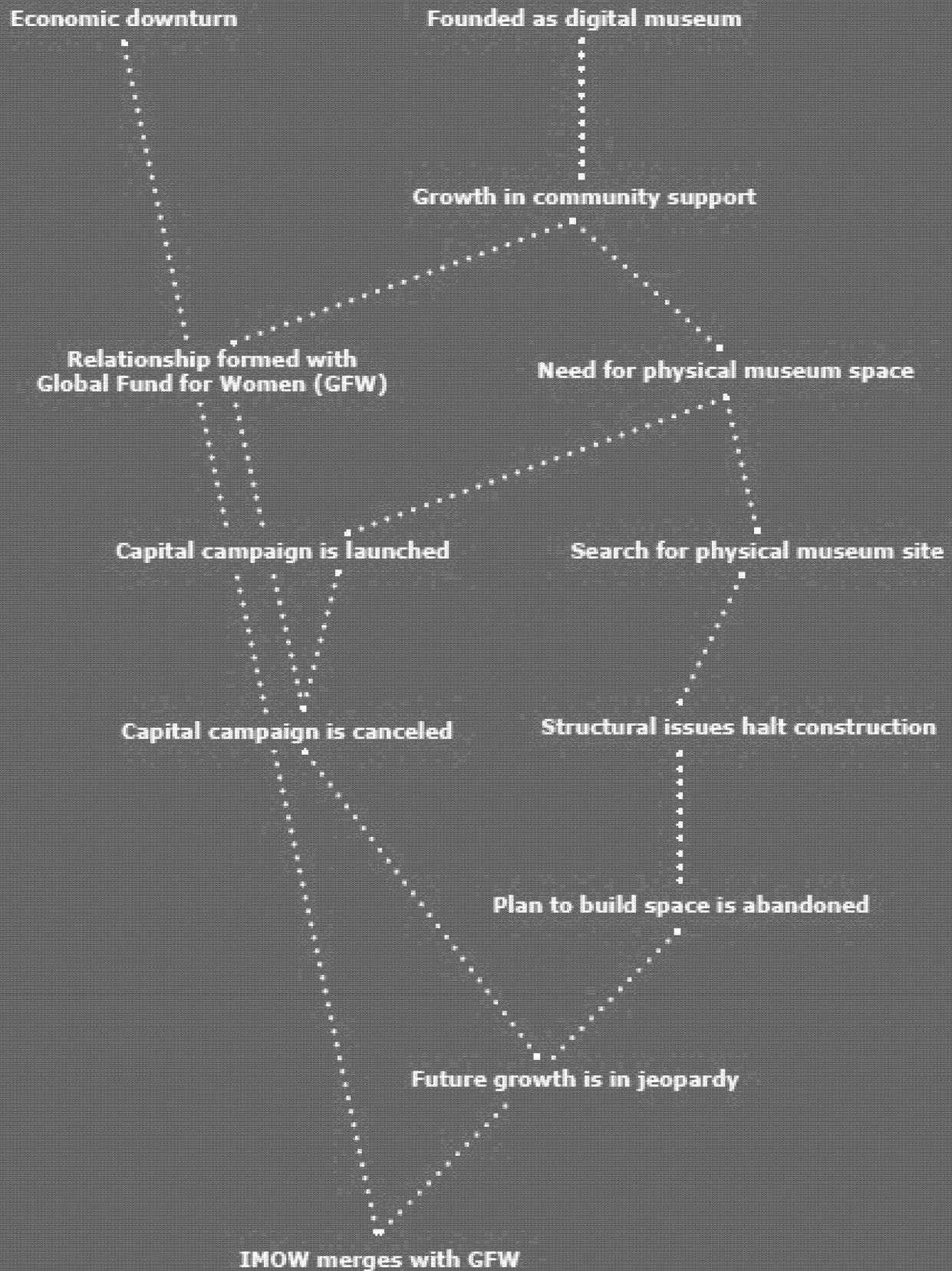
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EVENT STRUCTURE

International Museum of Women (IMOW)



Death or Reincarnation? The Story of ACORN

By Emily Conners and Marissa Meyers

The story of ACORN illustrates how nonprofit 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.¹ 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.² 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 2000.³ 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.⁴ When the embezzlement and decade-long coverup 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.⁵ 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.⁶ 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.”⁷

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.⁸

ACORN's mismanagement was costly, yet the organization did not take the opportunity to learn from its critical errors. Harshbarger's 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.⁹ 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.¹⁰

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.¹¹

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 2005.¹² 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.¹³ (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.¹⁴ In contrast, ACTION United's website puts its establishment date as 2010.¹⁵ 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."¹⁶

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.¹⁷ Bigos has acknowledged that there is still an overwhelming population of families in Pennsylvania who need personal finance education.¹⁸

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.¹⁹

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.²⁰

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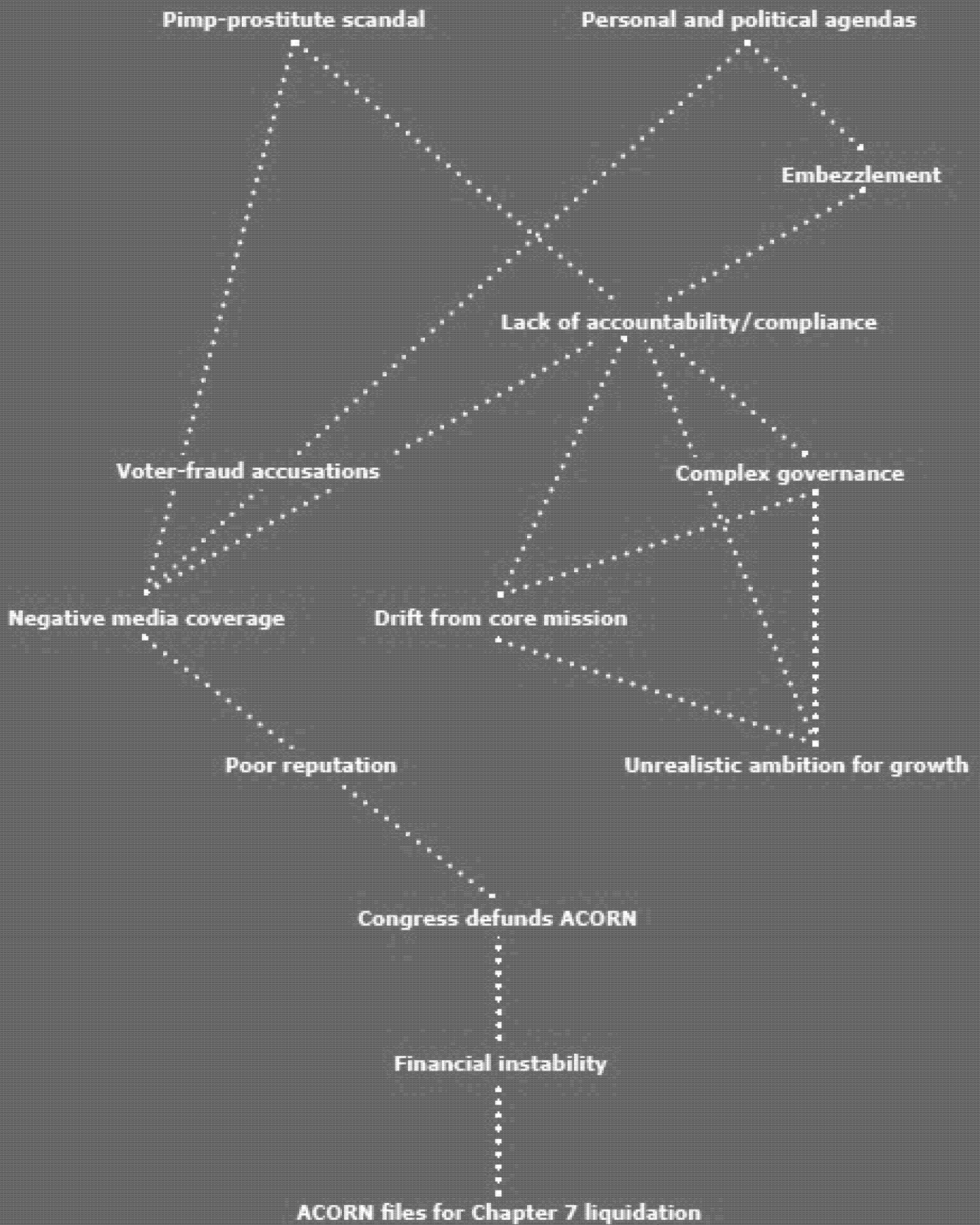
While AHCOPA and Action United are attempting to provide assistance that ACORN used to provide to the Philadelphia community, it is clear that there are many similarities between the new organizations and ACORN—from values to staff members to protocol. Is it really possible to transform how an organization 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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EVENT STRUCTURE ACORN



Government and Nonprofits: Turning Points, Challenges, and Opportunities

By Steven Rathgeb Smith

Barack Obama's election as president and his subsequent initiatives regarding the nonprofit sector have called attention to the relationship between government and the nonprofit sector.¹ Perhaps most notable, the Edward M. Kennedy Serve America Act of 2009 could fund up to 250,000 new AmeriCorps and VISTA volunteers, enabling thousands of nonprofit organizations across the country to employ stipended volunteers supported by the federal government. President Obama has also created a new Office of Social Innovation and Civic Participation to assist nonprofit capacity building and to support nonprofits with proven results. If enacted, health-care reform will affect countless large and small nonprofit health and social-welfare organizations. And the \$750 billion in stimulus money made available through the American Recovery and Reinvestment Act of 2009 is being distributed to nonprofits throughout the country, including many organizations that have suffered severe cutbacks in government funding as a result of the intensifying fiscal crisis in state and local government. Congress also continues to debate new regulations pertaining to nonprofit organizations, such as new legislation tying the tax exemption of nonprofit hospitals to specific levels of care for the poor.

In short, the sheer scale of the diverse policy initiatives under way has the potential to profoundly reshape nonprofit organizations. Yet previous administrations have also begun with a flurry of activity involving nonprofit organizations, only to have little long-term impact. Consequently, it is useful to revisit history for insight on the potential impact of the Obama administration on nonprofit organizations and philanthropy.

This article offers a historical analysis of key periods in the relationship between government and nonprofit organizations, with particular attention to the lessons these periods offer to contemporary policy makers and nonprofits. The central argument is that the evolution of nonprofits' role in American society has reflected the shifting structure of the American state, which in turn has affected the advocacy and service-delivery roles of nonprofit organizations.

Change and Continuity in the Historical Development of Nonprofit Organizations

During colonial times, churches and early nonprofit organizations, including universities and hospitals, were critical components of the social structure. But with its decentralization, limited resource base, and minimal role for the federal government in domestic policy, the initial structure of the American state created powerful incentives for a distinctly local nonprofit sector with relatively little ongoing funding support from government. During this period, many nonprofits were associations and clubs rather than organizations providing services to the public.² Those nonprofits that did provide social and health services depended on a mix of private donations, fees, and modest public subsidies.

The late-nineteenth and early-twentieth century witnessed a steady expansion in nonprofit organizations engaged in providing services to the citizenry. Many of the more prominent and notable of these organizations remain with us today: Catholic Charities, the YMCA, Lutheran Social Services, the Salvation Army, Goodwill Industries International, and the Boys and Girls Clubs of America. These service agencies were established in a wave of new nationally federated organizations with chapters in local communities throughout the country.³ Most local nonprofits were churches, social clubs, and associations such as the Masons, the Elks, and the Grange. Local charities that offered social, educational, and health services to the public comprised a relatively small part of the nonprofit sector and continued to rely primarily on private donations, fees, and modest public subsidies. Indeed, many nonprofit agencies such as settlement houses and emergency assistance programs depended entirely on private charitable donations.

In terms of funding of nonprofit service agencies, the creation of the Community Chest—the forerunner of the United Way—was a watershed event in the early twentieth century. Started in Cleveland, the Community Chest quickly spread throughout the country. By the end of the 1920s, most communities of significant size had a Community Chest chapter. The Community Chest was essentially a membership organization of leading nonprofit service agencies in local communities; these agencies pooled their resources and solicited donations via payroll deduction through a combined campaign. For many agencies such as the YMCA and the American Red Cross, the Community Chest quickly became a major source of revenue.

During the Great Depression, these agencies were overwhelmed by demand, and some needed emergency relief funds. Many local nonprofits failed entirely or merged with other organizations. Of course the Depression dramatically altered the role of the federal government in many areas of American life, including income-maintenance programs such as pensions and welfare, as well as regulation. Surprisingly the involvement of government—particularly the federal government—in the regulation and funding of nonprofit service agencies remained limited or ephemeral for two reasons. First, many of the Depression-era programs that channeled funds through nonprofits were temporary and ended soon after the start of World War II. Second, the federal government assumed at least part of the responsibility for poor relief, freeing some agencies from cash and in-kind support for poor people.⁴ Consequently, during the late 1940s and 1950s, nonprofit agencies remained largely dependent on private donations (especially Community Chest funds) and fees. Some agencies, such as foster-care agencies, also received public subsidies for specific clients and services. The restricted character of nonprofit revenue sources meant that most agencies were relatively small and lacked extensive professionalization and infrastructure.⁵

In essence the many major New Deal initiatives of the 1930s failed to fundamentally alter intergovernmental relations regarding nonprofit service agencies. Consistent with the nineteenth-century period, public policy for social and health services was largely a matter for state and local government. To be sure, during the 1950s the federal government provided grant-in-aid support in policy areas such as child welfare and hospitals through the Hill-Burton Act of 1946, which authorized construction grants and loans. But these federal programs were quite targeted or limited, so most nonprofit service agencies such as the YMCA or local family service agencies were largely unaffected.

Government and the Nonprofit Sector: A New Relationship

Many scholars, policy makers, and practitioners have noted the dramatic shift in the relationship between government and the nonprofit sector during the 1960s with the War on Poverty and the new federal role in social policy. Three key developments stand out as major breaks with previous policy: First, the federal government provided ongoing funding support for local nonprofit service agencies through grants to state and local governments that then contracted with nonprofit organizations or through new direct federal grants to local nonprofit agencies. Second, this new funding allowed and encouraged the creation of thousands of new nonprofit agencies outside the

existing networks of established Community Chest agencies. Third, funding programs were accompanied by a new regulatory authority that provided the basis for a more assertive evaluation role for government vis-à-vis the nonprofit sector.

The influx of federal funding rapidly changed the government-nonprofit relationship. Many long-standing agencies that had previously depended on Community Chest funds became substantially dependent on government funds. Entirely new nonprofits such as Community Action agencies and community mental-health centers were created. And state and local governments invested in new capacity to manage the expansion of contracts to nonprofits.

This restructured government-nonprofit relationship was controversial. Many scholars and nonprofit executives feared that government funding would undermine the distinctive character and autonomy of nonprofit agencies. Many policy makers worried about the potential loss of accountability for public funds as an increasing number of services were contracted out to private, largely nonprofit agencies. Many political conservatives were concerned that the reach of the federal government had become too extensive. This concern was an important factor in the election of President Ronald Reagan, whose platform promised a smaller federal government. Early in his administration, Reagan won passage of new legislation that devolved responsibility for many federal social programs to the states and substantially cut federal funding.

During the early 1980s, these reductions in federal funding led many nonprofits to cut their programs, sometimes quite severely. Over time, though, many nonprofits compensated for lost funding by tapping new federal government programs, refinancing their programs by taking advantage of growing federal programs such as Medicaid, or increasing their private donations and earned income. The expanded use of vouchers, tax credits, and bond issues to fuel the overall growth of nonprofit social and health agencies also reflected the growing diversity of government funding sources. Created by legislation in 1986, the Low Income Housing Tax Credit, for example, has been a major factor in the growth of nonprofit low-income housing organizations throughout the country. So too the enactment of welfare reform in 1996 led to greater demand for nonprofit services, as cash assistance to the poor—now called Temporary Assistance for Needy Families—became more conditional and difficult to obtain. Additional services were also required to assist individuals still receiving cash assistance to find employment.

The financial crisis has presented difficult financial challenges for many nonprofit agencies. But many of the policy and management issues facing nonprofit organizations that provide public services reflect the evolution of the government-nonprofit relationship over the past 40 years. The dramatic growth in government contracts with nonprofits has vastly increased the number of agencies, with many new specialized agencies producing greater fragmentation in services and daunting new challenges in terms of governmental management of an increasingly complicated service system.

As a result, government managers have more incentive than ever to expect higher levels of accountability from nonprofits, especially from agencies providing services with public funds. Moreover, many newer nonprofit agencies are modest in size and face serious constraints in their capacity to respond to increased performance expectations while undertaking advocacy and public education on behalf of their agencies. For these reasons, many newer—and older—agencies have sought to participate in the policy process through coalitions and other intermediary associations in support of agency goals, especially given the recurrent budget crises in state and local government and the difficulty of raising private donations.

AmeriCorps, Community Service, and Public Policy

While the growth of government contracting that began in the 1960s continues to affect the nonprofit sector, another important development was Congress's creation in 1993 of AmeriCorps

and the Corporation for National and Community Service. The precedents for AmeriCorps date to the 1960s, with the establishment of the Peace Corps and VISTA, and then, in the 1970s, with the creation of ACTION. But these programs were relatively modest in scope. President George H. W. Bush inaugurated his now well-known Points of Light campaign to champion volunteer and community initiatives around the country, though direct federal support for this effort was small.

But in 1993, the launching of AmeriCorps and the Corporation for National and Community Service placed the federal government squarely in support of community service, service learning, and a more extensive role for nonprofits in helping their communities. The establishment of the Corporation partly freed voluntarism and community service from its dependence on private funding and smaller-scale state and local efforts, as was the case with new federal grants and contracts with nonprofit agencies for social and health services.

Throughout the Clinton presidency, the Corporation was politically embattled and in danger of elimination. Nonetheless, the Corporation survived and has undertaken an assertive role in the government-nonprofit relationship that differs substantially from its contracting and regulatory functions. The Corporation and AmeriCorps have funded thousands of AmeriCorps volunteers who have in turn worked in various community organizations, providing staff support to local agencies in an extensive range of service fields, from social welfare to the environment to early-childhood education. In the process, AmeriCorps volunteers have generated support for local organizations that has proved useful in fundraising and in generating broader-based community support.

Another long-term effect of the Corporation and AmeriCorps is their direct and indirect support of new nonprofit organizations based on a social-entrepreneurship and community-service model, such as City Year, Teach for America, Citizen Schools, the Harlem Children's Zone, and YouthBuild. Many of these organizations have partnerships with public agencies, foundations, and corporations and actively seek growth and deeper program impact, aided in part by foundation grants and AmeriCorps funding for volunteers. These organizations are also major backers of the Edward M. Kennedy Serve America Act of 2009.

In general, the newer nonprofit organizations that have close working relationships with AmeriCorps and the Corporation differ significantly from nonprofits that contract for public services. Over the past 25 years—and until the financial crisis—the big growth areas in contracting were in services such as home health care, foster care, community care for the developmentally disabled and the mentally ill, low-income housing, community development, and child care. The agencies providing these services are primarily professional, staff-driven organizations with relatively few volunteers. Some of these services are highly complex, involving many types of professionals and the legal system. Consequently, it is much more difficult to engage these organizations in community-service activities. The newer community-service agencies also tend to be staff-driven organizations but rely heavily on volunteers for their direct-service activities.

Nonprofit and Public Policy: The Challenge Going Forward

The growth of government contracting, social entrepreneurship, and community service, combined with the financial crisis and a new presidential administration that supports local community organizations, puts nonprofits and government at an important historical moment. Government support for community service and volunteering is at an all-time high. Interest among young people in AmeriCorps, the Peace Corps, and service-oriented nonprofits such as Teach for America is growing. The billions of dollars in stimulus funds may help nonprofits at the local level launch new initiatives or continue existing programs. Nonetheless nonprofit service agencies face management and political challenges as they cope with an increasingly turbulent and competitive environment.

Consequently, government and the nonprofit sector must assertively respond to this environment by rethinking existing policies. The Obama administration and state and local governments should take advantage of this broad popular support for voluntarism and recognize that the nonprofit infrastructure requires an ongoing investment and commitment from government and private funders. The Corporation in particular has provided direct support for thousands of volunteers but generally does not support the infrastructure and capacity of nonprofit organizations themselves. The risk is that without a vibrant nonprofit infrastructure, AmeriCorps volunteers might fail to maximize their value to their communities. This infrastructure support also requires nonprofits to structure their governance to promote outreach and broad-based community and political support.

Moreover, there are tens of thousands of community-based nonprofits providing important services that are not likely candidates for extensive funding through the Corporation for National and Community Service programs. These agencies provide an array of services—from home care to welfare-to-work—and need sustained public and private support, even if their services are specialized and local. For their part, these agencies must invest in good governance, transparency, accountability, and engagement with the policy process on behalf of their agencies and their clients. Foundations and private donors can aid this effort by supporting coalitions and associations of nonprofits, along with local nonprofit organizations whose primary missions are advocacy, public education, and citizen engagement.

Policy makers should also work to establish structured, ongoing forums for the resolution of issues of mutual concern between government and the nonprofit sector, such as funding levels, rates, regulations, and new program initiatives. This effort could include a federal office or commission on nonprofit organizations as well as less formal settings to discuss important policy and governance issues.

Significantly, the combined effects of extensive contracting and widespread interest and participation in community service means that now more than ever, citizens—either as service recipients or deliverers—will engage with a nonprofit organization supported by government rather than with government itself. Consequently, government has an obligation to ensure that nonprofit services are provided equitably and adequately so that citizens can achieve full social and political citizenship. This effort requires an engagement of nonprofit representatives in the policy process at all levels of government and an “investment” approach by government and nonprofit organizations that emphasizes accountability and results as well as sound governance and community engagement.

Endnotes

1. The author would like to thank Putnam Barber, Rick Cohen, Julita Eleveld, Kathy Kretman, Michael Lipsky, Ruth McCambridge, and Cory Sbarbaro for feedback on earlier versions of this paper.
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Battlefield History and Status: First Amendment Tensions between Nonprofits and Governments

By Jon Pratt

This article is from the summer 2016 edition of the Nonprofit Quarterly magazine, “The New Nonprofit Regulatory Environment: What You Should Know.”

Congress shall make no law respecting an establishment of religion, or prohibiting the free exercise thereof; or abridging the freedom of speech, or of the press; or the right of the people peaceably to assemble, and to petition the Government for a redress of grievances.

—First Amendment to the Constitution of the United States of America, 1789

The deterioration of the Internal Revenue Service’s authority over Exempt Organizations and the wider implications of *Citizens United V. Federal Election Commission* (2010) need to be understood as part of the ongoing tension between government regulation of the financial and political activities of U.S. organizations and their First Amendment rights of speech and association. Struggles over the regulatory frame surrounding nonprofits represent the next chapter in the evolution of the structural definitions of the nonprofit sector. Nonprofits rely upon government authority to provide their structural integrity—a reliable degree of certainty regarding corporate formation, ownership of property, tax treatment, and contract enforcement; but they struggle to maintain their autonomy and range of movement in the face of various government accountability reforms and political pressures. With the end of World War II and the adoption of the Universal Declaration of Human Rights, a worldwide consensus developed that functioning democracies with market economies benefited from a robust set of **nonprofit** or nongovernmental organizations to provide opportunities for citizens to do things together that they could not do apart. The growth of organizations in over two hundred countries confirms that there is an almost universal interest in forming associations that are larger than friend and family relationships but smaller than the state.¹ However, there is no consensus on how freely these organizations may operate.

Governments generally have an affinity for organizations that promote civic peace— whether

through supporting disaster relief, the performing arts, healthcare, or education—but have less patience with those that seek to influence the workings of government, let alone aspire to rule the state. The ability of associations of plain citizens to serve as an intelligent check on the abuses of democratic power assumes a substantial degree of freedom of expression and association. This ability is often unappreciated and periodically suppressed by those in power. Neither Alexis de Tocqueville in *Democracy in America* nor the authors of the *Federalist Papers* felt that these expanding voluntary associations were a completely positive development for democracy, or that these organizations should have unrestricted freedom. Tocqueville understood that forbidding some types of associations and allowing others would confuse people and inhibit the use of associations but could be justified by the need for order. As he expressed it in *Democracy*:

I certainly do not think that a nation is always in a position to allow its citizens an absolute right of political association, and I even doubt whether there has ever been at any time a nation in which it was wise not to put any limits on the freedom of association.

Tocqueville admitted that there would be a cost to restricting the right of association:

To save a man's life, I can understand cutting off his arm. But I don't want anyone to tell me that he will be as dexterous without it.

In *Federalist 10*, James Madison sought strategies to counteract the inevitable development of factions and special interests dividing the attention and the loyalties of the public. Nevertheless, the First Amendment rights of citizens to peaceably assemble, speak, and petition the government were seen as necessary checks to protect the young democracy against authoritarian regimes.

Periodically in U.S. history, particular types of associations have been defined as threats to the Republic requiring active suppression—including abolitionists, victims of the Palmer raids of 1919–21, labor unions under antiracketeering investigations, Civil Rights and anti-Vietnam war protest groups in the '50s and '60s, and Muslim charities after September 11. Special concerns about the concentrations of power held by large private foundations controlled by wealthy families sparked members of Congress to enact the Tax Reform Act of 1969, which imposes an excise tax and special restrictions on the use of private foundation funds. The ongoing tension between the economic regulation of nonprofits and the First Amendment rights of people in organizations is now largely overshadowed by the nonprofit sector's high rate of economic activity and the location of the federal regulatory structure of nonprofits in the IRS. Because two defining features of charitable organizations are their freedom from the corporate income tax and their ability to receive tax-deductible contributions, charitable organizations are commonly seen as creatures of tax policy, as opposed to expressions of speech and association. Academic explanations for the existence of nonprofits mirror this focus on the economic aspects of organizations, citing “market failure” as a primary cause: When the marketplace fails to provide certain types of goods or services, the last resort is to form an association or nonprofit organization to provide said goods or services.

That the IRS was designated as the primary federal regulatory agency for nonprofits adds to this economic focus, despite the fact that nonprofit corporations generate just a sliver of tax revenue for the federal government—their regulation is a mismatch of the IRS's expertise and attention. (By contrast, in Great Britain, the Charity Commission, not the Department of Inland Revenue, provides oversight of charitable organizations. Most U.S. states locate this responsibility with their attorneys general.) The primary federal report required of nonprofit organizations, IRS Form 990 (Return of Organization Exempt from Income Tax) is termed an “information return,” not a tax return, and has evolved to be both a primary enforcement vehicle and an awkward public disclosure and education tool.

The tax exemption (from corporate income tax, state sales tax, and local property taxes) and

eligibility for tax deductible gifts convey a significant economic benefit to the recipient organizations, and are a major explanation for why charitable organizations in English-speaking countries comprise a larger segment of the economy than in other developed countries. The power to tax (or not to tax) is well understood to include the power to regulate, so the U.S. Internal Revenue Code has reserved the best financial incentives for organizations that accept the greatest restrictions (including restrictions and expenditure limits on some types of speech, such as lobbying and electioneering).

In addition to enforcing tax laws and collecting revenue, state and federal governments focus on financial oversight of nonprofits as part of their interest in protecting consumers (to prevent theft and fraud), and the state attorneys general have broad powers to preserve charitable trusts and assets. When specific problems or well-publicized abuses occur, new laws and regulations are proposed, yet legislators unfamiliar with nonprofit organizations can be prone to overreaching and overregulating (with loud calls that “there oughta be a law!”)—sometimes triggering constitutional challenges. According to the National Center for Charitable Statistics, the nonprofit sector has 1.5 million organizations with \$358 billion in charitable contributions and \$905 billion in total revenue. The growth in the number and size of

U.S. nonprofit organizations threatens to overwhelm the sector’s regulatory framework.² During this growth, federal and state policy-makers have sought a parallel increase in regulation.

The structural beginnings of the nonprofit sector are usually traced back to England’s Charitable, the full name of which is “An Acte to redress the Mis-employment of Landes, Goodes, and Stockes of Money heretofore given to Charitable Uses.” The British Parliament passed this law to codify what already existed in common law to prevent charitable assets from being taxed into nonexistence, and legislatures have been adding provisions ever since. In the United States, the adoption of the federal income tax and the desire for a charitable deduction propelled the formalizing of tax-exempt organizations—incorporated and chartered by state government, and made exempt first by the federal government.

The modern dimensions of the nonprofit sector have been shaped by five changes to the Internal Revenue Code governing exempt organizations:

- The Revenue Act of 1950 subjected otherwise tax-exempt organizations to the regular corporate tax rate for Unrelated Business Income Tax (UBIT). Concerns about unfair competition from nonprofit organizations owning for-profit enterprises, including New York University’s macaroni company, Mueller Pasta Co., prompted Congress to carve out economic activities by nonprofits that would no longer be exempt (and would be reported on IRS Form 990T).
- The Tax Reform Act of 1969 defined private foundations as a new subset of charitable organizations, with greater restrictions—out of concerns that large foundations lacked accountability: some were benefiting their donors and could sway elections and public debate. The 1969 law included an excise tax on private foundations’ investment earnings, set out “prohibited transactions” with insiders, severely limited grants to individuals, restricted grants for voter registration to grantee organizations active in five states, and prohibited expenditures or grants specifically for lobbying.
- The Tax Reform Act of 1976 clarified lobbying by charitable organizations, defining, specifically, allowable amounts for grassroots and direct lobbying, and creating a special option allowing organizations to spend up to 20 percent of the first \$500,000 in expenditures on lobbying activities. (This amount has not been adjusted for inflation since then; if it had, it would have reached \$2.1 million by 2016.)
- The Intermediate Sanctions legislation of 1996 prohibited excess benefits from being granted to individuals who control tax-exempt organizations. Previously, the IRS’s only penalty for violations

was total revocation of exempt status—and, despite publicized abuses, organizations were rarely punished. The 1996 legislation included potential fines against board members and nonprofit managers for excessive compensation violations.

- The American Jobs Creation Act of 2004 included legislation to limit the deduction for vehicles contributed to charity (in response to evidence that taxpayers were overstating the value of their contributions)—projected to save \$3.4billion.

Simultaneous with increased federal legislation, forty-six states and the District of Columbia have adopted systems requiring charities to register their fundraising activities and file reports on their financial activity, out of a desire to prevent fraudulent charities from victimizing innocent donors.³ As a result, the regulatory framework that specifically governs nonprofits is half state and half federal—with miscellaneous city and county regulations—in addition to the full range of employment, land use, environmental, postal, and credit regulations that govern every employer, property owner, mailer, and financial entity in the United States.

The tension between government regulation and organizational speech has played out through a series of Supreme Court cases establishing a moving boundary between permissible regulation and protected speech. Five notable cases help set the limits of government authority over organizations:

- At the height of the civil rights movement’s struggle for voting rights in the South, Alabama ordered the National Association for the Advancement of Colored People (NAACP) to disclose the names of all its members in the state. In *NAACP v. Alabama* (1958), the Supreme Court found that the state of Alabama violated the First and Fourteenth Amendment rights of NAACP members, because “freedom to engage in association for the advancement of beliefs and ideas is an inseparable aspect of the ‘liberty’ assured by the Due Process Clause of the Fourteenth Amendment, which embraces freedom of speech,” and that it was “immaterial whether the beliefs sought to be advanced by association pertain to political, economic, religious or cultural matters, and state action which may have the effect of curtailing the freedom to associate is subject to the closest scrutiny.”⁴
- In suburban Chicago, the Village of Schaumburg adopted a municipal ordinance requiring 75 percent of an organization’s revenues be expended for “charitable purposes” as a condition for a solicitation permit. This was a condition that Citizens for a Better Environment, an environmental group with a door-to-door canvass, could not meet. In *Village of Schaumburg v. Citizens for a Better Environment* (1980), the Supreme Court nullified the ordinance (and similar state laws around the country that restricted charitable organizations to specific efficiency percentages) and rejected the argument that soliciting contributions was purely commercial speech, citing previous cases on canvassing by religious and charitable organizations.⁵ While the municipality had an interest in protecting its citizens from fraud, its remedy was an overly broad prophylactic measure. Instead, the court’s opinion suggested that making information about organizations publicly available was a preferred route. The court’s dicta on the benefits of public education could be seen as spurring regulators and watchdog groups to invest resources in educating donors to ask about fundraising and administrative costs, and, ultimately, for charitable organizations to have their IRS 990 forms posted on the Internet at multiple sites, including www.guidestar.org and www.eri-nonprofit-salaries.com— and ideally also at individual organizations’ own websites.
- When government is a major source of nonprofit revenue, the points of control are conditions attached to government subsidies, grants, and contracts, such as the ban on abortion counseling by organizations receiving federal family planning funds. In *Rust v. Sullivan* (1991), the Supreme Court rejected a First Amendment challenge in a 5-4 decision, holding that the restrictions were simply to ensure that appropriated funds were not used for activities, including speech, that were outside the federal program’s scope.⁶ In the case of tax exemption itself, federal restrictions on charitable organizations’ speech were upheld by restricting

the amount of organizational resources a nonprofit could expend on lobbying (*Regan v. Taxation with Representation*, 1983).⁷ Veterans' organizations remain free from this restriction.

- In 1991, the attorney general of Illinois sued Telemarketing Associates, a professional fundraiser, alleging fraud and deceptive trade practices. Prospective donors had been told that a majority of donated funds would benefit Vietnam veterans, though only 15 percent of contributions went to the named charity, VietNow.⁸ The lower courts in Illinois supported Telemarketing Associates' request to dismiss the charges on the same grounds as the Schaumburg decision: that charitable solicitation is highly protected speech. The Supreme Court reversed this thinking in *Illinois ex rel. Madigan v. Telemarketing Associates* (2003), ruling that fraudulent charitable speech is not protected and that a narrowly tailored fraud action was an appropriate remedy since the burden of proof for all of the elements of fraud, including intent, would be ample protection for speech by charitable organizations.⁹ The ruling strengthened the hand of regulators while affirming that charitable speech must be carefully protected through using narrowly tailored remedies to address a compelling state interest.
- In the 2010 case of *Citizens United v. Federal Election Commission*, the U.S. Supreme Court again addressed the First Amendment rights of a nonprofit corporation, holding in a 5-4 decision that independent political expenditures were protected speech.¹⁰ The headline news of the Citizens United case ended up not being the broader freedom of expression for nonprofits but the surprising outcome that the majority opinion extended that conclusion to for-profit corporations and labor unions, reshaping the political landscape. Writing for the majority, Justice Kennedy declared, "If the First Amendment has any force, it prohibits Congress from fining or jailing citizens, or associations of citizens, for simply engaging in political speech."¹¹ Ironically, in the ensuing campaign expenditure free-for-all, speech from regular nonprofit organizations has been overshadowed by a proliferation of new entities—frequently 501(c)(4)s—and opportunistic pop-up political organizations.

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With the continued growth of nonprofit financial activity, media reports of abuses, additional pressures on lawmakers from contentious social issues, and the permanent war on terrorism, discussion regarding legitimate versus illegitimate controls on nonprofit activity is likely to continue to grow. The IRS's regulatory appetite was greatly diminished by revelations that IRS employees were screening new organization exemption applications against code words like "tea party," "Patriots," "9/12 Project," "progressive," "occupy," "Israel," "open source software," "medical marijuana," and "occupied territory advocacy."¹² Under pressure from Republican members of Congress, IRS Exempt Organization Director Lois Lerner invoked the Fifth Amendment and subsequently resigned; the Exempt Organization division has been a lesser presence since that time. Due to the ongoing tensions between nonprofit organizations and government agencies, it is in the best interest of nonprofits to do four things:

- Educate the public about their role as vehicles of free speech and association in our democracy;
- Resist government controls that are aimed at limiting these rights;
- Proactively ensure that reasonable government controls are in place to protect the public's contributions and organizations from fraud, theft, and insider transactions; and
- Support reasonable campaign finance reforms, so that the voices of plain citizens and plain organizations are not overwhelmed by a political-spending arms race.

Notes

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The Rising of the States in Nonprofit Oversight

By Lloyd Hitoshi Mayer

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In an extraordinary development, all fifty states, the District of Columbia, and the Federal Trade Commission filed a federal lawsuit in May 2015 against four charities and their operators, alleging that they had defrauded more than \$187 million from donors.¹ While the dollar amount was staggering, the most unusual aspect of the lawsuit was the incredible level of cooperation among state nonprofit regulators. This cooperation was evident not only in the bringing of the lawsuit but also in its successful settlement less than a year later, with the defendant charities and their principal officers surrendering substantial assets, agreeing to dissolution of the charities, and acquiescing to being banned from fundraising and management of charities and charitable assets in the future.²

This development highlights the growing sophistication and cooperation of state nonprofit regulators. And it is not an isolated incident. Building on seeds planted over the past several decades, state regulators are both individually and collectively increasing their oversight of nonprofits.

This trend is fortunate for those who care about oversight of nonprofits, because it comes at a time when the Internal Revenue Service’s efforts in this area are atrophying. Even before the recent controversy related to the handling of exemption applications filed by politically active nonprofits, the IRS faced a tight budget and a growing list of responsibilities, including significant rulemaking and administrative duties related to the Affordable Care Act, or Obamacare. These pressures, in turn, led to a growing backlog of applications for recognition of exemption, a decline in the already low audit rate for tax-exempt nonprofits, and limited new guidance for nonprofits seeking to comply with the complex federal tax rules applicable to them.³

The mess involving exemption applications filed with the IRS by Tea Party and other conservative-leaning groups worsened this situation in several ways, however. It accelerated the development of streamlined application procedures—including, but not limited to, the new Form 1023-EZ—that significantly reduce the level of IRS review for new organizations. It also gave Congress another reason to underfund the IRS, forced a wholesale change in the leadership of the IRS Exempt Organizations Division, and almost certainly made employees throughout that division wary of pursuing all but the most egregious violations of federal tax law. IRS examinations of annual information returns (primarily the Form 990 series) are now at an anemic level of less than four-

tenths of a percent annually. This is at a time when the number of tax-exempt nonprofit organizations has grown to over one and a half million—not including churches and other houses of worship that are not required to seek such recognition from the IRS.

So, what have state nonprofit regulators been doing during this time of decline in IRS oversight? Individually, many of them have been working hard to review and improve their laws and procedures governing nonprofits, as well as increase efforts to reach the regulated community and those who advise that community.

Individual State Initiatives

In the wake of the Enron disgrace and other scandals that rocked the for-profit sector, California enacted the Nonprofit Integrity Act of 2004 to improve the governance procedures and enhance the filing requirements for charities, other nonprofits that hold funds for charitable purposes, and commercial fundraisers.⁴ Significant new requirements included in the act are a shortened period for registering with the attorney general (thirty days after the initial receipt of property); mandatory audited financial statements and detailed audit-committee requirements for charitable corporations with gross annual revenues of \$2 million or more; mandatory board or board committee review of senior officer compensation; and numerous additional filing requirements for commercial fundraisers.

In 2013, New York enacted the Nonprofit Revitalization Act based on recommendations from Attorney General Eric T. Schneiderman's Leadership Committee for Nonprofit Revitalization, made up of representatives from the New York nonprofit community.⁵ The act sought to relieve burdens on that community by reducing the number of categories for nonprofit corporations under New York law, simplifying certain formation procedures, and increasing revenue thresholds for certain auditing requirements. It also imposed enhanced corporate governance standards—including those relating to conflicts of interest, related party transactions, whistle-blowing, and financial audits—and gave the attorney general increased enforcement authority. More specifically, the act requires a written conflict of interest policy (with certain provisions for boards of all nonprofit corporations), mandates certain procedures for related party transactions, and requires a whistle-blower policy for nonprofit corporations with twenty or more employees and over \$1 million in annual revenue. New York also recently announced a project to systematically review its registration and financial filing procedures for charities and fundraising professionals.⁶

These efforts are in addition to the increasing availability of state nonprofit filings through Internet-accessible databases, prominent announcements of investigations into alleged wrongdoing by nonprofits, and required annual reports detailing the high fundraising costs of certain nonprofits. On the latter point, examples include California's commercial fundraisers reports, Massachusetts's *Report on Professional Solicitations for Charity*, and New York's *Pennies for Charities* report. In addition, state regulators have been working to enhance the other information available on their websites, providing an increasing number of plain-language guides on topics ranging from formation to fiduciary duties to dissolution. State regulators have also become regular presenters at many conferences focused on nonprofit legal issues, including meetings of the Exempt Organizations Committee of the American Bar Association, Section of Taxation; the Georgetown Law Representing and Managing Tax-Exempt Organizations conference; and the Loyola Law School Western Conference on Tax Exempt Organizations.

At least one state has taken a more innovative approach to combating what it perceives as unduly high fundraising expenses: An Oregon statute now disqualifies charities from eligibility to receive contributions that are tax deductible for purposes of Oregon's income tax and corporate excise tax if program expenses fall below 30 percent of total annual functional expenses for the most recent

three-year period. In December 2015, the Oregon Department of Justice announced the first three nonprofits to fall afoul of this rule; it remains to be seen whether any of them try to challenge their disqualification in court.⁷

States and localities have also become increasingly active in challenging the often very valuable property tax exemptions enjoyed by many nonprofits. These disputes have involved Princeton University; the Shrine of Our Lady of LaSalette, in Attleboro, Massachusetts; dozens of hospitals; and property owned by numerous other types of nonprofits.⁸ With no relief in sight for many state and local government budgets, these challenges show no signs of ebbing.

At the same time, state nonprofit regulators appear to have mostly avoided or backed away from getting involved with the regulation of political activity by nonprofits. While California and New York have been particularly active in this area, those states ultimately passed new election laws expanding disclosure of political activity by all types of entities, not just nonprofits, and disclosure of funding sources for such activity.⁹ By doing so, they avoided any need to modify the laws specifically covering nonprofits. In New York, the attorney general actually revoked previously issued proposed regulations that would have targeted for disclosure political activity by tax-exempt organizations, on the grounds that the election law changes made the proposed regulations largely redundant. This is almost certainly a positive development, given the IRS's experience with regulating political activity by tax-exempt organizations, as it keeps this difficult and risky task in the hands of the state agencies that administer state election laws and thus are better suited to oversee such activity. That risk is illustrated by the ongoing litigation challenging California's attempts at requiring tax-exempt nonprofits to submit to the state attorney general the list of donors they file with the IRS. The U.S. Court of Appeals for the Ninth Circuit has upheld on its face the attorney general's ability to demand this information, but a federal district court has barred this demand with respect to one particular, politically active nonprofit: the Koch brothers-funded Americans for Prosperity.¹⁰

Collective State Efforts

State nonprofit regulators have also been increasing their communication and coordination across state lines. While such efforts can be traced back to occasional projects under the auspices of the National Association of Attorneys General (NAAG), they gained a more formal structure with the launch of the National Association of State Charity Officials (NASCO) in 1979. In particular, NASCO's annual conference, which includes both public and regulator-only sessions, provides an ongoing opportunity for state regulators to meet each other, share their experiences, and learn about new developments. NASCO has also played a critical role in helping develop the Unified Registration Statement for nonprofits engaged in charitable solicitation, and the more recent Single Portal Initiative, which seeks to develop a one-stop Internet platform for charitable solicitation registration and reporting for all states that require such filings. NASCO has also begun to show a willingness to critique IRS oversight efforts—not just behind the scenes but also publicly, as shown by the concerns it recently raised about the new IRS Form 1023-EZ.¹¹

The Single Portal Initiative is a good example of how long it can take for such collective efforts to bear fruit. The Initiative can be traced at least as far back as 2003, when the U.S. Department of Commerce provided initial funds for the project to GuideStar, which was working in partnership with NASCO.¹² Almost thirteen years later, the Initiative published an official Request for Information, seeking input on the pilot website that NAAG and NASCO plan to launch by the end of 2016.

In 2006, the National State Attorneys General Program at Columbia Law School developed the Charities Regulation and Oversight Project directed by Program Executive Director and Senior

Counsel Cindy Lott.¹³ The project provides an opportunity for state regulators to gather together to learn about various topics of common interest, including conservation easements, fraud in the charitable sector, and future trends in state regulation of charities. It also supports in-depth research into state regulation and enforcement of the charitable sector, in cooperation with the Urban Institute's Center on Nonprofits and Philanthropy.¹⁴

Finally, NAAG recently formed its Charities Committee, which joins a dozen other NAAG special committees that focus on topics ranging from agriculture to federalism to substance abuse. This move is significant, because it institutionalizes attorney general– level attention to the oversight of charities. Consisting of eight attorneys general, the committee's description highlights the breadth of its role:

The NAAG Charities Committee mission is to assist and enable attorneys general concerning charities registration and enforcement issues and matters by providing information, communication and support; to facilitate cooperation among the various areas of attorneys general offices that handle charities registration and enforcement through open dialogue and communication; to plan, organize and conduct training and annual seminars in coordination with the National Association for State Charities Officials and its assistant attorney general members for the exchange of ideas and information on matters relevant to charities registration and enforcement; and to promote the development of effective charities registration and enforcement programs and education for the protection of citizens and increasing awareness of our duties to our citizens.¹⁵

Ramifications for Nonprofits

So, what do these developments mean for nonprofits? There are several important takeaways:

- **The IRS is not the only sheriff in town.** Especially for charities, state regulators have the authority and willingness to pursue wrongdoing. Like the IRS, they face budget pressures and competing priorities, but state regulators are showing an ability to manage these pressures through both innovations at the individual state level and coordination with other states and federal agencies at the national level. Forums such as NASCO, NAAG's Charities Committee, and the Charities Regulation and Oversight Project will only continue to enhance state regulators' ability to do more with their limited resources and to work together.
- **For compliant nonprofits, increased state innovation and cooperation is (mostly) good news.** A primary goal of the ongoing state efforts is to reduce the regulatory burdens on nonprofits that are in good faith seeking to comply with applicable state laws. For example, New York's Nonprofit Revitalization Act amended New York's Not-for-Profit Corporation Law to raise revenue thresholds for certain audit requirements and to simplify the classification of nonprofit corporations. The Single Portal Initiative's stated goal is to significantly reduce the administrative burden on nonprofits and professional fundraisers that solicit charitable contributions in multiple states, by providing a single online system for required registration and reporting. At the same time, however, these initiatives often impose additional governance requirements on all or some nonprofits, as exemplified by some of the recent changes to New York law and California's Nonprofit Integrity Act of 2004.
- **For noncompliant nonprofits, there is less room to fly below the radar.** As states update and revise their laws governing nonprofits and the procedures for enforcing those laws, fewer out-of-compliance nonprofits will be able to escape scrutiny. And increased communication between the states means less opportunity for out-of-compliance nonprofits to avoid oversight by simply ending activities in a given state or relocating to a different state. For example, one aspect of

the Single Portal Initiative is to bring together IRS Form 990 data with state registration data, making it easier for state regulators to identify nonprofits that are operating in their jurisdictions without having properly registered or reported, as well as to spot fraudulent activity. These developments are good news for the nonprofit sector as a whole—they should reduce bad behavior, such as that highlighted in the FTC/50-State & DC Lawsuit, that damages the sector's reputation. At the same time, however, less sophisticated and less well-resourced nonprofits that, while otherwise acting properly, have been able to ignore at least some state legal requirements with relative impunity, may no longer be able to do so—including with respect to both charitable solicitation and property tax exemption.

The bottom line is that nonprofits need to be aware that even as IRS enforcement of the federal requirements for tax-exempt organizations continues to be battered by limited resources and congressional criticism, the states have quietly laid the groundwork for more effective individual and collective oversight of nonprofits. That groundwork is starting to bear fruit, as illustrated by the recent multistate lawsuit, the renewed Single Portal Initiative, and the NAAG Charities Committee, as well as the addition of increasing governance obligations to the nonprofit laws of California and New York. Nonprofits, therefore, must be sure to treat compliance with their state legal obligations as seriously as compliance with their federal tax obligations, as well as making sure to keep track of the ongoing state law developments that could impact them in numerous ways.

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Nonprofit Health Co-ops: Designed to Compete for the Public Good

By Rick Cohen

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It didn't exist until a few years ago, but the consumer-owned nonprofit health insurer Kentucky Health Cooperative sold as much as 75 percent of the private insurance policies purchased during the state's health exchange's first year of operations under the newly implemented Affordable Care Act (ACA). (Massive commercial provider Anthem Blue Cross and Blue Shield sold just 12 percent of its policies on the exchange.)¹ Nonprofit cooperatives reporting robust sales also include Maine Community Health Options and New Mexico Health Connections. Others did not fare so well. But, launched to compete with such mammoth insurance companies as UnitedHealthcare, WellPoint, Humana, Aetna, Cigna, and the abovementioned Blue Cross and Blue Shield (to name just a few), what all these brand-new entities share is the David versus Goliath challenge that they represent. They are not only small and untested but also structured as consumer-owned nonprofit cooperatives—and, if that weren't enough of a competitive challenge, they inhabit a market that includes large insurers that, in many states, have in the past operated in near monopolistic fashion.²

The as yet untold story is that, for all of the obvious competitive challenges facing these nonprofit start-ups, they had to overcome unexpected obstacles in the ACA federal legislation and regulations that seemed all but designed to minimize the cooperatives' chances of success. Some, like Kentucky's, succeeded—at least in ACA year one—despite those obstacles, and their strategies for overcoming them constitute a textbook of creative nonprofit approaches to competitive hurdles.

The roots of many of the obstacles experienced by the health insurance cooperatives lie in the tortured history of the Affordable Care Act and the efforts of opponents of the ACA to make a complex overhaul of health insurance next to impossible to implement. The story of the quick rise of some of the cooperatives, as participants in the rollout of the Affordable Care Act that contributed significantly to the implementation of the new law (overcoming distinctive structural competitive impediments), deserves the attention of policy-makers and the nonprofit and philanthropic sectors alike.

Origins of Nonprofit CO-OPs in the ACA

One of the core functions of the Affordable Care Act was to create competition for the big health insurers and, through that competition, compel them to improve their services and lower their costs. The intended mechanism was the “public option”—a health-insurance plan that would have been offered by the federal government, challenging the near-monopoly insurance environments in some states by providing an alternative operated and funded by government.

Although the public option was meant to be insurance, not government-provided healthcare, the idea caused a commotion among political conservatives. Fearing that this was the slippery slope to surreptitiously transforming the American healthcare system into something more like the UK’s or Canada’s, Republicans organized to ensure that a public option was excluded from the legislation, abetted by President Obama’s lukewarm support for a government-funded insurer.

As the public option collapsed, health reform advocates in Congress scrambled to come up with some mechanism that could effectively create competition for the big insurance companies. Kent Conrad, the Democratic senator from North Dakota at the time, stepped into the breach and suggested the creation of consumer-owned health insurance cooperatives that would provide an “affordable, accountable, transparent alternative to private insurance.”³ Would nonprofit health insurance cooperatives be able to provide sufficient and effective competition for the big private insurers? Would the very limited number of existing models of reasonably successful and sustainable health insurance cooperatives (notably, the Group Health Cooperative in Seattle, established in the late 1940s, and Minnesota’s HealthPartners, dating from the late 1950s) be replicable in the context of the new health insurance law?

As Consumers Union’s Chuck Bell told the *Nonprofit Quarterly*, the consumer cooperatives were not meant to be “a robust substitute for the public option.”⁴ Nonetheless, in the absence of the public option, the cooperatives that emerge from the Affordable Care Act—established as the Consumer Operated and Oriented Plan (CO-OP) Program—to offer insurance on the individual and small-group markets could become the official ACA mechanism for calling out the big insurers and providing alternatives that consumers might want. In the words of Jesse Thomas, CEO of InHealth Mutual Ohio, in an interview with *NPQ*, “the CO-OPs [as they became known] were [supposed to be] *an* alternative to the public option, but we have become *the* alternative to the public option.”

The ACA’s provisions for nonprofit cooperatives (Section 1322) were a tiny part of the law—taking up only six pages of the one-thousand-page (condensed version) legislation.⁵ The law authorized the creation of nonprofit health cooperatives that could begin selling insurance in 2014. CO-OPs could apply for low-interest start-up and solvency loans—the latter to help the new entities meet state insurance reserve requirements. Previously licensed insurers or new entities that received a quarter or more of their funding from licensed insurers could not become CO-OPs and access the federal loan funds. CO-OPs were prohibited, unlike other nonprofit insurers like Blue Cross and Blue Shield, from ever converting from nonprofit to for-profit status.

For the new cooperatives willing to enter the fray and do battle against the Anthems and Humanas of the industry, those were the rules—and they could craft strategies to try to function in this arena, just like nonprofits do within the framework of any other industry governed by federal regulations, except in this case, the “long knives” and “poison pills” (as characterized by Conrad⁶) of ACA opponents served to make an onerous challenge appear next to impossible. In Congress, former Nebraska senator (and former insurance company lawyer) Ben Nelson opposed the idea of there being start-up grants, instead of (or in addition to) loans for the CO-OPs, and supported sharp restrictions on what the CO-OPs might be able to do with their loan funds and which markets they might enter. Critics of the CO-OPs deemed the loan funds “a gift, a federal handout.”⁷ The nation’s “fiscal cliff” deal in 2013 further hit the CO-OPs by halting loans to any cooperatives that hadn’t already been approved for their funding—freezing the funding for cooperatives in twenty-four

states and ruling out plans that might have been in the works for cooperatives in any other states.⁸

How could the Kentucky Health Cooperative and other CO-OPs possibly function, compete, and survive—and deliver improved health insurance coverage to consumers— in this environment hostile to the Affordable Care Act, beset with numerous well-publicized problems plaguing the operation of the federal and some state health insurance exchanges, and unsupportive of new, nonprofit entrants challenging the commercial health insurers? Some did—a few even thrived—by adopting a panoply of strategies that nonprofits use to compete against much-better-capitalized organizations. Their stories about what worked well, what perhaps worked less well, and what the future portends follow.

Coming from Different Starting Points

The diversity of the nonprofit health insurance cooperatives' origins is remarkable. Consumers Mutual Insurance of Michigan's CEO Dennis Litos explained that his CO-OP emerged from discussions by county health plan providers concerned about the number of uninsured and underserved consumers. Colorado HealthOP, run by Julia Hutchins, emerged from the Rocky Mountain Farmers Union, representing small family farmers and ranchers; RMFU saw the CO-OP provisions of the ACA as a program to which "they felt like they had something to offer." According to CEO Janie Miller, the Kentucky Health Cooperative was developed by a coalition of businesses and healthcare providers. HealthyCT, reported CEO Ken Lalime, was created by two large doctors associations in Connecticut. Oregon's came from the state's largest Medicaid plan.

So many of the stories sound like fairly typical nonprofit start-ups, except, of course, that they were responding to the opportunity provided by a massive structural change in the financing and content of health insurance in the United States. The cooperative serving Nebraska and Iowa, CoOpportunity Health, as recounted by then COO (now CEO) Cliff Gold, started "with three of us who didn't know each other: Dave Lyons—the common thread—former insurance commissioner for Iowa and then head of economic development [who later became the CEO of CoOpportunity but has since stepped down]; Steve Ringlee, a venture capitalist; and me, a senior executive at Wellmark Blue Cross and Blue Shield. Dave put us all together, we began talking about starting a co-op, and we decided to put in an application."

A number of people involved in these ventures came with health insurance experience: Cynthia Jay, CMO of Health Republic Insurance of New Jersey, had been the executive director of a health literacy coalition; InHealth Mutual Ohio's vice president of community relations, Jen Patterson, used to work on housing and homelessness issues at the Columbus Housing Partnership; and Kentucky's Miller, who was also the state's former insurance commissioner, had dealt with the issue of health insurance coverage "from all sides." They also came with health insurance frustrations and critiques. Miller, for instance, told *NPQ*, "I think the country is better off [as a result of the ACA]. How can we as a country ever understand our costs and quality unless you have everyone with access and coverage and then hold providers and insurers accountable?" She described the reason for joining the Kentucky Health Cooperative as a "lifelong passion for getting coverage and access for people."

Former primary care provider Martin Hickey also said that he had seen the issue from multiple perspectives. One of the founders of New Mexico Health Connections (and friend and fellow physician of Hickey's) called to ask if he wanted to "come home" and attend one of their organizing meetings. Hickey admitted to *NPQ* that initially he "wasn't sure that the concept [of a nonprofit health insurance cooperative] was going to fly [because] everyone and their mother are starting health plans now"—but in the end he did come home to join the cause, and became the organization's CEO. Like Miller, the mission drove him. "I've been a primary-care provider. I've lived on every side of the equation, and I know how the money works. It's an unregulated system of infinite demand, and it will never stop until there are incentives to purchase wisely." Hickey

described New Mexico as a “perfect place” to test the idea of a new way of providing health insurance coverage to people in need.

The notion of incentivizing people to protect their health and to purchase health services wisely is consistent throughout the plans. For instance, Colorado HealthOP consumers qualify for debit cards if they follow some useful preventative health steps, and CoOpportunity Health offers hundred-dollar gift cards for customers completing online health assessments.

The Big Work-Around: Marketing

When a typical corporation seeks start-up capital, the funds are not quite as constrained as they were in the case of the CO-OPs. Federal regulations prohibited the CO-OPs from using federal funds for the purpose of marketing. It may be difficult to imagine, but new entities without brand identities or histories of delivering insurance products were not allowed to use their federal start-up funds to market. According to Litos of Michigan’s Consumers Mutual, “We had these funds for education, but we couldn’t talk about products and prices. [But] the brand is the product, so how do you do this?”

In almost every instance, the cooperatives chose the route of educating consumers—not about their products, which they couldn’t do, but about healthcare, health insurance, and the Affordable Care Act itself. In many cases, it was with and through partners, particularly nonprofit ones. Consumers Mutual accessed the patients being served by federally qualified health centers and developed mailings about the ins and outs of the ACA, which, according to Litos, ensured that “our name was getting out there.” Many of the cooperatives turned to the tried-and-true techniques of nonprofit outreach and marketing, working with other nonprofits at the community level (in Colorado), with the federally qualified health centers and local advocacy groups, and, according to Hutchins, “anyone who was talking about healthcare, to make sure we were part of that conversation.”

In other cases, the cooperatives sought nonfederal money to fund their marketing. Hutchins reported that the Colorado CO-OP got marketing funds from a health foundation. New Mexico’s Hickey explained, “We couldn’t market a specific plan to an individual, but we borrowed \$500,000 for a pamphlet that did concept marketing.

People liked the fact that we were New Mexicans—a New Mexican health plan built by New Mexicans. No one trusted the health plans but they did trust doctors, so we just informed the public that we’re physician-led, we’re not corporate, and the money stays in New Mexico.

Borrowing for an entirely new organization requires, on the part of the lender, an appetite for risk. Consider that the cooperatives, while armed with business plans developed by experts in the field, were operating in a policy environment of exceptional turbulence—with the Affordable Care Act facing an unending series of congressional votes to end the program and implementation problems highlighted by the federal government’s troubled rollout of the federal health exchange website. Anticipating revenues that could be pledged against loans for marketing purposes in this environment meant that lenders might have to have as much belief in the cooperatives’ missions as the cooperatives themselves.

Gold of CoOpportunity described the prohibition on using government funds for marketing as the “biggest poison pill” the CO-OPs faced—not just because they couldn’t guarantee revenues that could be used to pay back loans but also because government loans were their only asset. But, according to Gold, in the case of the healthcare cooperative serving Nebraska and Iowa, the Iowa credit union league gave CoOpportunity money for a feasibility study followed by a \$650,000 unsecured loan for marketing and education. CEO Kevin Lewis of Maine Community Health Options was able to get a \$300,000 grant specifically for marketing from the Maine Health Access Foundation, a vote of confidence that led to a \$500,000 grant from Coastal Enterprises, a Wiscasset-based community development financial institution (CDFI) that invested in the CO-OP

based on the strength of its business plan—notwithstanding its inability to use its federal moneys for repayment.

In the end, as Gold noted, the marketing prohibition “was a huge hurdle that existed between the Affordable Care Act and the cooperatives, promoted by the health insurers to keep their advantage over the cooperatives.” Gold may be speaking from the perspective of a hard-pressed CO-OP trying to get off the ground, but the restriction makes no sense other than as a means of limiting what the cooperatives can do to get started. Just as they cannot use the federal money for marketing, the CO-OPs are also prohibited from using any of the federal money for lobbying—even if the lobbying were simply to make some of the regulations on cooperatives less onerous.

Going forward, while the cooperatives may not be able to do much in the way of lobbying, it would seem logical that nonprofit healthcare advocates step up their game to promote a more rational regulatory framework for the use of government dollars by the cooperatives.

Changing the Rules of the Game Midstream

It was a thunderous, business-plan-altering shock for the cooperatives to hear President Obama’s unexpected announcement that people with existing insurance plans would be allowed to keep those plans, even if the plans were not compliant with ACA standards.

The cooperatives’ business plans all contained the assumption that some portion of consumers with existing plans would be in the market for new insurance coverage in order to meet the ACA’s requirements.

“We don’t whine or bellyache about it—we determine how we pivot and turn on the dime in response to the challenges,” said Thomas of InHealth Mutual Ohio. As he described it, when the administration announced that “if you like your policy, you can keep it . . . our universe literally shrank from 800,000 eligible small businesses down to 80,000.” Maine’s Lewis noted that many people “early renewed” at the president’s announcement, taking a substantial amount of potential business “off the table.” It probably doesn’t need to be pointed out that the beneficiaries of the early renewals of ACA noncompliant policies were often the big insurance companies with which the cooperatives were competing.

Making midstream business-plan modifications in the critical first year of ACA operations was hardly optimal for the cooperatives. Litos noted that the early renewals of noncompliant policies “required us to move into the small-group market,” but that there were pricing and other competitive issues to address. For HealthyCT, the off-exchange small-group market didn’t materialize to the degree that they had hoped, perhaps due in part to the aggressiveness of existing insurers pushing for early renewals and in part because of the tendency of many people to stick to the policies they have—even if of demonstrably higher cost and lower quality than others in the marketplace.

The president’s surprise pronouncement sent a mixed message that caught the CO-OPs by surprise and limited their ability to recover during the first year of the ACA. HealthyCT’s Lalime said that the CO-OP is still “plugging away” at this end of the market. “The early renewal piece, I’m not going to whine about it,” Lalime said. “It is the marketplace.” Unfortunately, in this case it was the marketplace twisted by an early, unthinking commitment of the president’s, who then had to live up to the statement due to political pressures even though the decision was bad for consumers (with plans not in compliance with the ACA), bad for the cooperatives (unable to market to tens of thousands of potential customers), and good only for the big insurers (who got to hold on to most of that segment of the market).

Avoiding Excessive Fixed-Cost Investments

With a constantly shifting environment and threats on every front, the smarter cooperatives chose wherever possible to avoid sinking their assets into building in-house functions. Rather, they outsourced a number of activities, which meant an upfront cost savings and, given the time constraints of getting ready to sell products on the state exchanges by October of 2013, increased the speed of operations.

For some, as in Michigan, it meant working with existing networks of insurance agents that were not associated with or owned by Blue Cross and Blue Shield. In working with the agents who were looking for better products for their customers, Litos explained, they built a network of agents capable of reaching areas where the competition might not be marketing quite as much—such as, for example, in the largely rural Upper Peninsula of Michigan. Litos reported that because the agents were looking for products that would be particularly beneficial to their customers, he and his colleagues had learned from their outside brokers that the CO-OP's plans for its extensive chronic disease program would be a “game changer” or “tipping point.” Not investing in in-house brokers and agents but instead using existing networks gave CO-OPs like Consumers Mutual access to off-exchange customers they might not have reached otherwise and to new product ideas that were not being picked up by the competition.

As the CO-OPs start to edge into large-group policies—particularly as the definition of “small group” gets changed from fifty to one hundred members—the CO-OPs are linking up with existing networks. HealthyCT, for example, linked up with The Alliance for Non-Profit Growth and Opportunity (TANGO), representing some four hundred nonprofit groups that constitute a new network of brokers and sales for the CO-OP.

Several interviewees noted that, as new entries in the marketplace, the health insurance cooperatives were not bogged down by having to maintain and operate “legacy” systems and a built-up infrastructure that wasn't up to the market's demand for flexibility and speed. Apologizing for sounding very “co-op-y,” Colorado's Hutchins sees the long-term competitive need for CO-OPs like hers to be nimble and accountable. She wants consumers and members to have a “wow experience” when they are on the CO-OP's web portal. In New Mexico, Hickey's CO-OP has outsourced member services so that members who call get a person, not a recording, as well as the time they need to get help with any problems. For Hickey this may be a cost savings, but it is part of a CO-OP's strategy of incorporating empathy for the consumer.

Ohio, too, “vended out” customer service, according to InHealth Mutual's Thomas, and also recruited a network of more than 1,300 general brokers and agents to sell InHealth Mutual's products, rather than investing in the cost of creating an in-house cadre of agents. CoOpportunity Health's Gold said that the CO-OP outsourced its claims processing and provider oversight, and, like others, had decided to work with independent brokers and agents rather than hiring their own.

CoOpportunity Health, having its origins in Iowa, did exceptionally well in rural Nebraska, in part because of the independent brokers' access to rural areas—much like other cooperatives servicing rural markets, such as Michigan's and Maine's. And one of the untold stories of the cooperatives may be that their most significant areas of success, like their forebears among rural electric cooperatives and agricultural cooperatives, have been their reach into rural America, whose access to health provision and health insurance historically has been limited.

Odd and Sundry Competitive Challenges

The Centers for Medicare and Medicaid Services (CMS) of the Department of Health and Human Services approved two health insurance cooperatives for Oregon, the only instance of two CO-OPs in a single state: Oregon's Health CO-OP and Health Republic Insurance of Oregon—an affiliate of Health Republic Insurance of New York. Created by New York's Freelancers Union (which since 1995 has advocated for health insurance for independent workers), Health Republic Insurance of New York (which helped establish cooperative health insurers in New York, and New Jersey, as

well) apparently aimed to provide insurance to Oregon's "creative class." According to Ralph Prows, CEO of Oregon's Health CO-OP, different business plans and target markets aside, the reality of the market constraints meant that the two cooperatives ended up competing head to head.

The competition was compounded by another problem: the state health insurance exchange, Cover Oregon, had, in Prows' words, "mega-failed." Oregon was one of the state exchange disasters that left consumers confused and angry. In the midst of trying to launch the exchange, the state government also attempted a complete overhaul of the structure and delivery of state Medicaid, with the result that everyone was pretty much overwhelmed by the complexity and chaos of the system. For Oregon's Health CO-OP, that meant having to switch from enrolling customers on the exchange to going off-exchange and doing direct enrollments and broker enrollments. In addition, consumers were faced with an eighty-two-page list of plans that they had to scroll through before finding one they might want to purchase. The result was a very low enrollment in the first year—not aided by the non-cooperative competitors trying to underprice the CO-OP.

Prows may be battered from how Cover Oregon did in healthcare reform in the first year of the ACA, but he doesn't seem dismayed. "I am inspired by the mission that we have, by the democratization that we have," he said, pointing to a board that has a majority of members elected by the consumers. "People are so engaged in the movement; people really want this." (Prows also noted that the biggest private sector competitor in the state, which had enrolled the largest number of purchasers, had just spent \$40 million on rebranding a new sports arena, and that it was also asking for a 12 percent increase in the prices of its policies on the market—the implication being that this may have been causally related.)

And then there is the issue of structure. Those non-cooperative competitors are large corporate players structured as nonprofits. HealthyCT's Lalime noted that one of his cooperative's major competitors in the state (Connecticut) is Harvard Pilgrim, which is nominally a nonprofit. Many of the Blue Cross and Blue Shield entities are structured as nonprofits, too. For a nonprofit CO-OP, that means distinguishing how these large corporate players operate in the market (notwithstanding their nonprofit tax status) versus how a consumer-oriented, consumer- and provider-run cooperative operates.

Despite what often seems to have been a life-and-death political scrum over the Affordable Care Act in Congress, there was little indication that political bias was a huge competitive problem for cooperatives at the state level. New Jersey, however, did not have a state exchange, and there were some problems. Health Republic's Jay reported that the governor, Chris Christie, returned ACA education funds that the state had received back to the federal government. In addition, New Jersey didn't end up with many healthcare navigators, who played such an important role in other states in helping consumers understand how the state and federal exchanges work. The lack of those consumer guides may have helped hamper progress for New Jersey's cooperative simply because the cadre of grassroots organizations explaining and promoting the ACA wasn't quite up to snuff. The political imbalance in New Jersey could also be seen differently. The existing insurers, some of them fifty or sixty years old, had longstanding relationships with the state insurance departments, and knew the ins and outs of what the states might look for and accept in licensing applications. For the new CO-OPs (except perhaps those like Kentucky's, where the CEO happened to be the former state insurance commissioner), it often felt like being behind the eight ball: a second slower than the big competition in knowing what the insurance departments were going to require and decide. Essentially, long-term political and business dynamics between the large insurers and the state regulators meant that frequently the CO-OPs had to deal with competitors who had better inside information than they did about the likely decisions emanating from state agencies. For some CO-OPs, it meant delayed approvals—some almost to the start of the October 2013 beginning of the ACA sign-up period—with several cooperatives unable to offer as many different policies as their big corporate competitors.

Some of the cooperatives have, however, gone beyond the Affordable Care Act to provide services that the ACA didn't call for (and that, perhaps, it should have). If consumers have frequent problems with health insurance, they probably have similar if not worse problems with dental care coverage. The ACA only included pediatric dental care as a requirement for ACA-qualified health plans for individual and small-group plans on and off the exchanges. Although the ACA excluded dental care for adults as a mandatory component of ACA-qualified insurance plans outside of Medicaid, Maine's CO-OP, according to CEO Lewis, created a partnership with Northeast Delta Dental to put oral health coverage into its plans.

The CO-OPs' Mission and Nonprofit DNA

InHealth Mutual Ohio's Patterson made an observation about the core competitive advantage that the nonprofit CO-OPs used to their benefit in dealing with their competitive challenges. Of course, they had to deal with their positions in the health insurance marketplace from a business perspective, but InHealth Ohio, like the others, drew strength and competitive juice from their missions. Patterson explained that it was in the organization's "DNA to increase access to care." That mission commitment, superseding business concerns, turns into a competitive advantage for the CO-OPs if they remember and capitalize on it. "We kind of feel like we're in a space to ourselves," Patterson said—in part because she and her colleagues spent much of their start-up time traveling around Ohio having conversations with communities "about what the insurance sector as a whole is missing."

Similarly, InHealth Ohio's Thomas said that the cooperative aimed to "make sure that we don't get wrapped around the axle around any one thing that takes our focus off from what our core commitment is . . . access, innovation, and competition." Barbara Freeman, InHealth Mutual Ohio's chief doctor, homed in on how their nonprofit consumer-oriented model was responding to what they were hearing from people on the ground. She pointed out that most insurance companies are narrowing their networks of providers, so InHealth Mutual is generating a "wide open network . . . [that] exceeds the requirements of what we were supposed to do." Freeman described InHealth's efforts to get supplies and products to consumers so that they could manage their health issues, including a "bronze" plan that offers two free office visits for primary health treatment and two free behavioral health visits, and noted that eliminating co-pays on a number of products for diabetes, asthma, and depression means that people covered by InHealth will never have to say, "I couldn't get my medicine because I couldn't afford it." Added Thomas, "It's listening to the public, creating incentives rather than disincentives [for effective patient management of their healthcare needs]. We are going to remove as many roadblocks as we can to critical access and improvement." Listening to the public—if the cooperatives are really listening—means responding differently in different environments.

Take Oregon's Health CO-OP, for instance. Prows reported that Oregonians directed the CO-OP to value what they valued in healthcare—and, to his surprise, that included support for "naturopathic" doctors and treatments. "This came up in every single session. I was compelled because of our mission to explore this." Prows, a physician himself, did not come from the naturopathic model, but upon learning that the naturopaths were licensed to provide primary care medical treatment, he concluded, "If they're licensed by the state to do this, why wouldn't I bring them on as primary providers?" Simply put, "They wanted providers that speak to them and promote wellness on their terms." Consequently, the CO-OP credentialed over one hundred naturopathic physicians. "My orientation has shifted from a paternalistic health plan viewpoint," Prows concluded. "Now we have to listen to what people really want rather than what we think they want."

For Prows, that also meant simplicity. As he explained, consumers complained that under other providers "they would never know what their actual expense would look like. Consumers wanted us to simplify this so that they would know their actual costs." As a result, the Oregon CO-OP "got rid of coinsurance," which Prows described as a "mystery" for consumers, so that "members know exactly

what it is going to cost [and] can make logical choices knowing what their costs will have to be.” The simplification of health insurance is a consistent theme running through nearly all of the CO-OPs in terms of what they heard from potential purchasers.

In Colorado, the local issue was different. “Early on, we were asked by a number of nonprofit consumer advocacy groups about covering care for transgendered persons,” Hutchins recalled. “Our board took a position of nondiscrimination in healthcare. We support what’s medically necessary.”

For Kentucky’s Miller, the competitive theory is simple: “Treat the customers as well as you can, provide value for them, and help them understand why investing in themselves is so important.” That simple theory led to a little nonprofit like Kentucky Health Cooperative’s capturing three-fourths of the state’s market—and since then being awarded access to West Virginia, as well. “We’ve hit a chord there,” Miller modestly observed. It’s a matter, she said, of “talking about why the CO-OPs were created and what value [they] bring to the insurance industry.” New Mexico’s Hickey saw it from another angle. Implicitly acknowledging that most people don’t like dealing with health insurance, don’t like thinking about it, and get confused by the offerings, Hickey said that the New Mexico frame on the various health plans could be described as “we suck less.” But, given the problem of getting people to change plans, even if there are cost-based reasons for doing so, “the differentiator would then be service.”

Hickey’s strategy in New Mexico is brazen. “Our model is to disrupt the wasted volume incentives, arm the primary care providers with information about quality, and let them make the referrals—because as primaries they take better care of their patients,” he explained. “We have no co-pays on patients’ chronic and behavioral meds. Keeping people on their meds will reduce unnecessary hospital visits and unnecessary hospital procedures, so it’s clear where the money is to be saved.” He added, “Our business model is like Robin Hood’s: take it from the hospitals and take it from some of the overzealous specialists and return the savings to the providers and the members.”

Looking to the Future

Despite their modest expectations and, in some cases, modest results, the CO-OPs have had an outsized impact on the markets. The big providers are, of course, still ruing the competition from these relatively tiny start-ups, and suggesting that, as newcomers, their operations may not be sustainable. Our inquiries to a number of the CO-OPs’ large, established competitors yielded the following statement sent in by Aetna spokesperson Cynthia Michener, who elected not to be interviewed:

A robust, competitive health care marketplace operating on a level playing field is necessary to assure that consumers receive improved quality, lowered costs, and the best value. New players like co-ops can be part of a fair and vibrant marketplace. However, it is critical for consumer protection and market stability that regulators take care that the special financial terms and assistance the ACA awarded to co-ops do not inadvertently lead to solvency vulnerabilities or to distorted pricing.

Nothing in the statement is inaccurate at face value, but it doesn’t address the restrictions placed on the nonprofit health insurance cooperatives that made the marketplace in which they operated feel less than “fair and vibrant.” Moreover, there is little question that while the CO-OPs tried to wring every last dollar of cost out of the pricing that was offered to consumers, in several instances they found themselves facing distorted pricing practices from the large insurers themselves.

But there is no question that in many states the CO-OPs—to the advantage of the consumer but in some ways to the disadvantage of their own competitiveness—have had an impact on their competitors’ behavior. The reality is that the big providers saw the pricing and products being offered by the cooperatives and in many cases adjusted theirs downward, sometimes to levels of “predatory pricing,” as described by New Mexico’s Hickey—causing the state insurance

commissioner to question their actuarial soundness and require all of the competitors on the state exchange to resubmit their plans and prices. Some state insurance commissioners, regardless of political party, were on the job in watching the pricing and products that were being offered—and, in fact, the interviewees from the cooperatives had generally positive things to say about the state insurance commissioners. Nevertheless, predatory pricing does seem to have seeped in and undercut the ability of some cooperatives to offer competitive rates.

If the role of the CO-OPs was to offer not just competitive pricing but also competitive quality in order to compel the large insurers to change, that happened too. Television advertisements by the likes of Humana abound, touting the simplicity and clarity of their offerings or promising consumers that they will not have to wait on hold for an eternity to speak over the phone with insurance company representatives. The large insurers are more than aware of commitments like the Health Republic of New Jersey's, which, according to Jay, reports that a customer's "call wait time is only fifteen seconds, 90 percent of problems [are] resolved on the first call, [and] the average time of the call is around five to six minutes." Responsiveness to the customer becomes a competitive yardstick that the large insurers must try to meet—as they should—else they become even more unpopular with consumers than they already are.

In the end, all the cooperatives contacted by NPQ—those with strong performances as well as those that teetered in the first year—saw themselves as part of a grand effort to produce a change in American healthcare that hasn't been seen since the advent of Medicaid and Medicare, in 1965. As New Mexico's Hickey said, "I am very grateful to the taxpayers for funding this experiment if it can inch us that much closer to a rational healthcare system." The results of this experiment may well have surprised the White House, which was less than enthusiastic about the public option and not particularly assiduous in its support of the nonprofit health insurance cooperatives. Hickey believes that the administration didn't expect to receive more than a handful of CO-OP applications at the outset, having agreed to the CO-OPs simply in order to placate the public option advocates, and was probably surprised by the more than two dozen that arrived in the first wave.

For all of the chaos and turbulence of the rollout of the Affordable Care Act—plus all of the obstacles that made the first year's operations of the nonprofit cooperatives that much more difficult to pursue—the interviewees basically chose to follow the path of InHealth Mutual Ohio's Freeman. "I'm not going to sit here and bad-mouth the Affordable Care Act," Freeman declared—a position she acknowledges that her political party (Republican) tends not to support. "In my heart, I know that we have an underserved population . . . a population that could not get insurance because of adverse selection," she explained. "The Affordable Care Act affords an opportunity for access to care . . . [and] the cooperatives were given a commission that allows them to create a competitive market for insurance companies and, most of all, to improve the quality of care that is provided." Her summation is a powerful statement on behalf of the CO-OPs overall:

Our approach is not to focus on the barriers in the Affordable Care Act that give us problems, but to focus on solutions. You don't do off-the-shelf products and off-the-shelf filings, but you create something specific to the needs of a defined population and make it specific to the individual. You take the cases one by one and deal with the barriers that the individuals have. You partner with the community, and you don't drop the ball.

Thinking back to when she was in practice with her father and nicknamed "Little Doc," Freeman concluded, "Let's get back to what medicine used to be." Health Republic Insurance of New Jersey's CEO Jim Martin seemed moved by a telephone conference call for the CO-OPs in September of 2013, right before the opening of the ACA marketplace, arranged by CMS. Martin described how, on the call, President Obama "made reference to the fact that . . . this was clearly an historic moment and an historic time." In that light, an evaluation of the cost reductions, improved care, and innovation that the CO-OPs are supposed to bring to the health insurance marketplace won't be anytime soon. The year 2017 was most often quoted by the cooperatives as the right time to assess

whether the cooperatives have been successful. As Martin concluded, “It’s a marathon, not a sprint.”

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Nonprofits may want to look at how the nonprofit health insurance cooperatives addressed and overcame the competitive obstacles confronting them, and reaffirm the competitive prowess that is in their missions and nonprofit DNA. If nonprofits go back to what nonprofits used to be—connected to communities, committed to serving people in need, and highlighting those distinctive roles and functions—they may discover that they can overcome many of the hurdles placed in their way by the corporate sector and governmental entities overly influenced by corporate lobbyists. By combining the services, they deliver—for instance, to families and communities that are marginalized and mishandled by corporations in their commodification of social goods—nonprofits could deliver superior products and, by virtue of their track records, advocate for improved public policies that will redress inequities like the problems of health insurance coverage in the United States.

Hutchins concluded her interview with *NPQ* with the statement, “The CO-OPs are much more willing to bet on the success of healthcare reform [than are the large insurers with which they are competing],” many of which were reluctant about the national health insurance reform at best. Indeed, believing in the Affordable Care Act and wanting to see it succeed may very well turn out to be the nonprofit health insurance cooperatives’ ultimate competitive tool.

Notes

1. To put this in perspective, the Robert Wood Johnson Foundation found that, just prior to the official start-up of the Affordable Care Act exchanges at the federal and state level, a sole insurer had sold more than half of the individually purchased health insurance policies in thirty states. See Rick Cohen, "Six Changes for Nonprofits as Results of the Affordable Care Act," *NPQ*, April 3, 2014, nonprofitquarterly.org/policysocial-context/23951-six-changes-for-nonprofits-as-results-of-the-affordable-care-act.html, for more details.
2. Christine Vestal, "New Health Exchanges Unlikely to End Insurance Monopolies in Some States," *Stateline*, April 25, 2013, www.pewtrusts.org/en/research-and-analysis/blogs/stateline/2013/04/25/new-health-exchanges-unlikely-to-end-insurance-monopolies-in-some-states.
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4. Cohen, "The Affordable Care Act, Three Years Later: Where Do Nonprofits Stand?," *NPQ*, April 4, 2013, nonprofitquarterly.org/policysocial-context/22077-the-affordable-care-act-three-years-later-where-do-nonprofits-stand.html.
5. Office of the Legislative Counsel, *Compilation of Patient Protection and Affordable Care Act*, 111th Congress, 2d session (Washington, DC, May 2010).
6. Cohen, "Nonprofit Co-ops' Role in Affordable Care Act in Trouble," *NPQ*, October 28, 2013, nonprofitquarterly.org/policysocial-context/23145-nonprofit-co-ops-role-in-affordable-care-act-in-trouble.html.
7. Jerry Markon, "Health Co-ops, Created to Foster Competition and Lower Insurance Costs, Are Facing Danger," *Washington Post*, October 22, 2013.
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Competitive Positioning: Why Knowing Your Competition Is Essential to Social Impact Success

By Peter Frumkin and Suzi Sosa

Editors' note: This article is featured in the Nonprofit Quarterly's fall 2014 edition, "Grappling with Competition: The Nonprofit Landscape."

Entrepreneurship is rooted in the entrepreneur's identifying, seizing, and aggressively taking advantage of an opportunity—and innovation is often at the core of this response. The opportunities for social innovation are abundant and the range is vast: even in market sectors in which there are many established providers, social impact leaders are often able to uncover previously unimagined opportunities and disrupt long-standing equilibriums—whether with a new product or service, or with an adaptation of an existing product or service (via identification of, for example, a new geography, customer, or delivery mechanism). And for social impact leaders assessing the quantity and quality of opportunities, the first step is to understand the market in which they wish to innovate.

Organizations sharing a single market may compete for two key resources . . .

Donors

There is considerable competition for support from foundations, corporations, and individual donors, with many organizations vying for grants. Investing in fundraising capacity and talent is seen as a strategic response to the struggle for donations, and for salaries for proven development professionals to continue to rise. Still, competition for funding is driven by an odd combination of performance, reputation, and personal relationships. Because funding decisions are often opaque and market signals unclear, managing competitive pressures in the funding domain is especially challenging.

Clients

Where many organizations are concerned, there are always people who can benefit from their services—especially when they are provided for free. When fees are charged, the pool of clients often narrows and the competition for earned income heats up. The competitive pressure for clients has turned marketing from something deemed slightly too business-oriented into expected practice. Without effective outreach to clients, many organizations would be unable to secure the customers they need to both achieve their mission *and* balance the books.

The Market

All organizations, even nonprofits, operate in the context of markets. At the highest level, a “market” is the summation of the various providers offering the same product or service, usually within a finite set bound by a specific customer or geography. For example, the afterschool elementary education market for a particular city would comprise all the organizations providing after-school services to elementary school children. However, organizations operate simultaneously in different layers of markets, and the resulting list of providers that will share that space is directly determined by the defining criteria of the market. Thus, providers in the after-school elementary education market might be further segmented into smaller markets by limiting the geography, the organizational type (faith-based, public, private, nonprofit), or the specific services offered. Each of these filters will yield a slightly different solution set in which an organization can assess both its competitive advantage and its ability to maximize the opportunity for innovation.

Providers within a defined market may be formally competitive or may see themselves as more collaborative. However, in most cases, even in markets of exclusively nonprofit organizations, the providers within a single market compete for donor support and client fees. For example, nonprofit programs providing adult literacy training in a particular city make up the adult literacy market. These organizations compete, at the very least, for limited funding, and also to some extent for clients and access to other resources. While the desire to put other organizations out of business may not drive the competition within this market, the other organizations nonetheless constitute the competitive landscape.

Finally, in some cases a nonprofit may be working in a space that has a significant cap on its resource pool. Understanding the limitations and potential expandability of that pool is an important factor in understanding one’s potential placement in a market.

Benefits of Competitive Analysis

Competitive analysis is a tool that social impact leaders can use repeatedly throughout the life of an organization. In the start-up phase, competitive analysis is fundamental for assessing the quality of an innovation and the risk inherent in its pursuit. As the organization grows, accurate competitive analysis provides dynamic feedback about strengths, weaknesses, opportunities, and threats, thereby guiding the formulation of strategy and providing insight into how and where social impact leaders should focus limited resources.

Many popular tools are available for competitive analysis at various stages in an organization's growth, depending on the question the entrepreneur seeks to answer. Among the more well known are SWOT, the six forces model, and Michael Porter's four corners model. Each tool provides a specific lens through which a social impact leader can critically assess the organization, its position relative to competition, and its opportunities for innovation and growth. But our goal here is not to provide a comprehensive diagnostic tool kit for all types of competitive analysis. Rather, we show how one simple but useful tool enables social leaders to conduct a quick, robust, and insightful analysis of opportunity and competition, and from there to maximize social innovation and impact.

Start-Up

As social impact leaders attempt to home in on a perceived opportunity and articulate an innovation with potential for meaningful impact, the process of competitive analysis provides essential feedback on both the quality of the innovation and the risk involved in its pursuit. At the most basic level, the competitive analysis functions as an inventory of other organizations providing the same or similar products or services, and often immediately signals the magnitude of the proposed innovation. More-detailed competitive analysis enables the leader to highlight specific competitors and illustrate what differentiates his or her organization. Clear and accurate understanding of the landscape is essential for creating a powerful organizational strategy.

Unfortunately, when compared with traditional private sector competitive analysis, competitive analysis for the social impact leader can often be more challenging. First, many problems of interest to leaders are partially addressed by multiple markets. Clean water in the developing world, for example, can be provided by drilling new wells, or via filtration systems, or through the sale of bottled water. Second, within those markets, products and services may be provided by many different types of organizations, including for-profits, nonprofits, and/or hybrid organizations. This heterogeneity can make it particularly difficult to accurately map the market. For example, an affordable housing market might include public-, nonprofit-, and private-sector providers. And the array of solutions might include low-priced renovated townhomes, small rental apartments, or shelters.

Why is it important for leaders to correctly identify the market or competitive landscape in which they will operate? First, through this exercise they can orient themselves and assess where their ideas and organizations fit relative to other providers in the space. Second, they can gain critical insight into the risks associated with pursuing an innovation or opportunity. For example, at one end of the spectrum, the social impact leader may find that there are no other organizations currently operating in the market. This strongly signals high risk. On the other hand, entering a market saturated with similar providers is also a high-risk situation. Concentrating on the traits of immediate competitors forces the social impact leader to focus intently on the response to one question: *what positively differentiates my idea and/or my organization?* All viable, successful, impactful organizations must differentiate themselves on at least one criterion, and to be truly innovative, they will likely differentiate on many more.

Ongoing

Competitive analysis is an essential tool not just for leaders seeking to position a new innovation and/or organization within the context of existing providers but also for established organizations to continually orient themselves in a changeable landscape. All of the aspects of a competitive landscape are continually in flux: organizations evolve internally, developing both core strengths and weaknesses; conditions change externally, yielding substantial opportunities and threats. As a result, to stay competitive organizations must conduct ongoing, dynamic assessments of these conditions and, through those evaluations, test ideas about future growth.

Collaboration

Competitive analysis can also reveal possible opportunities for collaboration. Some organizations may appear to be competitors on the surface but, upon further investigation, turn into potential partners, assuming there are significant differences in terms of the population served, the program services offered, or the geography covered. In the nonprofit sector, given the immensity of social problems and the long list of potential clients, uncovering potential collaborations and fruitful partnerships can be helpful.

While our focus here is on competitive positioning, we do not want to foreclose the possibility of substituting collaboration for competition when collaboration is both possible and advantageous. Indeed, collaboration can turn out to be an organization's competitive advantage, and how the partnerships are used, its innovation. Opportunities for collaboration generally depend on some overlap in organizational mission and focus, and knowing what others offer can thus be a first step in mapping both competitors and potential collaborators. Collaborations can be difficult to define and manage, however, and sometimes a competitive lens is the appropriate one, even if this proves culturally challenging to nonprofit leaders.

Next, we offer systematic advice for understanding and managing competition.

Determining the Market

Preliminary Mapping

All social impact leaders should build a comprehensive map of the overarching competitive landscape. This rapid exercise should yield a picture of many relatively diverse organizations. The benefit of developing the map is to establish a rough boundary for the market in which the organization will operate. At this level, the market may be quite heterogeneous, with limited overlap among the organization's geography, customer, and/or products; however, the exercise is particularly useful for quick observation of industry trends and, with limited effort, can shed light on the positioning of any organization—whether new or old.

When constructing a broad competitive landscape, the most important differentiating criterion to consider is the product or service the organization provides. Ask yourself, "Who else is providing the same product or service?" Sometimes the answer is "dozens of organizations spread over diverse geographies." In that case, the leader should apply other relevant filters, such as customer and/or geography, to improve the focus. In other situations, when the product or service is very new, only a handful of other organizations worldwide may be offering the same thing. In this case, additional filters limit the solution set too much and therefore should be temporarily ignored.

When the set yielded by the first question is very large, the next two important filters are customer and geography. Specifically: Who is providing the same product or service to the same customer (but potentially in different geographies)? Who is providing the same product or service in the same place (but potentially to different customers)? And who is providing the same product or service to the same people in the same place?

The goal of this filtering exercise should be to map between ten and twenty organizations that have as many as possible of these three criteria in common. The results of the inquiry would show, in a Venn diagram, as the organizations occupying the center, overlapping space (see figure 1).

Figure 1: Venn Diagram for Preliminary Market-Mapping Exercise



While it is important for all organizations to assess their competitive markets—and their niches within those markets—periodically, nonprofits are very often drawn to the task by a new program or innovation, or a significant perceived shift in the market. The preliminary market-mapping exercise is a useful tool at two different junctures. In the start-up phase, preliminary market mapping enables the social impact leader to rapidly assess the risk of entering a new market. In the ongoing/growth phase, preliminary market mapping allows the social impact leader to quickly glean industry trends that are useful for informing strategy and planning.

In the start-up phase, when the mapping exercise yields an empty set, meaning that there are no other organizations providing the same product or service, very high-risk conditions are indicated, because the market is either unproven or has proven so hostile that no organizations have survived. Sometimes preliminary market mapping yields a large solution set of providers already operating in the product or service space; this, too, is a high-risk scenario, because of the added pressure to convincingly differentiate the new idea and organization and to bolster the new organization against the advantages of established providers.

Whether the organization is new or established, one of the social impact leader's first assessments in reviewing the preliminary market mapping data should be an evaluation of the speed of change in the market. Is the market stable, with a relatively unchanging set of organizations? Is the market dynamic, with organizations regularly entering and/or exiting the space? Is the market turbulent, with ongoing change in the number and composition of other organizations creating significant instability? By documenting the main competitors and comparing these data over a relevant time frame, leaders can quickly determine the speed of environmental change within their markets and how that will affect their entry strategies.

A second key assessment should be a measurement of risk, based on the number of current competitors in the space. In cases where preliminary mapping yields no relevant competitors, the social impact leader should be able to articulate how he or she will respond to that particular high-risk condition. Why would a market not have any current operators? There are several potential explanations for an empty market, including: there is no perceived opportunity; unknown external forces have eliminated previous organizations attempting to harness the opportunity; the market is so turbulent that all previous providers have exited; the opportunity is so new that no other organizations have attempted to address it. An empty market should be a warning sign, and leaders should undertake extensive due diligence to uncover the reasons for the lack of other

providers. It may simply be that this is the first opportunity to implement this innovation, but often an empty market signals a high risk of failure.

Preliminary market mapping may also reveal a saturated market, in which dozens of existing organizations are providing (or attempting to provide) a similar product or service. This scenario is also very risky, because evidence of a large number of stable providers means competition will be strong, and existing providers are often able to leverage to block the threat of new entrants. In this situation, the leader will have to respond to concerns about the threat of existing providers, who usually have more resources available to “steal” or replicate a promising idea.

Table 1: Characteristics of Markets			
Number of Providers	Small	Medium	Large
Opportunity	Small	Medium	Large
Environment	Turbulent	Dynamic	Stable
Danger	Low	Medium	High

In general, social impact leaders should look for markets where the trade-offs between risk and opportunity are balanced. Usually these markets have dynamic conditions, with a small number of diverse players who are successfully mitigating risks while taking advantage of latent opportunities (see table 1).

Preliminary market mapping allows the social impact leader to quickly assess the potential riskiness of entering a new market. It also crafts a landscape from which it is possible to observe and track high-level industry trends. However, this perspective is usually too broad to provide relevant details about the risks and opportunities a single organization faces. In order to answer these questions, most social impact leaders will carve out a subset of the broader market and focus on a smaller number of organizations that can be compared along a specially selected, more relevant set of criteria.

Detailed Market Mapping

Having constructed a broad overview of the market, the social impact leader will next want to undertake detailed mapping by applying more specialized filters to deliberately sort organizations and clearly demonstrate differentiation. Detailed market mapping engages three key questions: (1) What characteristics describe the organization but not its competitors? (2) What characteristics describe the competitors but not the organization? (3) Which of these answers matter?

From the preliminary mapping, the leader should have a list of about twenty organizations that make up the overall market. The next step is to hone that list down to a smaller subset of approximately five to seven organizations that have sufficiently relevant, similar characteristics to indicate the direct competitive landscape.

Through this exercise, the leader presents his or her niche or difference in the context of immediate competitors, and must be able to visually demonstrate how the innovation and organization stand apart from others in the same space. At the same time, the organizations must have sufficient overlapping characteristics to show that they are in the same market. The selection of these characteristics is key to clearly and persuasively demonstrating how each organization relates to the other. This information forms a snapshot—the competitive matrix of the organization.

Selecting the best criteria to define the immediate competitive landscape and construct a competitive matrix is not a straightforward exercise. In theory, a leader could select from an almost infinite number of characteristics. On one level, the process of defining a market is highly subjective, as the leader has flexibility in selecting the defining criteria. On the other hand, incorrect selection of the criteria not only yields flawed results but also undermines the credibility of the proposition by appearing to bias the results.

In addition, the criteria selected will directly affect both the size and the composition of the resulting set. Specifically, criteria that are too broad will yield an overly large market with too many undifferentiated competitors, whereas criteria that are too narrow will yield an overly small market with too few competitors. Likewise, criteria that are too broad will not usefully distinguish the niche, while criteria that are too narrow will not set it in the context of relevant substitutes. The social impact leader must find a delicate balance in which the selected criteria are sufficiently informative to support meaningful analysis without contriving the results. In sum, the leader should select criteria that present a robust and seemingly unbiased perspective on the position of the innovation and the organization while also focusing on criteria that clearly demonstrate the strengths and differentiators.

Table 2: Characteristics of Markets' Internal and External Differentiating Criteria for New Organizations	
Internal Criteria	
•	Organizational Mission
•	Primary Product or Service
•	Product or Service Delivery (bundling, distribution channel, etc.)
•	Price or Cost
•	Target Customer
•	Organizational Type
•	Key Assets
•	Growth Potential
External Criteria	
•	Geography
•	Access to Limited Resources (key partnerships, etc.)
•	Reputation
•	Barriers to Entry

How can a social impact leader select the best characteristics with which to construct the direct competitive landscape? To start, the leader should brainstorm a list of all of the characteristics that he or she feels distinguish the organization and the idea. These characteristics may be internal to the organization, such as the new product/service offered or the mission, or they may be external advantages, such as a key strategic relationship or access to a new geographical area (see table 2).

Most organizations tend to focus heavily on the differentiating criteria of the new product or service. However, sometimes that perspective can be too narrow and may overlook important differentiators that are independent of the new product or service. For example, what is the organization's mission? Does it differentiate itself with B Corp certification or other commitments that set it apart from other providers in the space? Differentiation can take many forms, and a leader needs to explore them all.

Above all, the social impact leader should select characteristics that highlight the proposed innovation. For example, is the product or service entirely new or the provision of an existing product or service to a new customer? Is it a new distribution channel or a new combination of services? Is this the first time a nonprofit organization is providing the service? Is this the first time the product or service is being offered to a new target customer? Is the product or service being offered at a new, lower price?

With the initial brainstorm list done, the social impact leader should begin to sort the characteristics in order of importance. With the list honed down to no more than twenty defining characteristics, the leader should then compare those characteristics to the ten organizations identified in the preliminary market mapping and consider which of those organizations share the greatest number of characteristics with the new organization.

Generally, as one applies more characteristics to the filter, the number of organizations with common characteristics can be reduced (see table 3).

Ultimately, the social impact leader should narrow the list to the top five to seven organizations with the most relevant traits in common. Sometimes this set is obvious, but other times there is more art involved in selecting the right list. For example, many leaders focus too heavily on organizations that share the same geography, when it may be more relevant to include organizations with a similar product or service in another geography.

	Char. 1	Char. 2	Char. 3	Char. 4	Char. 5	Char. 6	Char. 7	Char. 8	Char. 9	Char. 10	Char. 11	Char. 12	Char. 13	# Common
Org. 1	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	13
Org. 2	✓		✓	✓		✓	✓	✓	✓		✓		✓	9
Org. 3	✓	✓	✓		✓		✓		✓	✓	✓		✓	9
Org. 4	✓		✓			✓	✓	✓	✓		✓	✓		8
Org. 5	✓		✓			✓	✓		✓	✓			✓	7
Org. 6	✓	✓		✓	✓		✓		✓		✓			7
Org. 7		✓	✓			✓			✓			✓	✓	6
Org. 8	✓		✓		✓		✓				✓	✓		6
Org. 9		✓				✓	✓			✓		✓		5

In reality, the list of the most important differentiating characteristics is a best guess, particularly for start-up organizations, and the social impact leader will have to hone the list over time. Not only will an organization evolve and change its position in the market but also many leaders may not initially fully understand the strengths and differentiating characteristics of their own innovations. Only after launching an organization and interpreting significant feedback from the customer will the leader be able to refine his or her list of criteria and competitors. As a result, social impact leaders should expect to continually refine the list of criteria that distinguish their organizations as well as the list of direct competitors.

Once the leader has identified the three to five organizations and five to seven characteristics that best compare and contrast with his or her organization, the next step is to assemble that information into a useful visual snapshot—the competitive analysis matrix.

Competitive Analysis Matrix

Table 4: Competitive Analysis Matrix						
	Trait 1	Trait 2	Trait 3	Trait 4	Trait 5	Trait 6
Competitor 1	✓		✓		✓	✓
Competitor 2		✓	✓			✓
Competitor 3	✓			✓		
New Organization	✓	✓	✓	✓	✓	✓

The competitive analysis matrix is a simple tool that conveys an instant snapshot of how an organization is positioned relative to its immediate competitors. The format of the matrix is straightforward, with a list of the three to five most relevant competitors on the vertical axis and a list of the five to seven key comparative traits along the horizontal one. For each trait of the organization, a check is entered in the box, creating a view of the organization's key distinguishing characteristics. The ideal comparative analysis matrix demonstrates sufficient overlap to convincingly show that the organizations are within a similar market while also clearly illustrating the strength and competitive advantage of the new organization (see table 4).

Example: Blue Avocado

Blue Avocado is a social purpose business that launched a reusable shopping bag system targeted toward women who want to reduce their carbon footprint without sacrificing convenience or style. At the highest level, the space in which Blue Avocado was launching was the “reusable shopping bag” market; however, this framing is too broad for a relevant competitive analysis and does not usefully reflect the niche in which Blue Avocado operates. As a result, the founders opted to reframe their market with narrower criteria, selecting the following characteristics with which to compare their innovation: whether the bag was part of an integrated system; the stylishness of the product; the degrees of functionality and portability; and price. From here, the founders were able to shrink their competitive analysis to a subset of four key competitors and five distinguishing criteria (see table 5).

Table 5: Competitive Analysis—Blue Avocado					
Direct Competitors	System	High Style	Functionality	Portability	Price
EnviroSax	✓			✓	\$33
GeccoBags	✓		✓		\$24
Reisenthel		✓	✓	✓	\$12
B. HappyBags		✓			\$24
Blue Avocado	✓	✓	✓	✓	\$50

From this competitive analysis, we can see that, though several of the competitive products share overlapping traits with the Blue Avocado system, Blue Avocado is the only one to have all the characteristics. This convincingly shows how the product is similar to others in the market while also demonstrating what makes it different. At the same time, the inclusion of price in the assessment indicates that Blue Avocado is pricing its product substantially above that of its nearest competitor. A quick glance at Blue Avocado's competitive matrix raises the immediate question of whether the combination of these specific traits will merit a more than 30 percent increase in price for the product. Will customers value this combination that much? By positioning their competitive analysis in this way, the Blue Avocado founders are arguing that, yes, their price increase is justified.

In fact, after two years in the market, they discovered that the price point of \$50 was too high to achieve the scale they desired, so they introduced additional product lines at lower price points. This discovery was an important insight into their innovation, resulting in product modifications that strengthened their business and enabled them to reach more people. The risk associated with their high price point was clearly demonstrated in the competitive analysis, and fortunately, because they were aware of the potential for challenges in that area, the founders were able to respond quickly with alternative products.

There is no single correct competitive analysis matrix. In fact, the social impact leader may wish to construct multiple, varied competitive analysis matrices for different audiences. For example, one matrix may focus predominantly on the product space, illustrating how the new product is differentiated from other similar ones. Another matrix may focus on a common geography, and the compared organizations may not have much overlap on product or service but may all be serving the same or similar customers within a community.

Example: Online-Giving Start-Up

If a social impact leader wanted to enter the online-giving space with a new service called, say, GiveGreat, a competitive analysis would reveal a crowded field, but one where a focus on impact measurement, working with young donors and seeking small gifts, might find a place. Of course, there would be some challenges to constructing the matrix, since some of the information about competitors might be proprietary and hard to obtain. But an initial mapping would still help to define the lay of the land and the possibility for a successful new entry.

Again, the choice of the key characteristics will prove critical. If GiveGreat gets this wrong, the entire exercise will be compromised. Thus, if it turns out that administrative overhead is a critical consideration for donors looking at online-giving options, omitting this characteristic from the competitive analysis will be a serious mistake and lead to false conclusions about the merits of the innovation or enterprise. Taking time to get the characteristics right may involve talking to users and doing market research before setting the terms of the competitive analysis. In this hypothetical case, the market looks primed for a youth-oriented and small-scale giving option (see table 6).

Table 6: Hypothetical Competitive Analysis: “GiveGreat”						
Direct Competitors	Functionality/ Ease of Use	Numerous Partners	Targeting Youth	Proof of Impact	Entire donation Given to project	Average Contribution
Global Giving	✓	✓		✓		—
See Your Impact	✓	✓	✓	✓		—
Kiva	✓	✓		✓		\$500
Just Give			✓			\$15
Donors Choose	✓	✓				—
GiveGreat	✓	✓	✓	✓	✓	\$25

Interpreting the Competitive Matrix

The most important function of the competitive matrix is to quickly convey how the new organization fits into its market and distinguishes itself. All organizations (including nonprofits) must be able to demonstrate how they are different and better than their competition. At the same time, as described earlier, the degree of differentiation is also an important indicator of risk: organizations that are not clearly and convincingly differentiated are at higher risk of failure.

Social impact leaders should always use competitive analysis to inform the honing and development of their innovations. For each instance, when a direct competitor possesses a characteristic that the organization in question does not, leaders should carefully evaluate the importance of that distinction. Specifically, they should ask themselves, “Is that characteristic a strategic advantage for the other organization?” If it is not, leaders should be prepared to articulate why. If it is, leaders must begin to plan how they will address that distinction. Does the leader’s organization have other advantages that neutralize this threat or should a similar advantage be sought through either adoption or collaboration?

Similarly, social impact leaders should also be alert to instances in which all their direct competitors have a similar characteristic that their organization lacks. For example, if all of the competitors are using a similar distribution strategy for a product or service, this may indicate that this strategy is the only viable option, for pricing, regulatory, or other reasons. Leaders wishing to deploy entirely unique strategies should be sure to understand clearly why all the other competitors share a common approach and how deviating from the group may or may not be helpful. In the case of Blue Avocado, the competitive analysis underscored that its price point was significantly higher than that of other immediate competitors, and that it was deviating from the general trend of the group. It was hoping to prove that its innovation—combining the traits of a bag system with high style, functionality, and portability—was both substantial and valued enough by customers to warrant such a price increase. In the end, the analysis demonstrated that while the innovation was valued sufficiently by some customers, this was not enough on which to build a sustainable business model—so Blue Avocado quickly adapted and created new products at lower price points.

In some cases, an organization can immediately incorporate the insights gleaned from competitive analysis into the proposed product or service. At other times, as in the case of Blue Avocado, an organization must carefully note potential risks or modifications and then activate the product or service only if the market affirms the hypothesis. Sometimes, a leader may find it difficult or

impossible to adapt the innovation, even though the competitive analysis clearly demonstrates the need for it. For example, competitive analysis may clearly indicate the benefit of a key partnership or financial investment, but due to multiple potential constraints (for example, being too small, not having enough money, and so on), the leader may be unable to incorporate the new ideas into the original innovation. Here is where competitive analysis begins to inform competitive strategy: the leader must determine whether it will be most advantageous to function competitively or collaboratively with the other organizations in the competitive landscape and how to use competition and alliances as complements and substitutes to the innovation.

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Competitive analysis has three primary objectives. The first is to gauge the risk associated with conditions in the current market and the likelihood of success. The second is to uncover important insights into the quality and viability of an organization's innovation(s). The third is to make use of the conclusions derived from the first two to develop an organizational strategy that maximizes impact. Other, secondary insights are often derived from competitive analysis, including industry trends from preliminary market mapping, clear identification and articulation of the organization's differentiation and competitive advantage, and a detailed mapping of the organization's position relative to its immediate competition.

Social impact can no longer be pursued without knowledge of competitors and what they offer. Organizations must understand the competitive environment as a first step in building, positioning, and growing in the turbulent waters of social innovation and impact.

Are We “Walmartizing” the Social Sector?

By Michael Lombardo

Editors’ note: This article is featured in the Nonprofit Quarterly’s fall 2014 edition: “Grappling with Competition: The Nonprofit Landscape.”

Last summer, my family and I went on the Great American Road Trip, driving from our California home to the East and back again. Over six weeks, we passed through seventeen states, visited nine national parks, and, to our great pride, ate only one fast-food-chain meal the entire time. (My kids pronounced the food “spongy” and “weird.”)

It isn’t often that I think of my work running a national children’s literacy nonprofit as being connected to chain restaurants, but during my hours of driving it occurred to me that, for all my “shop local” sensibilities, I was actually doing to the education sector what Burger King and McDonald’s were doing to food.

Were my efforts over the past seven years scaling Reading Partners across sixty school districts in nine states basically creating a miniature, socially oriented version of Walmart?

What We Mean When We Talk about Scale

Like the process of scaling, defining “scale” is complicated. Frequently, scaling is used interchangeably with “growing” to describe a program or organization that is significantly expanding in size over time. “Size” is also a complex term: it can describe the number of clients served or the services provided to those clients; the operating budget; the geographic footprint; or some combination of all those factors.

When we use “scale” and “growth” as synonyms, we miss an important distinction, just as we do when we confuse “size” and “impact.” Scaling is less a structural description and more a mind-set for organizations—a focus on addressing a social problem at the neighborhood, city, state, national, or even global level. A scaling organization must think about its impact as well as its size—and hopefully more the former than the latter.

A scaling organization’s resources and strategies should be calibrated to the scope of the problem it seeks to address. An organization that serves only 1 or 2 percent of its target population is not necessarily scaled, just as an organization that seeks to address a problem affecting millions of people is not necessarily scaling if it impacts a thousand more lives each year.

Nor is scale a binary state into which organizations can easily be categorized. Just as in the for-profit sector there are some companies that are clearly scaled (Walmart), there are others that fall into a gray area, such as regional or urban-only chain operations, and companies that hold large

but not dominant market share in crowded sectors.

Scale, therefore, is ultimately in the eye of the beholder. While we might argue about what defines a truly scaled organization, for the purposes of this essay I will consider it a self-applied label. (If an organization or its stakeholders believe it is scaling, then we should describe it as such, and that organization therefore needs to be thoughtful about its scaling activities.)

Leading Reading Partners through its efforts to scale nationally, I am the first to admit that much of what I learned about scale comes from the mistakes we made in our earliest efforts—a few of which continue to pose challenges in some of the communities we serve. In many cases, my knowledge about scale was gained the hard way, and I share it in the hope that others will have a gentler and smoother learning curve.

Why Do Organizations Aspire to Scale?

If scale is less a state of being and more a way of thinking about social problems, then what is it that compels nonprofit organizations to adopt it as an operating principle? Put another way, why do organizations sometimes feel compelled to grow beyond their founding communities?

The noblest answer is that organizations are compassionately compelled by the need for their services. If an organization feels morally obligated to address a social problem in its own community, it is very difficult to turn a blind eye to similar problems in other communities. Many social problems are diffuse and portable, crossing city and state lines and following vulnerable individuals as they move from place to place. It is by no means a simple thing for an organization to define and adhere to a strict geographic focus.

There are other factors that motivate organizations to scale. Fundraising is probably the least worthy of these. Funders tend to like growth, especially those funders with experience in the corporate sector, where growth and success are often thought of as two sides of the same coin. All things being equal, organizations that can tell a scaling story will find it easier to raise more money each year—which creates a powerful incentive, even if (as discussed below) this can simultaneously create a perilous funding trap.

There are national (as opposed to local) funders, too, that are generally accessible only to scaling organizations. The amount of funding available in this vein, however, tends to be much smaller than organizations may imagine it to be. The vast majority of domestic American philanthropy is highly local in nature, even if many of the household-name grantmaking foundations gravitate toward national organizations.

Another factor is the undeniable prestige attached to scaling organizations, whether deserved or not—particularly those that expand across state or national borders. It can be viewed as a sort of validation when an organization is invited to serve a new community, even if the invitation came as the result of significant lobbying on that organization's part. Scaling organizations also find themselves the recipients of national press and policy-making attention much more frequently than organizations focused on a single community. (There are some notable exceptions to this, such as the Harlem Children's Zone, which has received considerable national media attention and even spawned an initiative by the federal government without ever expanding beyond its original neighborhood focus.)

Regardless of the reasons for scaling, organizations need to be thoughtful about the benefits and drawbacks of this mind-set. If done well, a scaling approach can exponentially increase an organization's impact, driving it toward making true and meaningful progress in combating devastating social ills. If done poorly, scaling can be a disruptive diversion of precious resources that commodifies rather than serves communities of need.

Mission Benefits of Scaling

1. **Consistent and compelling outcomes.** Solving social problems is much easier when there are common metrics that can be used to measure the impact of different programs. Scaled organizations usually have an internally consistent evaluation regime that enables them to compare program effects across diverse populations and environments and to present those outcomes in a compelling way to funders, policy-makers, and other stakeholders.
2. **More efficient resource allocation.** It is often challenging for local organizations to find economies of scale, particularly for backoffice functions. Scaled organizations are able to centralize administrative functions and share business services across their network. This dual benefit lowers overhead costs and frees up local staff to focus more on program delivery and stakeholder engagement.
3. **Enhanced capacity for research and development.** Scaled organizations are not only able to spend more in real dollars on program development and research but also often allocate a higher overall percentage of their budget to these activities. Organizations that serve multiple communities also have the freedom to try new approaches in discrete parts of their network without fearing that they have “bet the farm” on their success.
4. **Ability to exert sector influence.** Scaled organizations have the ability not only to provide high-quality services but also to share what they’re learning across the sector. With more resources for formal research and program evaluation, scaled organizations can play the role of both thought leader and trendsetter, helping smaller organizations to improve their impact even if they don’t have the capacity to do research work themselves.
5. **Availability of tools for reform-oriented leaders.** When a community leader sets out to address a pressing social need, there may not be an existing local organization that is prepared to take on the challenge. Scaled organizations can support these leaders by providing proven, scalable programs (and models) that can often be imported much more quickly and less expensively than building a new local organization from scratch.
6. **National issue advocacy.** Organizations spanning multiple cities and states are in a better position to raise national awareness of their issue and to engage with federal policy-makers and funding agencies. Scaled organizations also tend to have better-known brands that can be leveraged to drive more resources toward their issue, benefiting the sector as a whole.

Mission Challenges of Scaling

1. **Lack of local saturation.** While there is not always a direct trade-off between having greater impact in one community and expanding to serve another, organizations run the risk of finding their services stretched a mile wide and an inch deep. This can both drive up costs per unit of service and cause a lack of focus that undermines the organization’s ability to make meaningful progress on the issue in any of the communities it serves.
2. **Commodification of place.** Every community is distinct, yet scaling organizations can come to think of each replication site as just another dot on the map. The unique struggles facing these individual communities can be reduced and oversimplified, or lumped neatly into specious categories based on their surface-level similarities. This can have negative effects on local stakeholder engagement and can undermine the success of the organization’s stated mission.

3. **Dependency on external funding sources.** The dark side of the national attention and dollars that scaled organizations can bring to their issue is that they can create unsustainable structural deficits at the local level. Funders from outside the community often end up providing de facto subsidies for services that local stakeholders rely on, creating a potentially problematic dependency—especially if those national funding sources change in geographic focus.
4. **Expansion funding trap.** A related challenge is the temptation for a scaling organization to use new funds from expansion sites to backfill deficits in core operations. Expansion funding is typically much easier to secure than general operating funds and can mask underlying structural issues with an organization’s funding model, forcing it to grow in order to maintain its financial viability.
5. **Unintended consequences for existing local nonprofits.** Every community has existing organizations working to address social challenges that exist in balance with the local funding and resource base. The entrance of a new outside organization can upset the local ecosystem, disrupting resource streams for existing organizations in ways that could actually create a net decrease in services available for the community.
6. **Missed opportunity for network leverage.** The least expensive and least labor-intensive way for an organization to advance its mission in a new community is to enable existing organizations to do it for them. In their zeal to put boots on the ground, however, scaling organizations often don’t evaluate the full array of strategies available to them to have an impact within a community. Putting launch funding and energy into a partnership with (or merger with) an existing organization can often be more efficient and less operationally risky.

Best Practices for Locally Beneficial Scaling

If scaling is defined as growing impact to solve social problems, then every organization should seek to scale, even if only within a city block. It is important, however, for organizations to be thoughtful about their scaling practices, especially when their scaling strategy involves expanding to serve new communities.

The driving principle in this thinking should be the local benefit of scaling activities, as measured by mission advancement within that community. Organizations practicing thoughtful, high-impact scaling should:

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- **Prioritize communities already served.** Organizations should go as deep as they can and maximize all the vertical growth opportunities possible before considering horizontal growth to new communities.
- **Spend time learning about potential expansion communities.** The process of evaluating a new community for services should span many months (if not years) and should entail an open dialogue with all of the local stakeholders, including other nonprofit organizations with similar or related missions. Organizations should confirm that they are not duplicating good work already happening, even if the organizations doing it are at an earlier stage of development.
- **Have a compelling rationale for being in every community.** Starting a program that serves vulnerable populations is a major commitment that should be based on more than the availability of funding or an abstract desire to roll out nationally. Organizations should easily and clearly articulate the reasons they’ve chosen to serve a particular community and explain simply why their presence as a direct service provider is the most effective way—both in operations and cost—to advance their mission locally.
- **Build meaningful partnerships with local stakeholders.** Whether structured or informal, partnerships between local and national organizations should demonstrate the sincere interest of both parties in supporting each other to advance a shared mission. Scaling organizations should

strive to be good neighbors that engage collaboratively with local communities.

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Like any organizational mantra, the concept of scale in nonprofits deserves studied scrutiny, both within the organization and among its stakeholders. While the nonprofit sector has not produced anything remotely approaching the megalithic reach of leading multinational corporations, we should still think critically about how (or whether) we adopt their structures and approaches.

The greatest danger occurs when the primary motivation of an organization's activities is an interest extrinsic to the community in which it is operating. As their top priority, Walmart and Burger King focus on maximizing overall corporate profit. There is nothing immoral about this: it is precisely what those organizations have been chartered to do. It does, however, necessarily subjugate the best interests of the local communities in which they operate, making them a secondary consideration.

There is much that nonprofit organizations can learn from the corporate sector, but we have a fundamentally different charter: we are required by law to benefit the public good. This requires us to invert the corporate priority structure, placing the best interest of local communities served as our highest priority. This means it is critical that organizations maintain that focus if and when they choose to scale.

Attention Philanthropy: The Good, the Bad, and the Strategy

By Chao Guo, Ph.D and Gregory D. Saxton, Ph.D

Editors' note: This article is featured in NPQ's summer 2014 edition: "21st-Century Communications: Authenticity Matters."

"May you live in interesting times." This purported Chinese curse captures the nature of the information environment in which nonprofit organizations find themselves. The worldwide proliferation of information and communication technologies has ushered in a new age characterized by a twenty-four-hour news cycle, powerful Internet search engines, and near-countless social media outlets. Most nonprofit organizations make an appearance on social media and have websites that show all their good work, and people are not limited to the organization as their primary information source: they can obtain information through multiple venues—from voluntary web-based transparency and disclosure by the organizations themselves to intermediaries such as GuideStar, rating agencies such as Charity Navigator, and decentralized "word of mouse."

Yet, this abundance of information comes with a price. As Nobel laureate Herbert Simon noted some forty years ago, "[T]he wealth of information means a dearth of something else: a scarcity of [. . .] the attention of its recipients."¹ Due to people's limited information-processing capacity, their attention to any particular cause or organization is necessarily diluted. As a result, they often fail to notice organizations or causes that are not constantly in their faces in a flashy way.

The challenges are particularly salient when nonprofits begin embracing social networking technologies. In addition to print media, radio, and television, a typical organization now has a website, uses e-mail, and avails itself of Twitter, Facebook, YouTube, Pinterest, and such custommade mobile applications as Check-in for Good, Donate a Photo, I Can Go Without, and YMCA Finder, among many others. Recent research shows that the great majority of large and medium sized nonprofits are using these information channels.² The problem is, if everyone is doing social networking, who is paying attention to your nonprofit? There seems no first-mover advantage to adopting these technologies, and just the mere fact of having a Facebook profile is not enough to make your organization unique.

In this altered informational landscape, attention has become a scarce organizational resource. Philanthropy and charity work are increasingly driven by attention, a commodity that nonprofit organizations must acquire in order to attract—and sustain— their donors, volunteers, and supporters. Welcome to the age of attention philanthropy.

What Is Attention Philanthropy?

We define attention philanthropy as the *challenges, opportunities, and responses associated with the phenomenon in which all players in the philanthropic and charitable sector (for example, donors, funders, supporters, nonprofits, and so on) are potentially overwhelmed by information overload and a dearth of attention.* What is behind this phenomenon? The surge in computerization and digitization over the past three decades has led to a sharp increase in the number of information channels, as noted above. The decentralized and participatory aspects of digital media have also led to an explosion in the number of information producers, intermediaries, and third-party providers. Almost anyone can be an online journalist, blogger, or nonprofit analyst. The increase in information producers and channels has in turn led to an explosion in the amount of available information. In short, the information environment of nonprofit organizations has changed. It is markedly richer yet more difficult to navigate. With so much to look at but a limited information-processing capacity, there is an “attention deficit” problem: donors and supporters can have difficulty knowing where to direct their attention, and organizations can have difficulty grabbing and holding that attention.

This attention deficit problem possesses at least three characteristics that have possible broad implications for nonprofit organizations. First, people’s attention is fleeting.

Today, they are reading about the infamous terrorist group Boko Haram kidnapping hundreds of Nigerian girls; tomorrow, a massive earthquake in Latin America holds their attention. Thus, whatever attention the public gives an organization is unsustainable: people notice an organization, like it (or hate it, in some cases), and then forget about it.

Second, people are drawn to drama. Donors and supporters are more likely to notice dramatic stories and spectacular events, such as natural disasters and crises. While these catastrophes certainly deserve attention, they tend to divert support from smaller yet still important local causes. Attention philanthropy seems to exacerbate the issue.

This tendency is consistent with and related to the observation that nonprofits often rely on anecdotal, personalized stories and narratives to describe their function rather than highlighting organizational qualities like careful program design and systematic evaluation.

Finally, people crave the new. They are more likely to pay attention to new programs, projects, and activities than to old ones.

The scarcity of attention has thus initiated changes in philanthropic practices that present notable opportunities and challenges for nonprofit organizations. Below we outline the positive and negative aspects of these implications before turning to potential organizational strategies for thriving in this new information environment.

The Good

Attention philanthropy presents opportunities for nonprofit leaders to experiment with new ways of reaching their target audiences. Attention, if properly managed, can be a powerful marketing tool for nonprofit organizations. For example, TOMS Shoes, a company with a charitable mission (“With every pair you purchase, TOMS will give a new pair of shoes to a child in need”), has developed a grassroots marketing approach that entails a series of attention-grabbing events, such as the “One Day Without Shoes” campaign, instead of relying on formal channels of advertising. Its clever, attention- getting strategies have attracted numerous people to the company’s “One for

One” message and helped establish a wide network of supporters crucial to the company’s business and philanthropic success. Since TOMS launched in 2006, it has given over ten million pairs of shoes to children in more than sixty countries.

Sometimes, the amount of public attention an organization attracts is not even the result of its deliberate strategy. One such example is a Facebook campaign by supporters of the Susan G. Komen foundation. In October 2010, a viral Facebook posting of unknown origin encouraged women to say where they like to leave their purses when they come home. The provocative statements—“I like it on the floor” and “I like it on the kitchen counter”—got people talking. The “I like it on . . .” meme—like the “bra color” status updates that swept Facebook a little earlier—was intended to bring attention to Breast Cancer Awareness Month (October). The tactic apparently funneled 140,000 new fans to the official Susan G. Komen Facebook page that year. Komen did not take credit for the phenomenon, but it certainly enjoyed the free publicity. “We think it’s terrific,” a spokeswoman for Komen commented. “It’s a terrific example of how little things get started on the Internet and go a long way to raise cancer awareness.”³

More broadly, attention philanthropy potentially yields several positive developments for the nonprofit sector. For instance, it provides a more level playing field, and allows for a more decentralized, bottom-up participatory approach to solving social problems. Gaining attention relies as much on creativity, innovation, and entrepreneurship as it does on financial resources. And, as seen in the above examples, the size and resourcefulness of an organization’s wider constituent network play a key role in the success of a fundraising or public education campaign. A greater emphasis on the public’s attention may also benefit the vitality of the nonprofit sector by concentrating its focus on external constituents.

The Bad

Yet, attention can cut both ways. In the case of Susan G. Komen, good publicity quickly turned bad when, in January 2012, the nation’s leading breast cancer charity “quietly” decided to cut funding to Planned Parenthood, the nation’s leading provider of health services to women. When Planned Parenthood not so quietly announced the news on its Facebook page, shocked and outraged people lavished their support on Planned Parenthood—not just in the form of Facebook “likes” and Twitter followers but also in donations; at the same time, they expressed damning criticism of Komen through social media. The negative attention led to heavy public scrutiny of Komen’s programs and finances—and, as it turned out, Komen was not as much “for the cure” as its name suggests: it was found that, in 2011, the “pink ribbon” organization spent 15 percent of its donations on research awards and grants, down from 29 percent in 2008; in contrast, 43 percent of donations were spent on education, and 18 percent on fundraising and administration.

In addition, as mentioned earlier, public attention tends to latch onto the flashier organizations, programs, projects, and activities. For instance, research shows that in crowdfunding appeals, certain types of organizations (for example, environmental and health organizations) were more likely to attract money than others (for example, organizations for the homeless).⁴ Evidence shows, too, that nonprofits make crowdfunding appeals largely for new, tangible projects (buying a new building, making a film, and so on), and that none make crowdfunding appeals for such mundane projects as program evaluation or human resources training. Such prosaic yet essential goals simply do not grab attention. Energy more easily swings toward marketing, public relations, stakeholder relations, and capital projects. Within each organization, in turn, efforts tend to shift to those programs that are more attention grabbing. It’s the same for certain projects; for example, building a new clubhouse receives more attention than refurbishing an existing one.

Perhaps more importantly, an organization can become lost when it obsesses over getting attention at the expense of its mission, as the Greg Mortenson controversy illustrates. Mortenson, cofounder and executive director of the nonprofit Central Asia Institute (CAI), used his best-selling books

Three Cups of Tea and *Stones into Schools* to promote the CAI cause. In them, he recounts the story of the founding of his nonprofit, and tells of the struggles CAI faced while fulfilling its mission of providing education to girls in remote areas of Pakistan and Afghanistan. The books brought Mortenson a large fan base and extensive media attention. Until a few years ago, his constant presence had ensured a steady flow of donations to CAI that enabled him to vastly increase the size and scope of its operations. In 2012, however, Mortenson came under heavy scrutiny for alleged inaccuracies in his books, gaps in accounting, and possible exaggeration of the number of schools his organization had built. Unfortunately for Mortenson, regardless of whether or not these allegations are true, the controversy has seriously damaged his reputation and challenged the legitimacy of his organization.

Finally, sometimes an organization can suffer from negative secondhand attention due to its affiliation with someone who is in the spotlight. Take the Livestrong Foundation (formerly known as the Lance Armstrong Foundation) as an example. Established by the world-famous cyclist Lance Armstrong, in 1997, to help cancer survivors and their families, the success of the foundation had been closely associated with its founder, president, and single largest donor. Because of Armstrong's celebrity status, the foundation was able to garner tremendous attention and support from donors, corporate sponsors, and the public. This secondhand attention backfired, however, when Armstrong appeared on the *Oprah Winfrey* show in January 2013 and admitted to having used banned substances to improve his cycling performance.

The Strategy

What is an organization to do in these interesting times? A first step is to recognize that attention is an informational, communicative, message based phenomenon that implies a series of *sender*→*receiver* relationships, with the organization being the sender and the public the receiver. As a result, organizational leaders need to become comfortable with designing appropriate messages and targeting relevant audiences.

Organizations should recognize that certain types of messages are more likely to receive attention than others. Here we present several insights from nonprofits' use of social media that provide an excellent context in which to see the immediate audience reaction to organizational messages. Not only are the insights valuable, given the ever-increasing use of social media tools, but they can also be generalized to other communication channels, such as websites and traditional media.

Our research suggests that, on Twitter, targeted messages (those seeking to connect to other users), messages including images, and messages tapping into preexisting networks through the use of hashtags are more likely to receive audience reaction. Just as importantly, those organizations that communicate frequently and those with larger audiences are more likely to receive attention.⁵ This observation makes intuitive sense. You need an audience that not only reads your messages, "friends" you on Facebook, and/or follows you on Twitter but also makes donations or signs up to volunteer; if you can make it "captive," you will be more successful in the long run. Yet how do you build a captive audience? You need to build a network and communicate with it.

So how can an organization build and leverage a captive audience that is actionable? Our research suggests that the best framework for building an online network is a three-stage pyramid model of social media-based strategy: *reaching out to people, keeping the flame alive, and stepping up to action*.⁶

The first stage, *reaching out*, involves making new connections and getting the word out through the continuous sending of brief messages to followers. These tweets are largely informational, and the focus is on getting attention. One interesting practice on Twitter is what might be called "celebrity poking" or "fishing," as in the following attempt by Public Counsel (@PublicCounsel) to

target Oprah Winfrey:

@oprah in tribute video to Elie Wiesel: “you survived horror without hating”

Celebrities have tremendous network powers, in the sense that their tweets almost immediately reach audiences of hundreds of thousands—even millions—of followers. If a nonprofit can capture the attention of a celebrity, the payoff, in terms of geometrically increasing the diffusion of an organizational message or call to action, is enticing.

The second stage, *keeping the flame alive*, involves deepening and building emergent ties. The focus is on preserving attention: enhancing and sustaining communities of interest and networks of supporters. The two types of community-building tweets are *dialogue* and *community building*. First, there are tweets that spark direct interactive conversations between organizations and their public. An example is the following tweet from ChildFund International (@ChildFund):

Change a childhood #childfundcac event starts now. Give us your best tweets on child rights. Rules @ <http://www.childfund.org/twitter>

Second, there are those tweets whose primary purpose is to say something that strengthens ties to specific users (via @user mentions) and discussions (via hashtags) in the online community without involving an expectation of interactive conversation. The following message from Make The Road New York (@MaketheRoadNY) offers a good example of this type of community-building tweet:

Great work everybody! MT @LICivicEngage Tks for pledging to reg. voters this year! @naacp_ldf, #local1102, @32bj_seiu, #liia, #carecen

The third stage, *stepping up to action*, involves mobilizing supporters. The focus is on turning attention into action. Tools such as hyperlinks and hashtags are frequently used in conjunction with mobilizing messages. For instance, the following call-to-action tweet from the National Council of La Raza (@NCLR), a large U.S. Latino civil rights and advocacy organization, contains two hashtags:

Today we are storming the Supreme Court to highlight the injustice of #SB1070. Join us and demand #Justice4AZ

You can employ similar messages to mobilize constituents to donate, volunteer, attend an event, or indeed do anything that will help the organization meet its mission.

Of course, these examples represent just one model for how an organization can approach its audience. The key takeaways from the model are: (1) audience precedes attention, as attention is unlikely to grow if there is no audience; (2) audience needs nurturing; and 3) by all means seek to attract attention, but know that it is a means and not the end. Keep your mission in sight and leverage attention to produce more- substantive outcomes.

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The age of attention philanthropy presents opportunities as well as challenges for nonprofit leaders, who must be vigilant in innovating new ways to reach their target audiences if they hope to gain support for their organizations. Yet, when they focus too much on gaining the public's attention, they risk losing sight of mission and accountability. They must clearly situate their quest for attention within the organization's mission and strategy. Attention is in many ways a new form of currency for nonprofit organizations. And, just as you would not want to chase dollars with harmful strings attached, be sure not to chase attention at any cost.

Notes

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*Biographies presented as published in the Winter 2014 Nonprofit Quarterly Magazine – Births & Deaths in the Nonprofit Sector:
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