

THE Nonprofit QUARTERLY



The NPQ Starter Kit: *A Collection of NPQ Classics*

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Bales

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Welcome

THIS WONDERFUL “STARTER KIT” COLLECTION OF EVERGREEN ARTICLES FROM OUR ARCHIVES, CHOSEN as introduction to the *Nonprofit Quarterly*, covers a broad array of topics selected to best represent *NPQ*’s continuing practical and intellectual value to you. While you read the articles, we hope you will keep in mind that a subscription to our journal keeps you completely up to date with innovative thinking and practices in the nonprofit sector.

Even our most practical articles are enlivened with real-world examples and deepened with the nuances of context. Take, for instance, the classic “Mission, Message, and Damage Control,” by Kim Klein. I am forever citing this article because it is such a grounded discussion of how organizations should deal with public crises. The article ought to be required reading for every board member, because, as Klein comments, even if your organization has not been challenged by a crisis of this kind, you would be a fool to assume it never will!

Indeed, many of these articles should be standards for boards and executives as well as emerging leadership. The information is well researched yet accessible to practitioners. Some of the articles challenge the status quo, some provide greater depth to or bring up to date ongoing topics relevant to the sector, and some introduce emerging practices—but they are always engaging, which is why you will see them used so often in university-based nonprofit management programs. Essentially, *NPQ* is a mechanism for continuing education—both in- and outside the classroom.

Make sure you subscribe today by going to <http://store.nonprofitquarterly.org/subscriptions>, and register online for our daily newswire at www.nonprofitquarterly.org/register. We at *NPQ* hope that this is the start of a long and rewarding relationship.

Ruth McCambridge
Editor in Chief

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To 501(c)(3) or Not to 501(c)(3): Is That the Question?

by Frances Kunreuther

IN THE 1980s, I WAS PART OF A GROUP OF STAFFERS from youth and AIDS programs that met every month to discuss our concerns about the growing epidemic and what it meant for adolescents. We included youth workers and medical teams and funders and shelter workers and early AIDS service providers. What we all had in common was an understanding that young people were having unprotected sexual relationships, often with older partners, and we were scared. Each month, 20 to 30 people came to share information, develop educational programs, talk about raising awareness and listen to presentations on epidemiology and behavior. And then we decided to write a grant for funding, raising the question—should we become a 501(c)(3)?¹

How many of us have been in this position? We voluntarily come together to make something happen—address a crisis, take action on an issue, share some mutual interests—when someone pops the question. Do we want to found a formal organization? When we asked that question in our AIDS group, I am not sure we really thought about it too long. We felt that formalizing our work was a natural progression, a law of nature for how organizations in the nonprofit world develop.

Now that wisdom is being challenged. Not everyone is quick to believe that formal nonprofits

are the right choice. More important, many are raising concerns that a 501(c)(3) status is the *wrong* choice for some groups. Two years ago, the Building Movement into the Nonprofit Sector project held meetings around the country with leaders of social change organizations. We were surprised to find that in each meeting there was a story—or two—about why groups might want to stop and consider whether they really want or need to become an independent incorporated organization.

Should volunteer-driven groups incorporate? Will they ruin their character and work once a legal structure has been imposed? We know that many groups choose to become 501(c)(3)s and go on to provide important and constructive contributions. These organizations take on many different characteristics—in style, form, function, issue area, involvement of citizens and volunteers and even in the type of incorporation status they choose to take. Yet, it is still worth listening to what all the fuss is about, so that whether or not they decide to become incorporated, groups have thought through the pros and cons of their

[M]any [nonprofits] are raising concerns that a 501(c)(3) status is the wrong choice for some groups.

FRANCES KUNREUTHER is the director of the Building Movement into the Nonprofit Sector Project, housed at Demos.

“We found our best, most militant, most politically aware, most mission-oriented leaders, when they moved to the board and we became a 501(c)(3), then became involved in the intricacies of running a corporation.

decision. Because of all the benefits attached to being a formal organization, many volunteer groups are still likely to incorporate. But organizations must first grapple with the tough question of whether a more formal structure fundamentally moves the work of the organization forward, and at what cost.

What’s the Problem?

There are three concerns about incorporation: (1) the potential impact on the involvement and energy of the organization’s key people; (2) the risk that incorporation will shift the group’s focus from its mission to organizational survival; and (3) the constraints implicit in forming a corporation, registering with the state and becoming accountable to the government.

Involvement and Energy

Nonprofit groups were once viewed as sites for creating a vibrant citizenry engaged in public life. However, those attending our meetings questioned this assumption. They believed—or feared—that the process of incorporating depleted rather than enhanced voluntary participation.

In Denver, one person talked about the power and energy she felt in a volunteer organization where 150 women and men showed up each month to address the issue of violence. But when the group decided to become a nonprofit organization, everything changed. She explained, “The more structure that was placed on the group, the more people fell away because there was no place for them to engage in the direction or the meaning of the organization; no place for them to give of their talent and their passion.”

Incorporating for Funds

One motivation for groups to incorporate is to receive funds from foundations or donors. Funding was a way to address burnout of volunteer staff and to ramp up the group’s work. Once the money came in, though, some groups found that it created other problems.

At the Atlanta meeting, a participant explained how her group had operated for years with outside funding: “We funded everything: attorney’s fees, copying, office, all of that stuff.” Receiving grants

expanded the work of the organization but narrowed it in unexpected ways. She says, “It’s like being between a very big rock and a very hard place, because we can do the work a little easier because we’re not having to kill ourselves. But the level of work that we’re doing is not what it used to be because so much of our time goes into fundraising.”

Several people worried that funding—whether a group is incorporated or not—can turn the group’s focus toward what funders want or expect and away from the original mission. Our Atlanta participant noted this impact as well, stating, “We have looked very hard at how the nature of our work has changed since we began to seek outside funding. Are we less aggressive now than we were when we financially controlled and supported our own agenda? . . . Are there things that [we] would have done before that we won’t do now, because viewed by the funding world it may be a little over the top?”

Nonprofits and the State

Those working toward progressive social change expressed considerable concern about whether the incorporation process itself had an impact on groups’ ability to seek deeper systemic change. One person whose organization deliberately decided against incorporating explained that they had considered becoming a 501(c)(3) to gain resources. He explains, “We decided that no, that’s a barrier in itself . . . with that, your hands are tied.” Others talked about how they housed unincorporated groups in their organizations to support their independent work. Still others talked about the early social movement theorists who cautioned that building organizations would undermine movements for fundamental social change.² Why did all these people worry about becoming a 501(c)(3)? As one New York City participant noted: “We found our best, most militant, most politically aware, most mission-oriented leaders, when they moved to the board and we became a 501(c)(3), then became involved in the intricacies of running a corporation. So one of the things we found was that the people who were leading the movement . . . were now involved in developing personnel policies, developing bylaws,

looking at financial statements, transferring funds to a CD . . . and were not involved in any kind of the fun, action-oriented, political pieces.”

How to Decide

Has incorporation ruined the vitality and spirit of the nonprofit sector? Is it preventing groups from speaking up about the issues they care about or curtailing their action? Many of the people we talked with worked in incorporated nonprofit groups. But they wanted to raise the question of what it means to decide to formally join the nonprofit sector. In assessing their options, groups should ask themselves the following questions:

Why are we thinking about incorporating? What will it bring us and what are the costs?

- Who is driving the decision to become a 501(c)(3)?
- What impact will it have on those of us currently involved?
- What impact will it have on our other constituents?
- How will it advance our mission and vision?

Is incorporating tied to raising funds?

- Do we have to incorporate to receive the funds we need?
- Can we become a project of a group already incorporated, such as a fiscal sponsor, rather than obtaining our own 501(c)(3)?
- How will funding affect our work?

What sort of voice do we have collectively and how will a 501(c)(3) status affect that voice?

- Will we still speak out once we are a formal organization?
- Is becoming an organization supporting our current structure and operation?
- How do we express ourselves now and what will change?

Conclusion

Not every group has to become a 501(c)(3). At the same time, not every 501(c)(3) has to look and act the same. The passion to achieve the mission does not have to end with incorporation, but the organization may need to create new structures

for channeling the fervor that initially brought people together. In our meetings we heard from groups that had incorporated that found amazing and creative ways to address some of the concerns raised above. They took specific steps to nurture the continuing commitment and energy of the original volunteer activists. They asked themselves regularly if they were remaining true to their mission and created innovative strategies for staying on track.

Organizations that incorporate must consider how funding can enhance or limit the mission and achievement of their vision. Funding solves some problems and creates others, so a key challenge is for incorporated organizations to mitigate the negative effects of funding and remain conscious of choosing work based on connection to mission, not availability of resources.

Finally, one participant pointed out that the regulations that come with incorporation can cut both ways: they can inhibit groups but they can also ensure that groups are accountable to their mission and bylaws. Incorporation is also a vehicle to capture foundation and government funds and use them for purposes that neither the public sector nor the for-profit sector would normally support. Incorporated organizations have a status and legitimacy that those in other institutions of power recognize and reckon with.

The decision about whether to incorporate is fundamental. Rather than assuming that incorporation is necessary, groups—and those who advise them—face the challenge of making a thorough and conscious decision about incorporation while being attentive to maintaining the vitality of the vision and mission of the work. So, to 501(c)(3) or not to 501(c)(3), that is an important question.

NOTES

1. In this article, I use 501(c)(3) to talk about incorporation. It is important to note that groups can also decide to incorporate under one of many categories, each of which has specific benefits and limitations. For a more complete discussion of different categories of incorporation see Salamon, Lester 1999. *America's Nonprofit Sector: A Primer*. New York: The Foundation Center, p. 8.

The passion to achieve the mission does not have to end with incorporation, but the organization may need to create new structures for channeling the fervor that initially brought people together.

2. Social movement theorists disagree among themselves about whether or not we need to build formal organizations for movements. For example, see Doug McAdams, *Political Process and the Development of Black Insurgency: 1930–1960*, for an argument for organizations; and Frances Fox Piven and Richard Cloward, *Poor Peoples' Movements, Why They Succeed, How They Fail*, for the argument against.

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Truth or Consequences: The Organizational Importance of Honesty

by Erline Belton

“We do not err because truth is difficult to see. It is visible at a glance. We err because this is more comfortable.”

—Alexander Solzhenitsyn, Nobel Prize winner, Soviet writer, and U.S. citizen

Editors’ note: Recent NPQ articles on organizational conflict (“*Brave Leadership in Organizational Conflict*,” by Kenneth Bailey, winter 2004) and defensive behavior (“*Defending Defensiveness*,” by Sandra Janoff, spring 2004) have brought a terrific response from readers throughout the country. It is clear that interpersonal skills and behavior, and the organizational systems that either support or undermine a healthy exchange, continue to be of central concern to people in nonprofits. The following piece by Erline Belton serves as a companion to these other articles, presenting a complementary vision of the group and personal skills that are needed to propel our organizations forward.

WE HAVE ALL EXPERIENCED THE PUBLIC lie that goes unchallenged. It may be baldly untrue but somehow accepted as the basis for action with life and death consequences. Some of our experience of public lies may be based on differences in values or perceptions, but sometimes what is said just simply violates the facts—this is disheartening and drives people out of public participation.

The same may be said of organizations. A nonprofit may, on the surface, be making every effort to promote teamwork and “the higher good,” but if its people continue to perceive a culture that supports a different and less reliable set of operating norms and assumptions than what is written or

espoused, they will not bring themselves wholly to our efforts.

Here are some typical reasons for telling lies:

- to avoid pain or unpleasant consequences;
- to promote self-interest and a particular point of view;
- to protect the leaders or the organization;
- to perpetuate myths that hold the organization or a point of view together.

ERLINE BELTON is the CEO of the Lyceum Group in Boston. She has been identified by clients as an organization healer, and feels honored to be of service as she practices organization development from her heart and head.

Over time illusions
dissolve and evaporate.
When they do, those
who have used them
for grounding are
left less safe, less
secure than ever.

Regardless of why they are told, untruths and lies can cause people to disengage—and they can also diminish the spirit people bring into the workplace. This leads to a sometimes massive loss of applied human intellectual and physical capital assets. A disinvestment of human spirit results in what I refer to as a Gross National People Divestiture (GNPD). The GNPD index in any organization or society can be directly related to the prevalence and magnitude of untruths told and allowed to stand. GNPD occurs when your organization's tolerance of untruth creates a climate of cynical disbelief engendering a lack of trust in information and relationships. This automatically creates management problems that are sometimes difficult to put your finger on but are often very powerfully present nonetheless.

Our challenge is to buck the culture and engage people in building a climate of truth telling that will lead to a newly revived work ethic and heightened individual and collective energy. In order to do this effectively, we must understand the conditions that support the emergence of truth, and understand and eliminate those that routinely undermine its presence in our organizations.

Staying Safe: Are You Avoiding Pain, but Inviting Extinction?

According to psychologist Abraham Maslow, our strongest mutual instinct is to be safe from harm and to protect our sense of well-being. It is this instinct that guides us to avoid risk (or what we perceive to be risk), and to respond cautiously to changes in our environment, relying heavily on familiar patterns of behavior in an effort to promote and sustain a sense of equilibrium. As coworkers or managers, this instinct often propels us to play it safe and go along with the program. Ironically, in a quickly changing environment this is obviously counterproductive.

Thus, too often, we opt for the illusion of stability in order to promote a sense of psychological well-being. This sense is acquired in exchange for at least a fragment of the whole truth; and since we all know “the truth” is relative anyway, we hardly notice the cost. It is true that we all seek solid ground when in doubt. But does that solid ground need to be sameness? Solid ground might

be, for instance, a place to stand for something we can believe in and whose integrity we can rely on when all else appears undependable and unpredictable.

Over time illusions dissolve and evaporate. When they do, those who have used them for grounding are left less safe, less secure than ever. And those who have allowed even the smallest of illusions to inform our management decisions, have placed entire organizations, teams and ourselves at risk.

Because of the diversity of perspectives and information available in any group, a collective organizational “truth” has the potential to be stronger and more accurate than any one individual's truth. But it is only when we have the combination of individual as well as collective seeking of truth, that organizational potential is realized. This requires an open atmosphere where people can depend upon one another to engage honestly, respectfully, and with spirit intact. It requires the testing of personal assumptions among people and that requires a level of trust.

More often than not, organizational potential is not realized. Why? Team meetings, team coordination, and team feedback all involve a diversity of people and personalities that have at least one thing in common: they don't want to get hurt; they don't want unpleasant things to happen; they want to feel safe; and they want to contribute. We, as fallible individuals, create the environment, and environmental conditions can support either truth or lies.

Conditions That Support Untruths

Groupthink: The tendency to just go along with the crowd, avoid drawing criticism to ourselves, and assume that everyone agrees, is so subtle and unconscious that we are generally unaware of it. As a result, we often all wind up somewhere nobody really wanted to be. For instance, imagine the scenario of an organization trying to decide on whether to apply for a major contract. Most staff members are in favor of going forward while a few are privately concerned that the organization does not have the capacity to handle the work or the money. The push toward acquiring the contract is so strong that the isolated few remain silent

for fear of being characterized as pessimists or naysayers. The organization lands the contract and finds itself in terrible straits trying to handle the management challenge. One variation on this is situations in which everyone knows something but there is an undercurrent of pressure not to state it aloud. Colluding in lies can be crippling. In one organization I know, the staff was asked about the biggest lie inhabiting the organization. After much hemming and hawing, one man finally blurted out, “The lie is that we provide good services that the community wants. We don’t and we treat any client who complains like a troublemaker.” He went on to provide examples. Everyone else around the table nodded agreement immediately. Consider the enormous cost of having kept this silent for years! This was a key organization, serving an isolated immigrant community. Unfortunately the dialogue group did not include the executive director or board members who later did not allow the conversation to progress further. This was seven years ago, and to this day, funders see the organization as “chronically in trouble.”

Imaginary conflicts: People often choose their words and edit their facts to protect themselves from anticipated reactions. One person’s imaginary conflicts can warp the way information is exchanged. In a team, the distortion is amplified by the processes of repetition and groupthink. Eventually, the distorted facts may culminate in a “self-fulfilling prophecy” where our worst fears materialize precisely because we acted in fear. Think about the executive director that everyone soft pedals around for fear of hitting one of her sacred organizational cows. Rather than gently prodding for potential change or aiming for a more open debate about organizational myths, staff members assume that some topics are “off limits” and live in silence with the uncomfortable consequences. Of course, this only fulfills the idea of the executive director as a leader entrenched in her ways, and prevents her from getting accurate feedback—and so it goes.

Hidden agendas: When individuals have their own interests at heart, or believe that something is true but fail to disclose this fact, seemingly straightforward discussions have a way of going wrong. Unexpected disunity and conflict

can undermine team spirit and group confidence, preventing the group from working efficiently and effectively. Self-interest isn’t so bad in itself, but when kept underground it acts like a dark matter pulling everything in its direction—down. The most distressing of these situations occur when individuals see themselves as self-righteous warriors using any means necessary in their “struggle for justice.”

The Spectrum of Everyday Lies

Exaggerating or underplaying the truth:

This is often done for one’s own benefit, for that of the team, or for a teammate. These lies usually reflect (or exceed) desired expected outcomes.

Shading the truth: This is usually done to make a point or to protect yourself, your team, or your teammate. Again, such a lie is used to make the impression that things are more like you want or expect them to be than they actually are. These lies are often used in a noble effort to protect others from the truth.

Beating around the bush or throwing

up a smoke screen: This is a delay tactic used to enlarge the insulation or cushion of safety between you and somebody who makes you uncomfortable. This category includes situations in which you withhold an opinion or fail to tell a person where he or she really stands with you for fear of creating complications or undesired reactions. It also includes instances when you fail to say no directly, when no is what you mean.

Pretending certainty or expertise: There is a lot of pressure in the workplace to provide answers now, to know the facts, the status, the scoop. These lies are often passed off as bravado, but they create unfounded expectations and dependencies in others, thus setting them up for unpleasant surprises.

Not letting others know your true posi-

tion: Especially in times of ambiguity or controversy, there is a temptation to cover yourself by either making your stand unclear, or stating it in such a way that it sounds as if you are in agreement with others when, in fact, you are not. This is a common feature of groupthink and often leads to outcomes nobody really wanted, but everybody assumed they did!

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Consciously withholding relevant information: This is often used as a kind of power play to leverage the value and impact of information that you have. By not fully disclosing your knowledge, you are in fact manipulating people for your own purposes (whatever they may be).

Perceptions of powerlessness: Especially in teams with strong leaders, people may feel they have no legitimate voice and are vulnerable (by proximity) to the “powers that be.” Opting to assume that others know best, some people often let others make choices and decisions for them, and withhold information that might influence the discussion. Once this happens, these people have made themselves powerless to do anything but accept the consequences.

Perceptions of invulnerability: Belonging to a successful team can be exhilarating—so exhilarating that maxims such as “success sows the seeds of its own failure” seem irrelevant and only applicable to somebody else. There is a strong sense of being “in the know” and having a unique advantage over others who are outside the circle of your team. This can lead to carelessness, letting perceptions, communications, and facts slide by without diligent examination and discussion.

Misplaced loyalty or dysfunctional rescuing: Relationships that have longevity often interfere with the ability to be objective about performance, and ultimately one’s competence to do the job. Loyalty to these relationships can cause individuals to look the other way and avoid listening to obvious data that suggests that either the person is in the wrong position, or that it is time to move on. Silence on the issues of lack of performance is a major untruth. If unacknowledged it creates disharmony and reduces leadership’s credibility. Once acknowledged, and once actions have been taken, an environmental unfreezing occurs that revitalizes human spirit and performance.

Failing to give due credit: A common way of self-promotion in a group setting, this denies or diminishes the value of others’ input and contributions. It disempowers people and leads to the inappropriate use of human resources.

Deluding yourself—self-deception: This

is perhaps the most common source of everyday lies. You have both conscious and unconscious internal mechanisms that operate to protect you from cold hard facts in the misguided belief that what you don’t know won’t hurt you. These self-deceptions set you up for hard falls, and introduce faulty information into whatever team dynamic you are part of.

Conditions That Support Truth Telling

Individual examination/accountability: Individual organizations and teams can “build better truths.” Since untruths can be intentional, the truth must be intentional. Collective truth for a team is the result of individual encouragement through consent that is informed, uncompelled, and mutual. The leader has a critical and essential role as role model and must understand that his or her behavior is under more scrutiny and will be given more weight than that of the others. If the leader fails at this, the organizational setting will also fail.

Visible commitment to truth telling: Relentlessly stating that truth telling has value is only the first step. Explaining thoughts, acknowledging the power of our words, and being accountable to one another for our actions will demonstrate that concept. In spite of our fear about telling the truth, relationships can be consistently strengthened with truth as the foundation.

Collective truths and collective responsibility: All team members need to collaborate in a dialogue that sets the foundation for an agreed-upon definition and description of “reality.” This vision of reality is not complete until each member gives explicit consent and can accept the idea that the view of reality presented, even with qualifications, is one that they can sign on to. Once there is ownership and a feeling of collective responsibility, a future can be created. This kind of dialogue requires personal risk, courage, and time.

The whole truth: Access to reliable, solid, and truthful information is the one commodity every person, regardless of role or position, needs in order to succeed. As people who live or work together, we require information that is communicated openly and freely. Information based on the “whole truth” informs decisions, actions,

behavior, and dialogue to support an outcome. Organizations that support truth telling understand that there are four critical components to the whole truth, and to laying the foundation for achieving outcomes that have meaningful results and credibility: information must be complete, timely, accurate, and true.

Information flow: Information creates its leaders' legacies and the values they stand for. Consider an organization's values and beliefs in the context of its history and current reality. All available facts and information (including personal stories, feelings, and visible and invisible reactions) are on the table in an accurate and accessible way; all information is understood and shared.

Free choice, sustained environmental spirit, safety: In organizations that value truth telling, each individual is free to evaluate and decide based solely on the merit of available truthful facts; there isn't even a hint of social, political, or economic coercion. The environment must show evidence that it is "safe" to tell the truth. There must be visible examples of situations where the truth was told, acknowledged, and acted on—and the consequences were *not* punitive. This does not mean that the truth may not bring a fallout; that could very well happen. People will leave organizations in which they don't fit, and that is a positive thing for the organization and the individuals involved.

Laying a Solid Foundation

Running an organization based on truth requires—and demands—the taking of personal risks and time. The perception that time is limited, or the fear that the truth will hurt us, or hurt someone or something we care about, are perhaps the greatest obstacles to organizational truth telling.

Busy men and women are always looking for shortcuts and abbreviations to help speed things along. But truth lies at the very foundation of a successful organization, and you can't lay a solid foundation when you cut corners; doing so places the whole structure in danger of eventual collapse. But if your culture now includes a tolerance for and comfort with lying (as it is described in the above "spectrum"), you have to

be explicit about changing your culture and about what the "whole truth" must include. And then you must patiently and persistently inch your way toward it, in practice. Organizational healing and reconciliation are the natural first steps toward restoring a culture where truth telling is a value. It is through the process of making the change as an organization-wide effort that we reclaim the vital human spirit necessary for renewing our organizations, communities and country. Truth telling leads to freedom. Freedom requires that we challenge the way things are in organizations if we truly want them to accomplish what is in our collective hearts.

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In organizations that value truth telling, each individual is free to evaluate and decide based solely on the merit of available truthful facts.

WANTED: Master Storytellers

by Susan Nall Bales

This is a plea for better storytelling from the people in clinics and classrooms, programs and public agencies, who have their hands on America's future.

THIS IS ABOUT STORYTELLING: HOW JOURNALISTS tell stories to citizens; how non-profits tell stories to journalists to convey to citizens; how we tell stories to each other to try to make sense of what is happening to our families, neighbors, and people we don't know. And this is a plea for better storytelling from the people in clinics and classrooms, programs and public agencies, who have their hands on America's future.

This lesson acquires new urgency in light of recent events. Americans are trying to assign meaning to the catastrophic news of the past few weeks, and to fit them into their understanding of where our country is headed. Who will help them understand how to fit the pieces together into a coherent and practical plan for moving forward? Was Hurricane Katrina a "natural disaster" or a failure of foresight and federal planning? Is the gasoline shortage a cyclical event that we just have to ride out, or is it the inevitable outcome of irresponsible management of our energy policies? Is the suffering of so many African Americans in

the Gulf a consequence of bad personal choices, or of structural impediments to opportunity which our society has overlooked? Are the consequences of inaction on these fronts confined to a small group of people in Louisiana, or will the entire society suffer, pulling in farmers from Iowa whose livelihood depends on the transport of grain along interconnected waterways which now prove sadly unprotected from risk? For these, as for many other events in our common life, the answer rests on the ability of storytellers to connect the dots between past actions and present conditions in ways that make clear to the public what's at stake—and what can be done in the future—even as they clean up the debris.

In the opening pages of *Tropic of Capricorn*, Henry Miller famously intones, "I will give you Horatio Alger as he looks the day after the Apocalypse." Miller was castigating the inability of the myth of the Rugged Individual or the Self-Making Person to capture the reality of life for many Americans in the 1930s. A contemporary update might read, "I will give you the Ownership Society as it looks the day after the levees broke." That story, still in the making, would focus our attention on the things we must do together, because they cannot be done individually: from building roads and a reliable healthcare infrastructure to improving schools and repairing the ladder of opportunity in our society.

SUSAN NALL BALES is president and founder of the FrameWorks Institute (www.frameworksinstitute.org), a nonprofit think tank that researches the effects on public opinion of various ways of framing public issues. An earlier version of this article was published as part of the "Talking Back" series by the Advocacy Institute.

It is tempting in the aftermath of Hurricane Katrina to tell a Crisis Story and to conjure Sympathy by parading the Victims. It's an old story, and one familiar to advocates, in which it is assumed that the cumulative weight of all the individual stories will at last convince the reader of the need for effective government, opportunities for all, and a wide array of social services. The other story, the story of the importance of safeguarding the public structures that protect us all, is a story only dimly captured in the brochures and annual reports of the nonprofit field. Yet it is this latter story that, our research argues, is best suited to opening American hearts and minds to the kind of long-term change we need in this country, if we are to achieve a true opportunity society.

Clearly, we need to start telling a different kind of story. Nonprofits who wish to open the eyes of Americans must pioneer a new kind of value-based storytelling whose big story is about overcoming boundaries between people to engage in common-ground problem solving. We need to ask ourselves, "What is the story behind the story—the *big* story that we tell ourselves over and over about our experiences as Americans? How are values embedded in the commentary and how do those values either help us solve problems together, as communities or as a country, or break us down into individual problem solvers, a nation of individuals loosely tied together? How can we do a better job of wresting complex issues from the experts and explaining them in simple but accurate ways to ordinary people, so they get smarter about the way things work, and become better able to resist the inevitable spin of partisan distortions?"

Clues about how to tell this new story come from a number of places. First, this article is informed by the FrameWorks Institute's own multi-disciplinary, multi-method research on how the public thinks about social problems. From issues of race and work to the role of government and families, we have tested and retested what works to get Americans to engage in addressing problems—appealing to them as citizens, not consumers. This decade-long pursuit has yielded a number of recurring themes, many of which are infused into these storytelling recommendations.

Second, public journalism offers nonprofit communicators a powerful vision that we can use to inform, model, and support our work. But public journalism is not a passive tool. It requires smart advocates who raise the expectations for journalists. We can learn from them both good and bad habits—but we must test their storytelling devices against a goal of making people smarter about how we can make America a better, fairer, more prosperous place for all.

Finally, this article uses a series of Ernie Pyle's columns from the 1930s to demonstrate a different kind of storytelling. We maintain that the way he argued—interpreting Americans to themselves and helping them see their country and its values up close and personal—is an art we must recapture if we are to rediscover our collective public voice. In the end, journalism is far too important to be left to the journalists. It's time to take back the territory of public storytelling.

One prominent journalist, Phillip Ault, described Pyle's ability to get away from the censors in World War II by remembering how he would go out and talk to people wherever he was. In this way, he broke several important stories about the political climate and public opinion as it affected various countries' support for the Allies. "The story," his competitor remembers, "was right under our noses." But Ernie got the scoop, while the others waited for the official communiqué. For nonprofits today—engaged in communities, and aware of the interaction between people and place, intervention and outcome—the story of what is happening in America is indeed right under our noses.

Ernie Pyle was a journalist, but this article is written for nonprofit advocates and service providers. What can advocates learn from a columnist long lost to history? We are increasingly dependent upon news for the way our issues are understood by the public. The press sets the public agenda, which sets the policy agenda. And the news is increasingly dependent on us as the sources for stories about what's happening in communities, the impact of policies on people, and the opinions of community leaders. We are often inventing, writing, and pitching the rough drafts of the evening news. Learning new ways

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to frame our issues requires that we borrow from the best of journalism, understanding how to make the news that really does advance public understanding.

Learning from Ernie Pyle¹

Enterprise, Alabama—This is a New Deal story, so if you don't like the New Deal you won't see any sense in it.

When the government took a hand here in 1935, six out of ten school children in the county had hookworm. Every other baby died at birth. One mother in every ten died in childbirth. The average mentality was third-grade. One out of ten adults couldn't read or write. Three-fourths of the farmers were tenant farmers. Most of them had never been out of debt in their lives. They averaged only one mule to three families.

And this is in Coffee County, which stands third among all the counties of Alabama in the value of agricultural products. These figures are not the scandalous revelations of some smart Brain Truster from the North. They are from a survey made by Southerners. Sure, you'll find wealth and grace and beautiful homes in the South, homes as pretty and people as fine as anywhere in the world. But you drive the back roads, and you won't see one farm home in a hundred that would equal the ordinary Midwest farmhouse.

*

Coffee County has become a sort of experimental station in Alabama. Not by design, especially, but because the government people and the local agencies got enthusiastic, and it just grew up under them.

Federal, state, and county agencies all have a hand. To prevent overlapping, they are coordinated under a council, with the county school superintendent as chairman. They say it's the only thing of its kind in America.

These agencies cover most everything from typhoid shots to fruit-canning. They're like agencies in your home territory, only the need is greater and I suspect they are a bit more enthusiastic. The work is climaxed in the Farm Security Administration, which actually owns thousands of acres of land and plants these down-and-out

farmers on its acres.

I wish there were something to call these things besides “projects.” The idea of a project makes the farmers contemptuous, makes Republicans snort with rage, brings sneers from the townspeople. A project is Brain Trust—experimenting, regimenting people.

*

What they're doing here isn't a project, anyway. They aren't setting up a “settlement.” Nobody is forced to do anything. The six hundred farmers on FSA are scattered over a county twenty-five miles square. What they're doing is simply a general and wide-stretching process—starting almost from zero—of trying to get people to live better.

Ernie Pyle, March 16, 1939

Putting the Public Back in the Communication

Jay Rosen, director of the Project on Public Life and the Press at New York University, argues that journalists need a “compelling public function” and suggests that it should be as “advocates for the kind of serious talk a mature polity requires. . . . They should announce and publicly defend their legitimate agenda: to make politics ‘go well,’ in the sense of producing a useful dialogue, where we can know in common what we cannot know alone and where the true problems of the political community come under serious discussion.”

In short, public journalism is a new way of covering the world that contributes to a “better, richer political dialogue.” And getting there, Rosen asserts, will take a fundamental reinventing of the values and art of journalism. Journalists “will have to change their lens on the political world and learn to see politics anew, as a discussion they have a duty to improve. But first . . . the press must acknowledge the existence of an old lens, a manner of viewing politics that has gradually broken down, making it more and more difficult for journalists to see their way clear of some destructive patterns. The horse race, insider baseball, the gotcha question, the feeding frenzy, the cult of toughness—these ought to be seen as unsustainable practices. . . .”

Rosen's challenge has been echoed by journalists around the country. “It is time for those of

us in the world's freest press to become activists, not on behalf of a particular party or politician, but on behalf of the process of self-government," writes the *Washington Post's* David Broder.

What would it mean to write in a new way? How can we drive these stories, first as storytellers ourselves—as advocates of and partners in a new level of discussion about our country's future and the options that face us for getting there?

Rosen suggests that citizens examine closely the composition of news to see how we would restructure the way we tell ourselves what is going on in our country. He says that in addition to setting the public agenda and other well-documented aspects of their profession, journalists also participate in (1) the art of framing; (2) the capacity to publicly include; and (3) the shaping of a master narrative. We will investigate each of these goals in order to attempt to arrive at a new way of seeing our role as public storytellers.

Getting More People into the Frame

There are many definitions of framing in public discussion these days. That's only natural, given the fact that the concept of framing has been around for more than 50 years, with contributions from anthropology, political science, sociology, psychology, and linguistics. FrameWorks defines framing as "the way a story is told—its selective use of particular symbols, metaphors, and messengers which, in turn, trigger the shared and durable cultural models that people use to make sense of their world."

Public journalism's definition follows from this understanding. "Journalism schools don't teach this, but still it's true: Facts can't tell you how they want to be framed," writes Rosen. "Journalists decide how facts will be framed, and that means making decisions about which values will structure the story . . . Framing is not only an art . . . but one of the important democratic arts. Done well, framing in journalism should proceed from and support certain values, and these are public values: the values of conversation, participation, deliberative dialogue, public problem solving; the values of inclusion, individual responsibility, cooperative and complementary action; the values of caring for the community, taking

of the future, overcoming the inertia of drift; finally the value of hope, understood as a renewable resource."

Framing asks of each news story, "What was left in the story and what was left out?" There are also what Rosen calls "rituals of framing," such as the two-sides rule or the human interest story. These ways of organizing the material, however, are not without consequences for the way we look at ideas (e.g. polarization, personalization).

In fact, framing has implications far beyond a story's artistic composition. As media advocacy theorist Charlotte Ryan has observed, "Every frame defines the issue, explains who is responsible and suggests potential solutions."

In his book *Is Anyone Responsible? How Television Frames Political Issues*, Shanto Iyengar demonstrates how powerful framing is in signaling to the public who made the problem and who is responsible for fixing it. He divides television news into two basic frames: one that is essentially personal and another that stresses systemic interpretations. The episodic or personal frame, which grossly dominates news coverage, "depicts public issues in terms of concrete instances or specific events—a homeless person, an unemployed worker, a victim of racial discrimination, the bombing of an airliner," and does not connect the situation to any broader social forces. By contrast, thematic or systemic frames "place public issues in some general or abstract context. Reports on reductions in government welfare expenditures . . . changes in federal affirmative-action policy, or the backlog in the criminal justice process . . . The thematic news frame typically takes the form of a 'takeout' or 'backgrounder' report directed at general outcomes or conditions and frequently features 'talking heads.'"

The use of these frames will have dramatic consequences for Rosen's vision of renewed democratic discourse. "Following exposure to episodic framing," concludes Iyengar, "Americans describe chronic problems such as poverty and crime not in terms of deep-seated social or economic conditions, but as mere idiosyncratic outcomes. Confronted with a parade of news stories describing particular instances of illustrations of national issues, viewers focus on individual

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and group characteristics rather than historical, social, political, or other such structural forces.”

In his book on media and public health, Larry Wallack admonishes advocates to frame for content, by which he means to “translate what are commonly seen as individual problems (for example, alcoholism) to social or public policy issues (for example, promotion and availability of alcohol).”

By contrast, the notion of a nation of disconnected individuals whose circumstances are seen as random events undercuts the need for government or even collective responses. Left to their own devices, few Americans can see a role for government or for any effective intervention, other than that of individuals. In this world view, the more emphasis on individuals, the better, and there is little chance that Americans will “connect it up” on their own. In a national survey at the time of the 1992 election, roughly two-thirds (65%) of Americans agreed with the statement “Sometimes politics and government seem so complicated that a person like me can’t really understand what’s going on.”

Conservatives have long argued a view of public life that is nothing more than the aggregate of individual experience, need, and accomplishment. As Margaret Thatcher once famously pronounced, “There is no such thing as society . . . there are individual men and women, and there are families.” Following this way of thinking, the logical response to the plight of individuals is to hold them solely responsible for their situation. The problem of low immunization rates among preschoolers, for example, is due to bad parents, not to the inability of providers to eliminate missed opportunities.

How, then, is Ernie Pyle’s framing style useful to us?

It is useful because it reconnects us with the importance of translating from individuals to programs, and from programs back to individuals. Also, precisely because most Americans lack the ability to connect it up, to fill in the frame, to pull explanations from other walks of life into the news story, individuals are left alone in the frame with their “problems,” responsible both for their problems and for fixing them. They get little help

from the news media, where episodic frames dominate news coverage (which intrinsically advantages the conservative view of public life, which is also episodic and personal). Society, and the host of environmental forces that shape individual outcomes, is left invisible to most Americans.

Ernie Pyle’s approach to storytelling is also useful to us because progressives have ceded ground on the issue of values. Values belong in the frame—an explicit part of why we believe what we believe. Values such as interdependence, opportunity for all, responsible stewardship, community stability and prosperity, prevention, ingenuity, and the common good—these must be lodged in our narratives, underscoring the forces and situations that explain why people rise or fall in our society and how they can and should be helped, outside of charity.

And, finally, Ernie Pyle’s approach is useful because the traditions of journalism continue to be built around the human interest story. But Pyle changed that story. He found ways to connect the dots, to reconnect people to a bigger reality, to imbue their stories with meaning beyond the traditional capacity of human interest journalism.

Learning from Ernie Pyle

AN AFFLICTION CALLED “SORRYNESS,” Elba, Alabama—They have a way of using the word “sorry” down here that I’ve not heard in other parts of the country.

A listless, no-good, poor-paying fellow is known as sorry. You can be poor without being sorry. You’re sorry when you lack character.

One out of seven farm families in this county is now on government land. I asked how many really were in need of this kind of help. The answer was at least half. Probably half of that half are too sorry to get any good out of such help. But what I mean is that only half the farmers are doing well enough to live at all decently.

There is no real money now in Southern farming. If a fellow is straight, keeps his place clean, has a car and enough to eat, and sends his kids through grade school, that’s all any farm can produce here now. . . .

And when you get down and mix in it, you can’t say it’s wholly caused by cruel landlords,

by sharpster supply merchants, or by erosion. You can't blame any individual, least of all the poor people themselves. . . . No, it's a combination of the landlord and the supply merchant and poor land and low prices and sickness and ignorance—in other words, it's the whole system.

I haven't much gone into detail about what the government has done here, because it's much the same as in other places where they're trying to recreate human beings. But they're trying, through a thousand little pinpoints of practical education, to change the system. It's a thankless job, for the system down here is as much a part of a man as his arm.

It will take generations to get the rural South raised above its system. Sorryness is a disease that America hasn't paid much attention to before now. It will take a long time to purge it.

Maybe I get too worked up about things like this. Sometimes I think maybe a fellow should just shut his eyes and drive fast.

Last night, I went to see a movie called St. Louis Blues. Dorothy Lamour was in it, and it was set on the Mississippi and was very romantic and full of the lovely old things of the South. I came away thinking that maybe my recent pieces were all wrong, and that Hollywood is right. I should have made Coffee County romantic, and full of guitars, and happy, happy Negroes, and sweeping bows to the ladies.

Maybe I should, I don't know. But Hollywood has never seen all the pale dead people walking slowly around the red clay countryside.

March 20, 1939

The Elba, Alabama, column puts people in the context of a system. It asks who is responsible for the problem, and who should fix it. It reads like a takeout or a backgrounder. It asks why, again and again. It resists the temptation to give us one non-sorry success story. And it ends by inferring that the story we are getting isn't the real story. That's a lot to accomplish in a short column.

Notice that, while many of Pyle's columns are profiles, others are inventories of what communities are doing to help people and why. Everyone—legislators, journalists—wants human interest stories. But human interest stories can

backfire. The news is inherently reductionist. If the reader or viewer walks away without an understanding of the role of the community in addressing public problems, your hard work planting a story won't lead anywhere.

Nonprofit communicators need to carefully consider the composition of the frame before they tell the story. Ask yourself the critical elements of moving from the personal to the political. What is happening in the structure of our society that made this employer act in this way? How does the problem work—what forces drive it and how does it affect us all? What solutions are available? And what is our collective responsibility to fix it and to help out? What happens to “us” if we don't fix it?

When we tell the stories of the folks who “clean up, carry in and carry out,” as Robert Reich once put it, we must make sure we are telling tales of our broader responsibilities to each other. In this way, the “values” stories we are telling are about our unfinished business as a society, not merely the sad anecdotes of individuals who must be addressed through charitable responses.

Engaging People as Citizens, Not Consumers

“By selecting whom you include in a discussion,” says Jay Rosen, “the press tells us whose world public life is, who knows about it, who acts within it, whose voices count, whose lives are relevant, whose concerns are central . . . Journalists make casting decisions. They decide whom to cast in what roles in the drama of public life.

“To see people as citizens is to elevate them to a role they may not always do justice to, which is another way of saying that democracy is frequently disappointing. So, for that matter, is journalism. We are all frequently disappointing to each other, but we learn to live together by seeing each other as citizens, which means ‘somehow equal despite all differences.’ Seeing people as citizens is the art of finding that equal station to which all are entitled in a democracy, and reserving a place in the news for people when they occupy that station.”

Bill Moyers stated it best when he said it all comes down to whether you look out and see a nation of consumers or of citizens. Appealing to people as passive consumers often precludes our

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ability to portray and engage them in the business of public life. “I’m pro-choice on everything” reads a whimsical bumper sticker. Sounds good. But what is lost? Public schools, public parks, public housing, public broadcasting, public safety?

By contrast, the prevailing narrative of our culture is one of complete free will. The individual is a consumer and a lone protagonist. But she is not part of a broader collective, nor is she responsible for others except inasmuch as she chooses to be. She has no responsibility to inform herself of others who are different from her, as they are different by their own choosing. The notion of common ground is meaningless when the “common” has been privatized. In this world view, a citizen in Atlanta can view a newscast on the health status of babies in Anchorage with all the disinterested compassion of reading a *National Geographic* about whales in Australia: It’s not about “us”; they are not “ours.”

And even if we were to be confronted with other people, other views, what would we do with that information? When the narrative is all about problems, and no solutions, people have little recourse to ideas of prevention and intervention. If what is asked of us are tears and charity, it is unlikely we will find our way to pragmatic action.

“News stories position us in a wide variety of ways—as spectators or as participants, as insiders or as outsiders, as voters, as consumers, as fans, as victims, as celebrants, as sentimentalists. Take the sort of story we commonly call a ‘tear jerker.’ It puts us in the position of jerkee, the one from whom tears are pulled,” says Rosen.

Ernie Pyle often told the stories of people outside the realm of ordinary existence for many Americans. Not many of Ernie’s family members would ever meet a black sharecropper or a black scientist, an Okie or a Columbia professor. Ernie saw his job as explaining who these people were, as well as the forces that acted upon them.

Ernie Pyle’s America was not without skeptics. Pyle dealt with them by telling their stories, too. He would present a citizen’s opinions about the government; but he would also present “his side.” He argued with people and with reality. He talked back. But that talk was not the vituperative, mudslinging of today’s talk shows formats that have

been shown to diminish participation in public life, not encourage it.

Even when Pyle covered people who believed in ideas he found shallow, he relayed them as part of the bigger story, and he felt obliged to cover them, and to critique them. But tone is everything, in news and public opinion. And Pyle’s tone is one that keeps the dialogue open.

Learning from Ernie Pyle

A JERSEYMAN’S VIEW OF THE NEW DEAL, Sparta, New Jersey—The man who fixes autos in a little town near here said if I could find five people in the town who would vote for President Roosevelt next year, he’d give me five dollars apiece for them.

“What’s the matter?” I asked him.

“Everything’s a big mess,” he said. “The Three-A has ruined the farmers around here. We pay big processing taxes, and the money all goes to the Midwest. Practically none of it comes back to the farmers around here.*

“And the way they spend the money. See this road along here? From here down to that next telephone pole there used to be a row of nice big trees. Well, sir, they cut them all down, and then they dug a shallow ditch along the side of the road; then they put the dirt back in the ditch, then dug it out again and threw it on the other side. Then they put it back in the ditch again, and you can see for yourself they didn’t widen the road an inch, and I’ll be damned if it didn’t cost two thousand dollars. Such stuff as that!”

I suggested that President Roosevelt personally didn’t even know that road existed, so how could you blame him for doing that kind of work? Wasn’t it the fault of the local dispensers of work projects? And wasn’t even such wasteful work better than just paying the money out in straight relief, which would have had to be done otherwise?

The man didn’t know about that. It was just all a big mess. And anyhow, the guys doing that relief work were out-of-towners. His town didn’t have anybody at all on federal relief.

Only four people there were unable to scrape along somehow, he said, and the townspeople—not federal or municipal relief money—were

taking care of them. The town isn't very big; it doesn't even appear on some maps. My guess would give it a population of five or six hundred.

"And the banks," the man said. "There's another thing. The bank examiners are a lot of kids who don't know what it's all about. Right here in this county the receivers and the examiners have accepted notes from the government that not a banker in New Jersey would have taken, and they threw out notes that within six months would have paid every cent. Such stuff as that!"

"Who are you going to vote for?" I asked.

He grinned for the first time. "Well, I don't know," he said. "There don't seem to be anybody. Maybe I just won't vote at all."

August 10, 1935

**Agricultural Adjustment Act. Passed in 1933, it sought to restore farmers' badly sagging purchasing power by paying farmers to restrict their crop production and by imposing a processing tax on food processors. An amendment provided for lower-interest farm mortgages. POSTSCRIPT: President Roosevelt won reelection overwhelmingly in 1936.*

What Pyle did was keep the public dialogue going, explaining America to itself. We have lost both the language and the urgency for doing this. Again and again, he interjected himself as trusted intermediary in the discussion between different factions of Americans. He translated one to the other, under the broad banner of "us." Ernie's America was the original big tent.

When nonprofit communicators engage in public speaking, they need to conscientiously help people engage in the debate. Bring divergent opinions into the discussion. It's healthy for everyone to break down the stereotype that there are two sides to every issue. But talk back. Engage the reader/viewer in his or her capacity as citizen. Choose examples that average people can relate to. Interview your grocer, your hardware-store owner, your barber.

Throw these questions to the community: What happens when we ignore these problems? Will they go away? Will charity pick up the slack? What will this mean for our communities, our

country? Refuse to let the problems be buried under bureaucracies. Remind the reader that we have ways to deal with big problems collectively. If a certain program isn't working, let's fix it, not destroy it altogether. American ingenuity can go a long way toward getting people engaged in constructive problem solving.

Telling a Big Story About Life in this Country

"By master narrative," Rosen writes, "I mean the story that produces all the other stories; or, to put it another way, the Big Story that lends coherence and shape to all the little stories journalists tell. In the Bible, the master narrative—the story that produces all the other stories—is the theme of creation and redemption, or the fall from grace and search for salvation. A master narrative is not a particular story journalists write; it is the story they are always writing when they tell the stories they typically tell. In election coverage, the master narrative is winning. . . ."

For too long in this country, the master narrative has been dominated by the individual on the frontier—free to protect, defend, and provide for himself and his family. Anyone not in the picture is an outsider. The bonds of community are entirely voluntary and can be relinquished at any time. The body politic is to be viewed as a constraint on individual freedoms and to be used only as a last resort.

It doesn't have to be this way. This is not the only American narrative available to us. In 1896, that most famous American chronicler of the west, Frederick Jackson Turner, pointed another equally American direction for our collective storytelling: "These slashers of the forest, these self-sufficing pioneers, raising the corn and live stock for their own need, living scattered and apart," he wrote, "had at first small interest in town life or a share in markets . . . The national problem is no longer how to cut and burn away the vast screen of the dense and daunting forest; it is how to save and wisely use the remaining timber." He ends by calling for the "revival of the old pioneer conception of the obligations and opportunities of neighborliness . . . In the spirit of the pioneer's 'house raising' lies the salvation of the Republic."

Turner points the direction for a new America.

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“Let us see to it,” he writes, “that the ideals of the pioneer in his log cabin shall enlarge into the spiritual life of a democracy where civic power shall dominate and utilize individual achievement for the common good.”

Nonprofit communicators must ask, again and again, whether the big story they are telling citizens helps them perform their duties better, helps them see important roles for both business and government in accomplishing our common purpose.

The vision of the good society, of what kind of “community” we want to create, is a powerful image, if we use it wisely, probing our own values as citizens responsible for creating and maintaining the greater good.

We can begin this task by taking our storytelling seriously. It may be one of our most powerful tools. If we can’t find the public journalists willing to join us in this enterprise, we’ll have to take on the job ourselves. We’ll have to learn to tell the story that is right under our noses, in a way that invites America into the discussion. We must tell the stories of the people who pass through our classrooms, our clinics, our programs—in real people language. And just as important, we must tell the story of the places and forces that shape them, the places where they are lifted up or stuck. We must not make the mistake we have made in the past, talking about people as if they were programs with clothes on. We must step in and reintroduce Americans to themselves, to the shared fate that is the reality of life in this country.

We must begin to tell the stories in new ways, drawing from the material that presents itself to us and borrowing our soapboxes in the form of op-eds, guest editorials, letters to the editor, and talk shows. We don’t have to write quite like Ernie Pyle. In fact, we don’t have to *write* at all. Pyle is useful to us, as we struggle for models, because his style is approachable and democratic. It lends itself to the kind of narrative we need to tell. It offers us a way in to the discussion. But each of us will have to learn to tell our story in language that is clear and true and compelling. And we will have to learn to tell these same stories in situations where those who can solve the problem are present.

Ernie is gone, but, as Charles Kuralt said, he’s up there looking “over the shoulder of everybody who writes about America.” Remember that the next time you sit down to write your annual report.

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NOTE

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Your Promise Is Your Brand: How to Work It

by Carlo M. Cuesta and Padraic Lillis

“WE WILL PUT A MAN ON THE MOON BY the end of the decade.” This declaration by President Kennedy is considered one of the most effective national promises ever made. Not because we were fascinated by the moon, or space, or even science, but because it allowed us, as a nation, to lift our eyes to the heavens and dream. It gave us an aim. More important, it created a sense of pride by getting us to hold our heads up high—and to recognize the possibility that resided in our country’s best efforts.

The most important word in President Kennedy’s statement is the first one: “We.” The moon immediately became a shared goal that could only be achieved through an effort in which everyone participated. Only one or two of us might actually get to set foot on the moon, but it would take *all* of us to get them there. The passion of achieving that dream may not have been visible in our daily activities, but it was more than evident as the country huddled together around the television that hot summer day to watch the astronauts fulfill their promise.

Similarly, an effective organizational promise is identified through an honest assessment of ability, opportunity, and desire. Tapping the collective aspirations of board, staff, and community

partners can inspire a bond, motivating the whole to expand their thinking beyond the routine of their individual roles and recognize the exciting places their shared effort can take them. With such compelling internal clarity, a nonprofit’s organizational promise can have a profound impact on how value is delivered and communicated. The promise elevates the organization’s brand identity by giving context to the relationship it is building with participants and supporters.

More than 10 years ago County Memorial, a full-service, acute care hospital serving eastern Montana, changed its name to the Sidney Health Center. This re-branding effort brought the hospital, extended care, and assisted living facilities together under one moniker to offer the region a continuum of health services. What it failed to do, however, was change the relationship between the institution and those it served. A new logo and promotional campaign had little effect on a growing community perception that the organization, though essential to the region, was “a large,

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“We will put a man on the moon”...

The most important word in President

Kennedy’s statement is the first one: “We.”

Making a promise builds a deep understanding among board and staff about the kind of value they should create and how it should be delivered.

impersonal corporation.” There was a distinct disconnect between what the organization communicated to their participants and supporters and what it actually delivered. These perceptions, spread from person to person through casual conversations between families, friends, and neighbors, formulated a brand identity that superseded any marketing and communication campaign. This identity had become so dominant that it overshadowed many of Sidney Health Center’s strengths and achievements; it also became rooted in the hospital staff’s perception of their employer.

Identifying the factors that create negative perceptions is like unraveling a huge, knotted ball of string. The bottom line is that a negative brand identity often reflects a break in an organization’s connection to its mission and the principles that guide its behavior. This lack of internal clarity threatens the fundamental health of the non-profit—as a result, the institution offers less and less relevant value to participants and supporters. Making a promise builds a deep understanding among board and staff about the kind of value they should create and how it should be delivered. The main outcome of this work is an organization empowered to guide perception by producing results that are meaningful to the community it serves. Communication and fundraising efforts are then able to tie into a deeper theme as well as strengthen the organization’s relationship with stakeholders by highlighting actions that speak louder than words.

Last year, the board and staff of the Sidney Health Center made a promise to deliver to the citizens of eastern Montana “exceptional personalized care.” Recognizing that the hospital’s staff is the most important point of contact for patients and visitors, initial actions focused on small, yet significant, shifts in operating practices. Employees from across the hospital formed the *LIFE Team*, which has addressed customer service issues through an innovative service reward program. The human resources department revised their methods for creating job descriptions and evaluating employees by clearly stating customer service expectations. The finance department made changes to its billing and collection practices to create a department

Tips for Creating a Promise

Keep Participants and Supporters in Mind:

First and foremost, your promise has to be deeply meaningful to them.

Collaborate! Effective promises grow from diverse points of view.

Make It Compelling: Think beyond the next three years; consider what can be delivered and achieved over the next ten years.

Consider Your Capabilities: Don’t limit yourself to what you currently know or the resources you currently possess; recognize and plan to build on your strengths to expand what you know and possess.

Test It! Share your promise. If someone thinks it is impossible, you are probably on the right track.

that can meet the needs of each individual patient.

In a short time, this shift in operations has created a sense of urgency and ownership in the human resources department to deliver and achieve the organization’s promise. As it has been adopted, the promise has begun to manifest itself in impromptu daily interactions. For example, the radiology staff redecorated the room where mammograms are performed to create a warmer, less sterile environment, and the CEO shares responsibility with other senior staff to visit in-patients every day, delivering a newspaper and checking in to see how they are doing.

Their brand identity is beginning to shift as well. Hospital staff are reporting a greater sense of optimism among fellow employees with regard to their employer. Community members are also recognizing the benefits of the promise; this has been ensured by a marketing and communications department that is now empowered to guide patient and visitor perception.

When creating an effective organizational promise, a nonprofit should consider conducting

a full assessment of its current brand environment. This is done by tracing the link between participant/supporter perception and the results generated by the organization; how results relate to board and staff capabilities; and finally, how board and staff capabilities frame a promise to take action based on the organization's mission and values. By recognizing how perceptions are formed and how they connect to the organization's mission and values, leadership is able to gain insight into how it needs to reposition its relationship with participants and supporters in order to strengthen the perceived value of their work. Formulating or clarifying a promise provides significant leverage in accomplishing this.

The moon may not be the desired destination for every organization, but there is tremendous

value in declaring, as a group, what the "moon" represents. Through every step we took to get to the moon, the promise became less about the president who made it and more about both the people who strove to achieve it and the country it impacted. Acknowledging with one another the promise of what is possible creates a shared goal and gives value to each individual's skills, resources, and efforts.

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The Spiral of Sustainable Excellence

by Paul C. Light

Viewed as a spiral,
nonprofit development
would be anything but a
fixed march ever upward.

Editors' note: This article is adapted from a book by Paul Light titled *Sustaining Nonprofit Performance: The Case for Capacity Building and the Evidence to Support It*, published in 2004 by The Brookings Institution Press.

IMAGINE A NONPROFIT'S LIFE AS A JOURNEY UP and down a development spiral. All organizations would start with a simple idea for some new program or service and then move up the spiral toward greater and greater impact, progressing through five landings, or stops, along the climb: (1) the organic phase of life, in which they struggle to create a presence in their environment; (2) the enterprising phase, in which they seek to expand their size and scope; (3) the intentional phase, in which they become focused more tightly on what they do best; (4) the robust phase, in which they strengthen their organizational infrastructure to hedge against the unexpected; and (5) the reflective phase, in which they address longer-term issues of succession and legacy.

Viewed as a spiral, nonprofit development would be anything but a fixed march ever upward. Many nonprofits would linger at one stage or another, perhaps for long periods, without any

guarantee that they would advance. Some organizations would make it up the first flight and remain at the enterprising stage, for example, while others would stay at the reflective landing for what might seem like an eternity. Others might quickly move to the enterprising stage, only to get knocked back by a financial meltdown or executive turnover. Some would make the difficult climb from the enterprising stage to intentionality by focusing their attention on the programs they care about most, while jettisoning and spinning off others. Still others would enhance their capacity to withstand crises and shocks, handle risks, recruit and retain the most talented employees for the long term, and shape the future through their advocacy. And relatively few would reach the reflective stage, by expanding their mission to include broad questions of long-term legacy. Unlike the standard S-shaped life-curve we often use to describe the inevitable confrontation with organizational mortality, the spiral enables a more deeply textured description of how organizations actually live.

Viewed as a spiral, nonprofit development also varies in both direction and speed. Some

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FIFTH LANDING: The Reflective Nonprofit

GOAL

Legacy

THREATS

Environment: Imperialism
Structure: Complacency and routine
Leadership: Self-aggrandizement
Systems: Self-preservation

QUESTIONS

Environment: How can we lead?
Structure: How do we get younger?
Leadership: How do we change the future?
Systems: How do we manage freedom?

CAPACITY-BUILDING ACTIVITIES

Environment: Exploring
Structure: Sorting
Leadership: Advocating and elevating
Systems: Testing and renewing

FOURTH LANDING: The Robust Nonprofit

GOAL

Endurance

THREATS

Environment: Isolation
Structure: Overconfidence
Leadership: Self-satisfaction
Systems: Aging and underinvestment

QUESTIONS

Environment: What are our futures?
Structure: How do we stay agile?
Leadership: What are our values?
Systems: How do we insure against vulnerabilities?

CAPACITY-BUILDING ACTIVITIES

Environment: Insuring
Structure: Learning and team building
Leadership: Challenging and inspiring
Systems: Insuring and monitoring

THIRD LANDING: The Intentional Nonprofit

GOAL

Focus

THREATS

Environment: Backlash
Structure: Specialization
Leadership: Conflict and resistance
Systems: Underdevelopment

QUESTIONS

Environment: How do we fit?
Structure: Can we increase our impact by concentrating?
Leadership: How do we remain faithful?
Systems: How have we done thus far?

CAPACITY-BUILDING ACTIVITIES

Environment: Focusing
Structure: Reorganizing
Leadership: Clarifying and explaining
Systems: Tightening and investing

SECOND LANDING: The Enterprising Nonprofit

GOAL

Impact

THREATS

Environment: Diffusion
Structure: Burnout
Leadership: Overpromising
Systems: Underinvestment

QUESTIONS

Environment: Where will we expand?
Structure: How much can we do?
Leadership: How do we remain authentic?
Systems: How will we cope with breadth?

CAPACITY-BUILDING ACTIVITIES

Environment: Mapping
Structure: Innovating
Leadership: Risk taking and persuading
Systems: Measuring

FIRST LANDING: The Organic Nonprofit

GOAL

Presence

THREATS

Environment: Invisibility
Structure: Confusion
Leadership: Overconfidence
Systems: Shallowness

QUESTIONS

Environment: How will we make a difference?
Structure: Who does what?
Leadership: Why do we exist?
Systems: How will we know we are successful, if we are?

CAPACITY-BUILDING ACTIVITIES

Environment: Questioning
Structure: Deploying
Leadership: Defining
Systems: Requiring

Some forms of capacity building are much more important for moving from the organic to the enterprising stage or for stopping the fall backward, while others are much more appropriate for the climb from intentional to robust.

nonprofits rise quickly through the stages, perhaps because of a large grant or unexpected gift; others move slowly, if at all, from one stage to the next. More important, some nonprofits move down the spiral from time to time, perhaps because of a crisis or shock, a leader's departure, a change in government or donor priorities, or an investigation. Some would even deliberately jump down the spiral to their organic roots now and again to rethink why they exist, whom they serve, and how they intend to make a difference in the world. Indeed, an important part of being a reflective nonprofit is being acutely aware of the organic history of the organization.

Observing Nonprofits

This image of a development spiral did not spring full-blown from my imagination. It emerged from site visits to 25 high-performing nonprofits identified through a 2001 random sample survey of 250 members of Grantmakers for Effective Organizations (GEO), the Alliance for Nonprofit Management, and the Association for Research on Nonprofit and Voluntary Action (ARNOVA). Those surveyed were asked to identify high-performing nonprofits for further study. This reputational approach produced a list of more than 450 nonprofits, of which 250 were surveyed, and 25 culled for the site visits discussed below. The site visits covered nine cities—Atlanta, Chicago, Indianapolis, Los Angeles, Minneapolis, New York, San Diego, San Francisco, and Washington, D.C. The site visits began with a trip to Chicago on September 14, 2001, and concluded in March 2003 in Atlanta.

The 25 nonprofits were hand-picked to provide a wide range of experience, expertise, size, and geographical representation, and included well-known national, regional, and local organizations.¹ They included large organizations and small, young organizations and old, and a wide variety of missions—from AIDS education to international relief—but it is easy to argue that all were achieving significant program impacts. However, at least eight of the 25 were achieving those impacts in spite of significant organizational frustrations, and none was perfect in every way.

According to their responses to my 2001 survey

of 250 high-performing nonprofits, which is summarized in *Pathways to Nonprofit Excellence*, eight of the 25 had budgets under \$1 million, seven had budgets from \$1 million to \$10 million, and 10 had budgets over \$10 million. Four of the 25 were both young (seven years old or younger) and small (under \$1 million); five were young but larger (over \$1 million); four were middle-aged (between seven and 15 years old) and small; two were middle-aged and larger; and 10 were older (more than 15 years old) and larger.

The following observations were made after half- to full-day visits with each organization: seven of the 25 high performers did not appear to have a current strategic plan and two more paid little attention to the plan they had; 10 had yet to develop a diversified funding base; 10 were struggling to clarify board and staff responsibilities (no doubt in part because nine did not do any board training); 13 had accounting weaknesses of some kind; 14 did not have clear job descriptions in the files; 14 did not provide disability insurance to their employees; 14 held five or fewer board meetings a year; and 17 did not have a system for measuring outcomes.

The question is not whether nonprofits can achieve program results in spite of organizational weaknesses, budgetary shocks, staff turnover, or even terrorist attacks. Nonprofits make miracles happen every day. Rather, the question is what would help them to move up the developmental spiral toward sustainable high performance. Simply asked, what kinds of capacity building are appropriate and effective in moving up the spiral, and how does their impact vary at different landings along the way?

My research reveals that some forms of capacity building are much more important for moving from the organic to the enterprising stage or for stopping the fall backward, while others are much more appropriate for the climb from intentional to robust. As such, successful capacity building depends in large part on picking the right improvement effort at the right time.

Like most organizations today, nonprofits face an uncertain future. No one knows what might happen to the economy as the federal budget deficit rises, how far Congress might go

in tightening accounting and expenditure rules, whether young Americans will ever get into the giving habit, how nonprofits will handle the baby boom retirements, and how many more nonprofits the sector can absorb with a shrinking labor force. And that is just a sampling of the *known* unknowns.

No matter what happens to the sector as a whole, individual nonprofits can never be quite sure what the future holds. This was certainly the case for the 25 high-performing nonprofits. The Nature Conservancy was about to enter a period of remarkable turbulence following a *Washington Post* investigation of its management and operating practices; the San Diego Opera was little more than 18 months away from a \$10 million bequest from McDonald's heiress Joan B. Kroc; the Pacific Repertory Theater in Carmel, California, had mailed its annual fundraising appeal only days before the September 11th attacks and was behind \$65,000 by the time the interviews were conducted in November; CARE was about to launch a new branding campaign to change its focus from delivering food to ending global poverty; and Open Hand Chicago was about to merge with two other AIDS nutrition programs to keep up with an ever-changing epidemic. Some of these events were completely unexpected; many others involved at least some advance warning. The reality is that change will come, and if change is inevitable, the question is what nonprofits can do to improve the odds that they will survive the inevitable surprises, exploit the upturns, and shape the environment to their favor. Organizations do not have to be old and large to hedge against surprises and exploit good fortune. Indeed, being old and large can produce a notable sluggishness in doing both. But they do need to know where they are in organizational time and place to pick the right course. If they do not know where they are, they cannot know how far they must go and what they must do to get there.

Sorting Destinations

Nonprofits cannot be blamed for all that goes wrong as they move up or down the spiral, nor can they be given absolute credit for all that goes right. As the diagram suggests, nonprofits move up and

down a developmental spiral in part by asking the right questions, addressing potential threats, and choosing the right strategies for building organizational capacity. As my admittedly skeletal map of the spiral on page 25 suggests, each landing has its own goal, key questions, threats, and suggested capacity-building activities for either moving upward or holding steady.

The Organic Nonprofit. Whatever their ultimate goal—be it to end poverty, feed the hungry, change public policy, or produce great art—every organization starts with the same simple goal: to exist. I believe the most important questions are asked at this very first landing: How will we make a difference? Who does what in the organization? Why do we exist? How will we know we are successful, if we are? The answers do not have to be perfect, or even complete. But they must be asked if the organization wants to create early momentum toward impact, and asked frequently if the organization is to claim any purpose but survival.

Organic nonprofits face inevitable trade-offs between passion and caution. If start-ups had to wait until their programs and systems were perfect, they would never launch at all. Yet if they launch without asking hard questions about their ability to deliver on the promises they make, they almost certainly will disappoint or disappear. They must be visible enough to attract support, while creating the capacity to produce results. This often involves difficult choices and trade-offs for organic nonprofits. Friends of the Chicago River, an environmental advocacy group incorporated in 1988, faced this investment dilemma. Asked whether he thought start-ups should first work on management or program, a senior executive said, “It’s a constant juggling act of nurture this here, nurture that there. It takes a lot of skill to develop strong programs without having the management stuff in place. You have to operate a lot by intuition, which can put you in harm’s way.”

Growth eventually provided the resources for long-overdue investment. “In the beginning years, our bookkeeping and administration were really a mess,” this executive explained just before switching metaphors. “We all agreed that if we had to slip on something, it was going to be on certain types of paperwork. We waited until we

The reality is that change will come, and if change is inevitable, the question is what nonprofits can do to improve the odds that they will survive the inevitable surprises, exploit the upturns, and shape the environment to their favor.

Having started out with a clear sense of direction, enterprising nonprofits often evolve into multi-service agencies that have drifted far from the core mission they once embraced.

could afford to take those on, until our programs were stronger and people were saying, ‘Wow, you guys are doing a lot of great work.’ Then we could say, ‘Now we have to fix up our infrastructure a little bit.’”

Unfortunately, some organizations get stuck in this landing because they launch without testing the load-bearing assumptions that support their basic program goals—for example, whether the world will behave as they hope. Too many also launch without making the basic decisions about tracking impacts and accounting for time and money. And too many launch without creating basic expectations for governing the organization. Although their leaders must work hard to build identity, these young nonprofits must outline the organizational infrastructure that will hold them together as they confront a turbulent, competitive environment. This means investing in simple reporting routines, clarifying board and staff responsibilities, and building basic operating systems, all of which respond to simple capacity-building interventions.

This is how Second Helpings grew into one of the country’s most innovative food banks in less than a decade. “We have gone from infancy to toddlers to feeling like 11-year-olds,” a senior executive told me. “We are ready to be grown-ups but do not know how to react to it. The board started out as a working board, and that was necessary—we needed their bodies, we needed their hands, we needed their money, and we drained their heads. The board also had to grow up.”

At the same time, Second Helpings felt it was not old enough for strategic planning. “We are still too young to have a strategic plan,” the executive explained. “When your middle name is still ‘Tweak,’ how do you develop a strategic plan? We have to remain flexible. We have a mental idea of where we want to go, but only look 24 months out.” Would that most nonprofits could do as well without a plan: in July 2004 Second Helpings launched a \$2.2 million capital campaign to buy and equip a new building; six months later, it moved in.

The Enterprising Nonprofit. Assuming that they garner enough support to grow, many organic nonprofits advance to the enterprising landing, where they promptly get stuck. Having

achieved enough credibility to compete for resources, enterprising nonprofits face a number of challenges as they seek to expand their impact. Some find it nearly impossible to say no to the funding they need to survive, while others branch out into fields well beyond their original program intent, and still others become the hot nonprofit that donors just have to fund. But what goes up in the enterprising stage often comes crashing down as the next hot nonprofit shows up.

There is nothing wrong with stretching the organization into what I call the “zone just beyond possible,” particularly if the organization is making a measurable difference through its work. But the stretching can create confusion, under-investment in core administrative systems, and employee burnout as the organization tries to meet all the deadlines it has accepted. Having started out with a clear sense of direction, enterprising nonprofits often evolve into multi-service agencies that have drifted far from the core mission they once embraced.

Growth is not harmful if it takes a nonprofit where it wants to go, however. Nonprofits have a better chance of getting where they want to go if they have a careful map of their environment, if innovation fits with their program goals, and if their leaders work to reconcile new initiatives with the old. They are also much more likely to expand gracefully if they have the measurement and tracking systems to know where they are at any given point in time and what they did to get there. This means investing in more elegant analysis of environmental threats and opportunities, internal organization, board and staff development, and measurement, all of which respond to capacity building.

The most significant differences up and down the spiral involved strategic planning. Although almost all of the 25 organizations had a strategic plan, the enterprising-intentional organizations clearly devoted more energy to the effort. If not quite a fear of planning at the enterprising-intentional stage, there were definitely concerns about costs, readiness, and implementation. Simply put, enterprising-intentional organizations worried that they simply could not afford to plan.

Consider Pact as an example. Having grown

steadily over its first decade, Pact finally mustered the energy to launch its first strategic planning process in 2001. As one board member explained the effort, “I think it is symptomatic of the fact that the board recognizes that this organization in its growth has tried to do so many different things and tried to do them very well that it stretched very thin. We’re on the verge of what could be exponential growth, which either will be great or will kill us, and we’re not looking for death here.”

Enterprising nonprofits face the challenge of planning for the future while dealing with the day-to-day complexities of running an organization. Much as they want to be strategic, enterprising nonprofits have to be tactical to survive. For example, one interviewee said, “When your organization is in rescue mode, a strategic plan is kind of nice but won’t fix your problems. It is like you want to be flying at 30,000 feet, but you’re stuck on the ground.” Another commented, “If things are bleeding, it is not the time to look five years in the future. You have to figure out if you are going to survive until tomorrow.”

The Intentional Nonprofit. Deep review of mission, priorities, threats, and opportunities can help move organizations that feel stuck at the enterprising stage. The reason so many nonprofits linger in this phase is that they cannot find the focus needed for intentional action. Becoming intentional often involves a confrontation with the dependencies created during the enterprising phase, particularly for organizations that grew by stretching well beyond their original program goals. Often, nonprofits can only become more intentional by releasing staff, board members, programs, and leaders, thereby creating the organizational capacity to invest in the activities they care about most.

Letting go requires a mix of courage, commitment, and measurement. Intentional nonprofits can face intense board and employee resistance, as well as a community backlash. They may find it difficult to reassign employees who were hired for their specialized skills, nearly impossible to combine units with very different program histories, and intensely stressful to spend scarce resources on organizational infrastructure. Intentional nonprofits often discover that each of their

enterprises has its own language and culture and almost always conclude that streamlining, reorganizing, downsizing, and focusing are easier said than done. Organizations that move from enterprise to intention take a hard look at everything. A senior executive at the Nature Conservancy observed, “The challenge is to stop doing things that we’ve always done that are not contributing toward the mission. The first step is to use ‘zero-based planning’ and take a fresh look at everything we’re doing. We’re not going to get rid of people, but we are going to change what people do. We would like to grow from 3,000 people to 10,000, but we want the 10,000 to be doing the right things and have everything aligned so they have the incentive to do the right things.”

A senior executive at the San Diego Opera echoed the sentiment: “If you are going to really move an organization forward, you have to be on a constant learning curve. You have to be a perpetual student. If you don’t want to do that, then you won’t turn an institution around.” To move forward, however, the San Diego Opera first had to move backward. It was doing eight operas a year when the new executive team arrived in the mid-1980s and immediately dropped down to four, which several executives described as “pruning the rose bush.” It also adopted its first strategic plan, which it updates every three months. As one executive explained, “You have to have a long-range plan in the world of opera, especially for a company at this level. We’re competing for the same artists as the New York Metropolitan Opera, San Francisco, Paris, Vienna, and we have to offer those contracts at least four years and sometimes five years in advance. So how do you do that if you don’t have a plan, if you don’t know how much money you will have coming in? That’s when you get yourself in a big hole.”

The move from enterprise to intention does not have to be done alone. It is often done through mergers and strategic alliances with other organizations that are also spread too thinly or through expansion in a particular line of work. It is also often done with the support of a community foundation or venture philanthropy that is ready to commit resources to a more focused future. Such investments are rarely made without the

Becoming intentional often involves a confrontation with the dependencies created during the enterprising phase, particularly for organizations that grew by stretching well beyond their original program goals.

Robust organizations are just as likely to believe in luck as their peers, but they often create the luck they need by building the organizational structure for maximum opportunism.

underlying evidence to show program impacts and organizational productivity, however. To the extent that organic nonprofits set high expectations for evidence of impact and that enterprising nonprofits further the effort by adopting more sophisticated systems, they both raise the odds that they will attract the energy, if not the funding, for the next move upward.

The Robust Nonprofit. Once at the intentional stage, nonprofits often begin to take steps toward robustness. As I define the term in my new book, *The Four Pillars of High Performance*, robustness involves “the ability to withstand, even exploit, uncertainty.” Nonprofits exist in a world of many futures: some favorable, some threatening. Robust nonprofits prepare for uncertainty by hedging against vulnerabilities and shaping the environment for maximum effect. At CARE, for example, the global campaign against poverty involved two very different planning efforts. The first dealt with internal structure and systems, while the second turned to the mission itself. “The first strategic plan was more inward looking,” a senior executive explained. “That is, we were trying to increase our fundraising, build up our systems and our structures, and make us more effective within. Programmatically, we had changes going on, but the second strategic plan was much more outward looking. It was more concerned with how we were interacting with the world and what we were contributing to the world rather than focusing inwardly on our structures.”

Hedging against uncertainty involves more than fretting about surprises. It requires a basic willingness to think in futures (plural) tense, which, in turn, requires an agile organizational structure, concentration, and insurance against surprises. It also requires a greater focus on the longer term. Robust organizations must be able to run sprints, particularly when reacting to surprises, but their great strength is the marathon.

Unlike the elementary planning that helps organic nonprofits test their program assumptions, for example, robust organizations prepare for multiple futures simultaneously. Most set aside at least some funds for the worst case, deepen their insurance against a range of catastrophes, and often create contingency plans for acting

quickly to stem the financial damage from cost overruns and surprises such as rapid escalations in healthcare costs. They build financial systems that operate in real time, meaning that they can get accurate revenue statements at a moment’s notice, and often create early warning systems, or signposts, that show trouble ahead. As they build, robust organizations also engage in basic risk analysis, weighing new program costs against potential benefits.

Robust organizations are perfectly capable of innovation, however. They often take enormous leaps of faith. But those leaps are well informed by careful analysis and measurement. Robust organizations are just as likely to believe in luck as their peers, but they often create the luck they need by building the organizational structure for maximum opportunism. “We all make our luck,” said an executive with OMB Watch, a good-government advocacy group. “Or maybe a better way to put it is that we have to position ourselves to seize the opportunity when lucky situations come about. We have to have proposals ready, be ready to engage the policy fights, be ready and knowledgeable about a range of issues. Maybe I’m being cavalier, but the luck comes from other people respecting the work we do. The timing of it is fortuitous, which I call luck.”

Much as robustness helps organizations cope with uncertainty, it can also breed isolation and hubris. The more robust the organization becomes, the less accountable it can become. It can lose its sense of direction, drift toward imperialism and self-righteousness, and abuse the opportunities that come with independence. Hence, even as they protect themselves against uncertainty and stay lean, robust organizations must continue to challenge and inspire themselves, while investing in basic accountability systems. The more they face into the environment through measurement, formal and informal contact with their markets, benchmarking against other organizations, and strategic thinking, the better.

The Reflective Nonprofit. As they push themselves to confront their own role in shaping the future, robust organizations eventually reach a more reflective position. Instead of seeing themselves as victims of uncertainty and surprise,

reflective organizations focus on their own contributions to the future through advocacy, example, and legacy. Some even try to put themselves out of business by embracing audacious goals like eliminating global poverty or cooling the earth to normal temperature.

Having achieved the independence of robustness, reflective organizations often return to the organic questions that sparked their initial journey, challenging themselves to merge their present capabilities with their past intentions. They often do so by exploring the future through even more advanced planning techniques such as computer-assisted simulation, streamlining their administrative structures through organizational assessment and staff rotation, preparing for inevitable departures through succession planning, and renewing their management systems through upgrades and innovation.

This is certainly what Chicago's Heartland Alliance has done in recent years to expand its reach while integrating its programs. "I think we're highly accountable and never satisfied with what we've achieved," said a senior executive there. "And we seem to be consistently asking the questions, 'How do we do better?' 'What do we have to do differently?' So, it's that 'Yes, but . . .' answer. Yes, I think we're a high-performing organization, but I think we have to be even more high performing." Moreover, as this executive argued, growth is a very shallow measure of performance:

To me, high performance is always a mix of qualitative and quantitative factors. Expansion just by virtue of doing more programs or having a larger budget is not necessarily a sign of organizational effectiveness or even organizational growth. It can be a measure of failure. It's "What are the qualitative underpinnings behind quantitative growth?" "What are our outcomes as a result of that growth?" "Are we just touching people's lives or helping to achieve change in people's lives?"

That's the difference. I mean, one can greatly expand the number of lives you touch, but do nothing else, and that, to me, is not effectiveness.

Absent this self-discipline, reflective organizations can easily become imperial organizations, imposing their will on the rest of the field, while absorbing resources that might better go to other organizations. Not unlike large corporations, they may become so focused on self-preservation that they forget what brought them into being in the first place.

Nonprofits do not have to be large to be reflective, however. To the contrary, they may be quite small relative to the organizations against which they sometimes compete. They almost certainly act younger, whether by constantly streamlining, incubating new organizations within their own midst, fostering deliberate board and staff turnover, undertaking constant benchmarking against other organizations both inside and outside the field, entering new collaborations and strategic alliances, and contemplating mergers and spin-offs, all of which face the organization in the outside world. Reflective organizations remain reflective in part by revisiting the techniques that helped them move upward through the organic, enterprising, intentional, and robust landings.

Next Steps

No matter how hard they try, nonprofits cannot prepare for every possible surprise or shock. They are often one economic crisis from a painful trip back down the spiral. Although endowments and insurance can make the trip a brief one, nonprofits can and do rise and fall on the developmental spiral with regularity. Indeed, one of the ways in which robust and reflective nonprofits prepare for misfortune is to plan for it. They do so by investing in renewal even during good times. They do not take success for granted or assume that their organization is working well just because they do not hear any complaints.

Tempting though it might be to swear allegiance to one metaphor or view of organizational development, the 25 site visits provided support for a much more pliable view of organizational growth and decline. Many organizations did age up the spiral by obtaining experience and growth, but some aged downward by expanding too far. Some organizations did compete against others for survival, but many also found great strength

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in collaboration. And most organizations did build structure and systems as they advanced upward, but some also dismantled structure and systems as they worked to innovate and learn.

More important, most described their organization as moving through some kind of developmental process. Based on a careful reading of their annual reports, strategic plans, tax statements, program evaluations, and Web sites, as well as 73 interviews with board members, executive directors, and senior staff, all 25 organizations had reached the enterprising stage at some point in their history, 17 had moved up to the intentional stage (leaving eight behind), nine had moved up to the robust landing (leaving another eight behind), and three had reached the reflective landing (leaving six behind).

This sample size was much too small to draw absolute conclusions about how organizations move up and down the spiral, however. In addition, the 25 organizations were handpicked to feature variety, not similarity. Nevertheless, I remain convinced that further work on this particular metaphor of development has great potential for helping nonprofits pick the right capacity-building strategies for the future. If we are to meet nonprofits wherever they are, as many

fundors and capacity builders promise, we must get much better at mapping the many places nonprofits can be at any point in time.

NOTE

1. The 25 organizations interviewed were CARE, Doctors without Borders, Environmental Defense, the Girl Scouts, the Nature Conservancy, OMB Watch, Share Our Strength, Big Apple Circus, Friends of the Chicago River, Heartland Alliance, Lakefront Supportive Housing, Vital Bridges (which was named Open Hand Chicago at the time of the site visit), Indianapolis Children's Museum, Second Helpings, Los Angeles Alliance for a New Economy, Pillsbury Neighborhood Services, San Diego Opera, Pacific Repertory Theater, Asian-Pacific-Islander Wellness Center, Pact Adoption Alliance, Community Coalition, Tree Musketeers, Ancona School, Instituto del Progreso Latino, and Calvary Women's Services.

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Who “Owns” Your Nonprofit?

by Judith L. Millesen

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

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[O]ver 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.

Nonprofit boards are accountable to both a legal ownership and an ethical, or moral, ownership.

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 to 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.”

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 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

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.

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.

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Boards and Leadership Hires: How to Get It Right

by Deborah Linnell

HOW A BOARD HANDLES A LEADERSHIP transition can have powerful and long-lasting effects. This article discusses how the board's handling of this pivotal moment can result in long-lasting problems—and what your board can do to get it right.

Consider this example. For three years, the board of an organization that promotes volunteerism has struggled with a lack of faith in its executive director. The mild-mannered director lacks personal energy and functions as a coordinator rather than as a manager. His leadership style creates a loss in momentum, although the organization's rates of volunteer participation are high. Made up of young professionals, the board has let its frustration build, prompting this executive to intuit that he has not met expectations and resign. The board decides it needs a real go-getter who will focus on fundraising, and it gets what it wants: a motivated, former junior staff consultant at a for-profit firm serving nonprofits, who drives ahead without consulting others. In fact, she often appears annoyed when others voice their opinions. Staff begins to filter out.

Always involved in setting the organization's agenda, the board soon realizes that it has made a mistake. The problem is, its members have spent valuable social capital in promoting the

new director as organizational savior. The director leaves within the year and the organization—now significantly weakened and disheartened—is consolidated into another. How do such things happen?

Board Perceptions Inaccurate

By design, boards are often disengaged from the day-to-day work of an organization. This detachment means that boards do not understand an organization's cultural dynamics as its staff members do, and this lack of understanding can prompt a board to develop uninformed beliefs and make poor decisions based on those beliefs. In the above example, the board developed a narrative about its executive director but failed to recognize that the director's role as a coordinator encouraged the organization's numerous volunteers to step up and get involved in core functions. The new executive was given a "charge" by the board to take greater "executive" leadership, and her approach ultimately stripped the organization of what kept it alive during times of struggle.

Anyone who spends a lot of time in nonprofit environments has seen a hundred variations on

Always involved in setting the organization's agenda, the board soon realizes that it has made a mistake.

DEBORAH LINNELL is the director of programs at Third Sector New England.

Nonprofit Governance as Adaptive, Not Prescriptive

For several decades, nonprofit boards have adopted a prescriptive approach to governance. But given the variety and dynamism of nonprofit organizations, some of these prescriptions do not make sense. A primary consideration for recruiting board members should be their passion for organizational mission. Organizations should convince attorneys, accountants, and other experts to volunteer their time as needed. They should also create a fundraising committee that is not board-centric. Those who govern should focus on stewardship of the mission on behalf of the constituents in whose name the nonprofit holds its tax-exempt status.

This kind of stewardship requires ongoing learning—about the organization, its culture, the field in which it works, the field's history and evolution, and the systems affecting constituents and the organization. It means adapting communication vehicles for this kind of ongoing learning and, most important, not relying only on the executive director to interpret the organization's current situation. This requires attracting board members who are system thinkers rather than bean counters and who can hold current reality and future vision in their minds while also aligning with the best elements of the organizational culture. This requires a different kind of recruitment, orientation, and ongoing management of governance and a deconstruction of the sacred-cow notion that board members should talk only with the executive director.

How Boards Can Get It Right

While the belief system of a board is developed upstream of an organizational transition, it flows down into the organization as a product of the hiring process. If boards want to do an excellent job at this powerful moment, they should take certain steps before a leader departs as well as once a leader decides to leave an organization.

Boards should take these actions before a leader declares readiness to leave:

- Board members should be recruited primarily for their commitment to the mission over skills, connections, or other characteristics.
- On occasion, have board members “intern” by taking part in the organization's core work so that they can familiarize themselves with the way

the organization really functions.

- Create board/staff/stakeholder committees so that the board is integrated into organizational culture.
- Research nonprofit life cycles so that the board understands some of the reasons for an organization's behavior.
- Ensure that the organization has depth or bench strength to prevent overdependence on a single leader.
- Solicit information formally and informally and listen to constituents, clients, community members, staff, and funders; ask them to tell the truth. If an executive director is in continuous friction with any or all of these parties, he does not understand leadership, and the board should act to move this person out for the health of the organization.

Boards should take these actions once a leader declares readiness to leave:

- Do an early exit interview to get perspective on an outgoing leader's belief systems; style; and experience with board, staff, and other stakeholders.
- Assess the organization—its position in the field, its financial state, its relationships with stakeholders, its culture—any chronic problems and strengths, and lay out a list of desired characteristics for a new director. It is almost always better for an external party to do this evaluation, but take the time to challenge your own assumptions about what the organization needs. Leadership transition consultants may be the best external candidates for this role.
- Create a position profile for the new executive based on internal and external assessments and a consideration of the organization's needs relative to its life cycle over the next five to seven years.
- Involve the staff and, where appropriate, other stakeholders in hiring the new director.
- Create a set of interview questions that identify the leadership qualities that promote a healthy organizational culture and ensure that regardless of the skill or experience of a new hire these qualities remain “the essentials” for executive leadership.

this theme. The board sincerely believes that it has taken the organization “in hand” even while it eliminates some of its most useful assets. Even if a board listens carefully to an executive director, it may get a distorted view of what an organization needs. For instance, a board may “know” from the organization's executive director that

the staff underperforms. But does it also know that keeping your head down and “covering your butt” are the order of the day? Seeing the production problem as the result of recalcitrant staff takes you someplace quite different from seeing the problem as a combination of these problems: a lack of distributed accountability, a

fear of stepping out to make suggestions, and the absence of a passionate shared sense of mission. Many boards get stuck on a superficial characterization of the state of an organization that falls short of real understanding.

Disconnection becomes particularly acute when board members make assumptions based on a narcissistic attachment to their own knowledge and experience. Some board members join a board with a “deficit attitude” and assume that nonprofits do not understand how to operate well and that they need a more business-like approach. Boards are attracted to such people for three reasons: (1) boards believe it is best to recruit members from a short menu of professions, such as human resources, accounting, marketing, and law; (2) boards want members who can build a bridge to the money; and (3) boards tend to reproduce themselves, recruiting like-minded people to replace retiring members. But if these board recruits have little knowledge of an organization’s history, context, or constituents and only the vaguest understanding of its programs, their conversations revolve only around what they know.

These misconceptions are not the fault of individual board members, whose orientation often does not require them to “live” in the organization’s core work for a day or two. Some consultants and executives, in fact, frown upon “normalizing” board members (i.e., having them take part in an organization’s day-to-day life), but the likelihood of board-staff misalignment increases when dialogue between board and staff members is discouraged. Lack of board-staff connection often occurs and is justified out of a fear of “inappropriate communication” between the bodies. The underlying thinking smacks of a fear of transparency and of a rigid organizational hierarchy that blocks board members’ understanding and can make board members truly dangerous in the hiring process.

Defaulting to Individual Style

Over the course of three years, a large animal rescue league had two “unintentional interim” leaders after the founding director departed. The first was inexperienced and took all her direction

from an overly involved board president who in essence ran the organization. Her inexperience caught up with her, however; the board of directors turned on the officious board president, and she was terminated. Another interim was hired who was extremely harsh on staff to the point of being disrespectful. The organization’s reputation was in tatters; staff and all-important volunteers were demoralized and left in droves; and the board supported the inappropriate interim, believing that standing behind the executive director was its role.

By threatening a union drive, the remaining staff forced the question and ousted the inappropriate interim. The organization lucked out with its next interim, who eventually became the executive director. He believed in supporting staff to become critical thinkers and reflective practitioners and asked for their opinions about everything. He also believed in stakeholder involvement and constituent voice and continuously surveyed for feedback on the organization’s performance relative to its mission. In less than two years, the organization’s operations had turned around completely.

But the executive director neglected one critical area: recruitment of board members who would align with the healthy culture he had built. Because he was a capable leader, he managed the board by producing excellence, good reports, good results, a good reputation for the organization, a rebuilt funding capacity, and even program innovation. But because of his lack of time, interest, or belief in the influence of the board of directors, he did not change board membership much. He did not ask board members to do what they had been required to do in the past: to volunteer for at least six months in the animal shelter learning the ins and outs of the business, getting to know staff and volunteers, and deeply understanding the culture of animal rescue work.

After seven years, the director decided to leave. He presented the board with materials on executive transitions, but board members decided to conduct the hiring process themselves. The next director they hired had an excellent fundraising résumé in a different field (social services) and had some experience as an executive director of a local affiliate of a national organization that

Disconnection becomes particularly acute when board members make assumptions based on a narcissistic attachment to their own knowledge and experience.

Leadership That Promotes a Healthy Nonprofit Culture

While no leader is perfect, an effective leader maintains the essential qualities of a healthy organizational culture: that is, being purpose driven, transparent, and accountable; having a commitment to ongoing learning with and on behalf of constituents; and having sound management. These leaders can do the following and facilitate others to do so as well:

- *Partnership building.* Leaders who partner with and inspire the groups who make up the system to move together are able to leverage capacity toward achieving mission and vision.
- *Continuous learning.* These leaders actively seek constructive feedback to enhance leadership and professional skills and incorporate diverse opinions.
- *Analysis and synthesis.* Such leaders also analyze and synthesize historic and current patterns and systems affecting constituents or creating barriers to change. Recently popularized as “right-brain thinking,” this approach enables leaders to see the inter-relatedness of events and understand the impact of the community and constituents on the organization. Smart leaders enlist multiple perspectives to understand the current situation—its merits, flaws, and areas for change.
- *Whole-systems thinking.* These leaders understand that they are part of the system and organizational culture, not outside of it. Executive directors and board members often mistakenly believe that they are in charge. They can influence a system through their decisions, but those who make up the system affect it as well. Since no individual controls the organization, its members are in a continuous dance of influence with one another. Good leaders understand this and facilitate a mutuality of purpose and identify management disciplines that are most effective rather than exert individual mandates.
- *“Authentic” communication.* These leaders communicate authentically from their true selves and do so transparently with all stakeholders. Healthy, self-aware leaders who can communicate clearly and honestly enable organizational cultures to thrive. This means respecting confidence and boundaries, not hiding behind excuses like “The auditor says,” or by “gatekeeping” information from staff, constituents, and, yes, the board.
- *Understanding of cultural dynamics.* These leaders understand the dynamics of the dominant culture within the organization (and the systems in which an organization exists) and its impact on diversity and the inclusion of people, ideas, activities, and community impact.
- *Effective management.* Finally, these leaders manage well. They ensure that finance, fund development, human resources, and facilities management are attended to and done well. Many good leaders have the various skills listed above but are undone by an inability to accomplish and delegate important management functions in a timely, well-organized way.

had required a good deal of responsibility on the ground. But despite these experiences, the director came in and led hierarchically. Staff and volunteers who were used to a culture in which they

were respected and their opinions were heard and most often acted upon, bristled under the directiveness of the new executive. Within a year, the director had undone the vibrant culture built by her predecessor over the prior seven years—and with the blessing of the board of directors, which had always been slightly suspicious of the former director’s facilitative, flattery-based style of leadership but never questioned it given the unprecedented success of the organization under his leadership.

In a matter of months, a healthy organization became unhealthy. The former executive could have helped the organization he worked so hard to rebuild with one small point of leverage: by developing a board of directors aligned with the culture of the organization he had built. If he had done so, the board would have understood that it would take a particular kind of leader to build on the success of the previous executive. And it might have prevented a new executive from managing based on her own dictates and without consideration for the organization’s past, the field in which the organization was situated, or for staff, volunteer, and community needs. Four years later, this organization has lost more than 50 percent of its staff, and its reputation is once again suffering with funders and community partners.

In these situations, line staff members are often excluded from the process of selecting a new executive director. The expectation is that a new boss will “manage” staff, and boards fear self-interest will taint such participation.¹ But boards ignore an important perspective when they do so, since line staff tends to embody the culture of the organization. Rather than taking the time to hire a candidate who is a good match for the culture of an organization (someone capable of asking, “Does the organization need to be nudged in a new direction, or does it need its best characteristics reinforced?”), boards often hire a manager and allow him to manage in whatever way he wants—as if management style were value-neutral.

Management Trumps Leadership

For years, boards have hired for management skills over leadership skills. This trend has

increasingly placed a premium on the ability to manage finances and fundraise over competencies that reflect whole-systems thinking, such as the ability to build shared vision and facilitate the ongoing engagement of multiple stakeholders toward that vision. Management skills are important, of course, but they aren't the drivers of true "nonprofit excellence."

Still, hiring primarily for management skills is understandable. Many nonprofits have trouble finding a visionary leader and a supermanager in the same person. And when organizations move from the first, or "family," stage to the second, or "improving management systems," stage, a board often defaults to management attributes simply because it has experienced the fallout of inadequate financial or human resource systems. Again, this focus is not necessarily wrong in the moment, but it may stall the organization for years to come by assuming that the preponderance of needs now (concerning policies and procedures, for instance) will remain the same over the next five or 10 years. Boards tend to hire based on their problems with a departing executive director. As a result, they often rush into the hiring process to "fix" those issues rather than take the time to reflect on where the organization is now, where it is going, and how to find the best leadership fit for the future.

When boards do not recognize problems as being related to a stage of development—and in particular, when an organization is making the transition from the first to the second stage—it can make common mistakes with predictable outcomes. For instance, if a board overcorrects and hires a rigid and controlling director, the organization's staff, members, or constituents may revolt, spit out the newcomer, and return to the first stage.

Or if a board hires an operations person without strong leadership capacity, the organization may wander forward slowly without recognizing it has lost its potential for influence and excellence. Too many boards are satisfied with well-managed nonprofits and fail to question whether an organization has optimized its mission or validated its strategies through close engagement and work with constituents—even if

the effort means the organization must reinvent itself to do so.

Risk-Averse Managers as Board Proxy

Boards may hire risk-averse executives in reaction to a visionary but unstructured leader. Boards who see themselves as protecting an institution's integrity often place a premium on financial and organizational stability over, say, fighting the good fight with the powers that be about an unpopular issue. Risk-averse hiring may also result in community institutions that feel more bound by their grants and contracts than by those they serve. In the end, this approach limits an organization's appetite for organizing, advocacy, and innovation and diminishes its focus on community impact in favor of institutional security.

Ideally, board, staff, and other stakeholders weigh risk taking and risk management and tip the scales in favor of constituents' best interests. This sometimes requires a willingness to choose the less secure path, but that choice becomes nearly impossible if a board hires a director who is more interested in compliance or the organization's image with corporate funders than in doing what is right on behalf of constituents.

Leaders in Board's Own Image

If a board ignores its organization's constituents and its staff's requirements of a leader, the hiring of a new executive can create a disconnect that rocks organizational culture. The mutual reinforcement of board members and executive directors concerning management style, choice of programmatic strategies, race, gender, and class creates a closed loop of people with the same attitudes, mental models, reference points, and blind spots. If they do not have a strong discipline of inquiry, a desire to challenge the status quo, and an ingrained curiosity about how best to serve constituents, this closed-loop system can't align with the community it serves and organizational culture fractures. Soon, it becomes a requirement to "gatekeep" ideas and approaches that diverge from the norm and to support the board's and the director's perspective—even if this perspective runs counter to the truth. Creative disruption is neither understood nor welcome.

If a board ignores its organization's constituents and its staff's requirements of a leader, the hiring of a new executive can create a disconnect that rocks organizational culture.

NOTE

1. Ori Brafman and Rod A. Beckstrom's book *The Starfish and the Spider: The Unstoppable Power of Leaderless Organizations* brings home the point that sustainable businesses and nonprofits rely on multiple leaders at all organizational levels rather than on one leader at the top.

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Mission, Message, and Damage Control

by Kim Klein

Editors' note: The following article has been adapted from Kim Klein's new book, *Reliable Fundraising in Unreliable Times*, published by Jossey-Bass. In it, Klein shares strategies for surviving and thriving in any economy. The book is filled with practical advice on short- and long-term fundraising strategies and on issues that have an impact on fundraising, such as the role of nonprofits in working for the common good, the role of taxes in creating a just society, and the need for new organizational forms to accomplish nonprofit work.

IN HARD TIMES, PEOPLE BEGIN TO POSE FALSE choices: "We cannot go to the movies until there is world peace, we cannot have a ballet until there is no homelessness, we cannot save birds until all children are well fed." They see cutting funding, pulling back, as the only way to respond to the economic downturn. The more people react in this way, the more it seems they have taken some kind of sourpuss vow: they will not laugh until oppression has ended.

In fact, there is enough money for all our nonprofits. Granted, to get them all funded will require rethinking national priorities and a redistribution of wealth, but there is no shortage of money.

The case statement is the cornerstone for raising money effectively, the message is specific to the moment; it simply shows the world that you have read the paper, listened to the news, and are conscious of what is happening around you. It places your work in the context of the larger

world. It faces current reality squarely.

An affordable-housing group believes people should be able to live in the community in which they work. When the organization launched, its community had low unemployment, but people commuted from nearby towns because housing near their workplace was so expensive. Two years later, the community has high unemployment and people are losing their homes because they can't pay their rent or mortgage. The affordable-housing organization maintains the same mission: "People should be able to live where they work," but now it institutes other actions to fulfill its mission. To help people stay in their homes, for example, the organization creates an emergency loan fund so

To get [all nonprofits] funded will require rethinking national priorities . . . but there is no shortage of money.

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**Mission is forever, but
message is more urgent
and immediate.**

people can borrow money easily for housing costs and works with local banks to stop foreclosures. Its message is “We make sure that losing your job does not mean losing your home.”

The organization’s mission is the same, but the message reflects what is happening with housing in the community. It also reflects some very hard work on the part of the board and staff to create these new programs.

Here’s another example of a distinction between mission and message that a youth symphony orchestra uses to avoid a crisis. This well-regarded group serving a large geographic area has as its mission: “We believe children who have musical talent should be able to develop it as fully as possible and the community should benefit from the talent of its younger members.” Suddenly, two sources of funding are threatened: a state arts endowment grant is cut, and a foundation the organization had counted on has more pressing needs to fill. Just as the group loses its funding, the number of children signing up for its summer music camps and trying out for its programs increases. The organization realizes that many kids are eager for a musical education that the public schools no longer offer. While the group’s mission remains the same, it adjusts its message to be more compelling during these times: “Children should be musically educated. We augment the work of the schools in providing musical education for children.” This message puts forth the organization’s belief that the public schools should provide music and art education.

Next the organization forms an advocacy task force with parents and board members to pressure the legislature to find money for music education in the public schools. In the meantime, it continues to meet an immediate need. When it presents this point of view to its funder, the funder reconsiders and restores the grant. With its new message, the group can also attract donors who may not be that interested in music but who agree that music should be part of children’s education.

Mission is forever, but message is more urgent and immediate.

Underlining all my recommendations about developing your message is my firm conviction

that you are always best off telling the truth and only the truth. But you may not be telling the whole truth until you are sure that you know it. In big crises, truth has a way of changing with time and who does the telling.

When Message Is Damage Control

When an organization is in an internal crisis, the message is more along the lines of damage control: explaining what happened and making sure that everyone who should have the information he or she needs.

An organization has a history of sloppily kept or nonexistent donor records. Gifts are often not recorded properly, people are not thanked or are thanked for the wrong thing, donors are “reminded” of pledges they have not made. A new development director has been hired to improve the situation, and the message has gone out to board members that these problems have been resolved. But early in the new development director’s tenure, several events cause the board to question whether record keeping has actually improved. First, a major donor tells a board member that his pledge form commits him to a \$10,000 gift when he pledged only \$5,000. The executive director speaks to all parties; though the development director insists the pledge was for \$10,000, the donor is equally sure it was for \$5,000. The executive director changes the pledge form, reassures the development director that this donor has been inconsistent in the past, and alerts the board member that this was probably not a record-keeping issue. Next, the development director seriously overstates the return on a direct-mail appeal. When the discrepancy surfaces, he claims that his math was faulty because he was so busy entering respondents into the database that he figured out the percentage of response in his head. The third month, the development director announces an impending grant for \$25,000. When the executive director calls to thank the foundation funder, she learns no such grant has been proposed, nor is one forthcoming.

Now the executive director realizes that the previous “truth” of bad systems has been overshadowed by a bigger current truth: the

The process of developing the message can also be part of the message.

development director is a liar. She fires the development director immediately and calls the board chair, who informs the board members of what has happened. The executive director talks to the two other staff members. They and the board chair agree that the message will be as follows: “We were unable to get accurate information from the development office. Since the development director was on probation, we have terminated his contract.” The board members and the staff will know more specifics, but no one else needs to.

The executive director lets the foundation funder know that the development director has been terminated because he gave misleading information and asks the funder to pass the information on to anyone who needs to know. This funder is a reliable and trusted member of the funding community and likes this group. Her word among funders and major donors that things are being handled properly is important.

This organization averted a more serious crisis by handling the situation immediately once it understood what had taken place. During this crisis, only a few people really needed to be involved, but they were kept informed all the way. By enlisting a trusted messenger—the foundation funder—the organization controlled fallout from the development director’s actions.

Getting the Board and Staff on Board

In crises, we often focus on the opinions of people outside the group: donors, clients, even the general public. Yet our greatest difficulty in forming a message and relaying it is often at the board or staff level. It is critical that board and staff believe their opinions are welcome; further, they must not feel that they are being asked to lie or be evasive with others. Board and staff must be involved in the process of exploring options and discussing all the points of view, or they can quickly feel stifled. In one such situation, the board chair explained to a major donor, “I’ll tell you what I am supposed to say and leave you to read between the lines.” His explanation was lost; the message “I leave you to read between the lines” overshadowed other information. One funder reported to a small group, “Even the board

chair just says, ‘Read between the lines.’” Needless to say, this is not good message development.

Your message should not be evasive or vague. If there are legal issues involved, ask your lawyer what you can say and what would be legally dangerous or off limits. But if there are no legal issues, figure out how you can tell the whole truth but also emphasize the mission of the group. Message development may take some time and may bring important discussions to light as the crisis develops and is worked through. The process of developing the message can also be part of the message, particularly when part of the board has divergent opinions, as in the following example.

An after-school program for teenagers provides a basketball court, a bank of computers for doing homework, an art room, and volunteer adult counselors. Half the funding for the program comes from the local department of parks and recreation, and the other half from the business community and a cross-section of parents. The program has one paid staff person and 50 volunteers; its budget is \$150,000.

The parks and recreation department is forced to make serious budget cuts in its programs, resulting in a cut of \$50,000 of its grant of \$75,000 to the after-school program. Because of the economic downturn, some businesses also cut back on donations to the program. In a matter of months, the organization suffers a 40 percent decrease in funding.

The board calculates that it can run the program at its current level for six months while it figures out how to raise more money. It announces to the parents and students, “Everything is fine right now. We are seeking other sources of funding, and we encourage each of you to give and help raise money.”

As the board works with the executive director to create a fundraising plan, philosophical differences develop. Many board members worked hard to advocate for government funding for the program. The mission of the organization—“Teenagers are a community asset and need to be nurtured”—implies that the government has a role. These board members feel that even if the program could be sustained with private donations, it shouldn’t be. It would be more principled

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to close it. "That's not fair to the kids," says the other faction. "We have to try to run the program on less money or raise money elsewhere." The board is further split when one member suggests renting part of the space to Armed Services recruiters, supporting the view that the Armed Services offers good jobs and scholarships for kids, along with possible income for the program. Longtime peace activists in the group are appalled at the potential sellout. Two months pass, with each faction becoming more firmly entrenched and with no money being raised and no plan formed for cutting expenses. The message "We are exploring options" has worn thin, particularly as the various arguments are put forward to the parents, students, and business community. Everyone has an opinion.

The board decides on a bold course: get community input on the various options. The board writes a short letter to parents, teachers, businesspeople, and the community at large presenting the dilemma and inviting them to a meeting: "How do we best show how much our teenagers mean to us? We believe our program deserves government funding. But in these times, that kind of funding is not available. If we are to replace our lost grant, we must have help from the entire community."

About 50 people attend the meeting and meet for four hours. At the end, consensus is reached: the program will seek private funding, but the city council will be asked to pass a resolution declaring the program a city treasure. Seeking government funding will be a top priority. The center will not be available to the Armed Services or other recruiters. As has always been true, employers can post job announcements and anyone can post announcements of scholarships, internships, and volunteer or job opportunities.

The message generated during the meeting is simple: "We have chosen to put teenagers ahead of all other concerns. We believe teenagers are a community asset, and we as a community pledge to keep this program open." By going public with their differences, this organization ensured that differences of opinion about the future of the center could be reviewed in one place at one time and be resolved.

Delivering the Message

The process of creating a message cannot be separated from the process of creating a response to the crisis. But groups usually cannot wait until a full response is put in place before putting forth a message. Donors, staff, and the public need information about what is going on with the organization.

The message that you start with, then, should involve the least amount of truth you can deliver without appearing to hide something. In fact, part of your message can be that you will send out additional information as it becomes available. Don't be nervous to admit that you don't know everything yet. It is better to have "not knowing" be part of the message than to say something that turns out to be false and have to issue a correction. Further, the message cannot be separated from the messenger. Finding well-respected and trustworthy people to help you deliver your message is just as important as the message itself. They can deliver the message and then conclude (assuming they feel this way), "I think everything will be fine" or "I have a lot of confidence in the team of people who are working on this." Finally, fundraisers always have to take into account that there is an order in which the message will be delivered. Make sure that you don't inadvertently alienate someone simply by not informing that person of the situation early on.

Like the response to the crisis itself, the process of delivering the message involves several parts. Make a list of those who need to hear about the crisis first. In addition to board and staff, think about anyone who considers themselves close to your organization: that is, the organizational "family." This includes active volunteers, longtime funders, longtime major donors, and former staff and board. In choosing whom to tell first, don't create such a long list that you then spend time calling people rather than planning. These close-in people are also often those you will approach for donations. Remember, you can always tell someone, but you cannot untell that person. When in doubt about telling someone, wait.

Next, identify who should deliver the message to these people and how they should get it. Generally, those who are told are told through a call or a

visit. Avoid e-mail, which can be forwarded easily, may take on a life of its own, and can create meanings that would not be present if the message were delivered personally. Longtime donors, funders, and volunteers make great messengers. Board members—particularly the chair of a board—can deliver the message but may be perceived to be too close to the situation, possibly involved in creating the problem, and too defensive. Major donors are usually told by those who have solicited gifts from them in the past. The people who are told first can be enlisted to tell others. Since these people will probably want to tell someone anyway, this approach provides some control over message delivery.

Institute a regular way to keep the people on the list updated about what is happening. As in many crises, if the situation unfolds over time, create a phone tree to keep people up to date. At this point, you can create an e-mail newsletter, but remember: anything you write in e-mail can wind up anywhere—at the office of the FBI, on the front page of a newspaper, or in the inbox of the person you have fired. E-mail needs to be considered public information and no amount of marking it “CONFIDENTIAL” can change that.

Talking with Major Donors about the Crisis

In a crisis, major donors need attention and reassurance. When an organization is in a crisis, the donors who agree to talk with you—even on the phone—need reassurance that their gift won’t go down the drain. Will you raise the money you need? Will you be back next year with yet another crisis? Do you know what you are doing? How did you get into this mess in the first place?

Even if they are not able to articulate it, most donors realize that a crisis is not just a big problem in an otherwise smoothly functioning organization. While what caused the crisis may not be your fault, a crisis has a longer history than the crisis event.

The following four tips can reassure almost all major donors; and you may need just one or two to reassure them effectively. These four elements are an explanation, a plan, evidence of other donors, and an escape clause.

An explanation. Major donors are like family. In a family, when someone has a heart attack or a

couple decides to separate, relatives expect more information about the situation than, say, a neighbor. And part of major donors’ insecurity is that, if it could happen to you, are their other beneficiaries far behind? Explain to these donors what has been told to others close to the organization. Don’t launch into a long explanation, but allow the donor to ask you what he wants to know and be open to the donor’s questions.

A fundraising plan is a source of reassurance because it shows that you have thought through what is required in the coming months to move beyond the crisis. Your plan should be as realistic as possible. But plans also shape reality, so your plan needs to be optimistic. Be prepared to show the prospect your cash-flow chart and a strategy-by-strategy description, including gross and net incomes for each strategy. Show your gift-range chart, and talk about how many other prospects you have.

Help from other donors. Evidence that others have bought into this plan is important. As you receive gifts, ask whether you can share the donor’s name and size of gift with other prospects. If a donor knows that Manuel has given \$5,000, and he respects Manuel, he is more likely to make a gift. For donors that are reluctant to share their name and gift amount, you can always tell a prospect, “Two other donors have given \$10,000” without using their names. Having board buy-in is also critical. Even if board members cannot be major donors, you need to be able to say, “One hundred percent of our board members have made a gift that is significant for them to demonstrate their faith in our future.”

An escape plan. Some donors need a contingency; they will give only if certain things happen. But a way out should be offered only when a donor indicates that’s what it needs to pledge a gift. If an organization follows through on the three elements above, most donors do not require this fourth element.

What does an escape plan look like in fundraising? Let’s say you approach someone for a lead gift of \$10,000 on a \$100,000 goal. The person is committed but hesitates, asking questions about where the other \$90,000 will come from. Ask how close to the goal of \$100,000 your organization

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While context does not excuse anyone, understanding the context allows for compassion.

must be for the donor to believe that the campaign will succeed. Some will say, “If you had half of it, I would feel better.” Others will say, “If you get one more big gift, I would feel better.” Offer the donor the option of pledging conditionally. A challenge gift is a great motivator. Sometimes the challenge is not about the amount of money but who gives it. A donor may say, “I’d feel better if I knew Fred was in. He is so smart about these things.” You would then say, “Can we get back to you after we have talked with Fred?” Go even further and say, “Can we tell Fred you said this?” When you approach Fred, tell him that his leadership gift will lead to another gift. Finally, some donors want to give some now and some when you raise additional monies from other donors.

Financial Scandals

Simply getting more donors is not reassuring to a prospective donor that wonders how your executive director managed to skim off \$75,000 over three years without anyone noticing. Moreover, it’s not helpful that the treasurer of the board knew about and tried to deal with the problem quietly. In the second scenario, how can a donor trust an organization’s veracity or judgment when it turns out that a program staff member filed a false report—a report that was signed by both the executive director and board chair? Their protestations that they didn’t have time to read the report do not make anyone feel better. In both cases, an enterprising young reporter has scooped these stories for the local paper, and they are the talk of the town (or that part of town that cares about these organizations).

Scandals are difficult to deal with because they break trust. Now, the question is not whether your plan will succeed but whether you really can fix an organization that has allowed such behavior. Returning to message, you should identify those who can say that your organization can be trusted and the problems are being addressed. Talk with these people. What would they need to see in the organization to confidently say good things about it or put money into it?

In a scandal, finding the context of the problem goes a long way in reassuring others that the problem can be solved. The executive director

who skimmed \$75,000 from his organization had a gambling problem, for example. The treasurer of the board and a staff person knew the director was stealing but tried to deal with the problem quietly so as not to embarrass him. The director has now been fired and is in a recovery program. The organization learned a lesson in how to deal with painful situations and has even allowed a consultant to write up its situation as a case study for other organizations. While context does not excuse anyone, understanding the context allows for compassion.

In the second scenario, context is even more important. The newspaper story rightly said that a staff person filed a false report. But what was the nature of the falsification? The staff person lied about the progress the organization had made on creating an earned-income venture. She claimed that a business plan was almost complete and the organization was ready to hire a staff person when those accomplishments were at least six months in the future. The executive director signed the false report—and the board chair went along—because he thought the project delays might cause the funder not to pay the second half of the grant. The executive director should simply go to the funder and say the project is behind. This will not be the first time the funder has heard that! Instead, he tried to operate in secret and in turn a newspaper reported that the organization had lied when in fact the error resulted from bad judgment. When the program officer of the foundation finds out what has really happened, she gives an extension on the grant and pays for the executive director to get executive coaching to help him make better decisions in the future.

In a scandal, donors need to know that the circumstances that created the scandal no longer exist and that the organization is thoroughly evaluating itself to ensure that nothing else is amiss. From a fundraising viewpoint, a scandal is hard to deal with and requires even more reaching out than other kinds of crises. Tell the truth, and tell it to those whom other people trust. In the end, donors are your friends, and major donors are your family. They may not like what you do, but they will generally stand by you if they have enough history with you to know that this scandal is something you did—and not something you are.

Everything Comes Back to Mission

Creating a message during a crisis is relatively simple once the organization recommits itself to its mission. Program or fundraising direction may have to change because of the crisis, but that step is possible as long as a group of people cares deeply about the organization. If you see telling the truth as the only option, it limits what you can say. Don't make something up or pretend something is true that is not. You will figure out who needs to hear the truth from whom, and when they need to hear it.

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Reframing Governance

by David O. Renz

Editors' note: This article first appeared in NPQ's winter 2010 issue, and is an adaptation of an article of the same name that ran in winter 2007. It highlights shifts in nonprofit governance models, authority, and decision making that continue to apply today.

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.

MANY MEMBERS OF THE NONPROFIT world have expressed concern that the sector has not developed new forms of governance. We have not, they complain, seen anything more than a minor variation on current designs and practices. For some time, I shared this perspective. But then I realized that this is not exactly true. We have created the “new nonprofit governance” at a new level within our communities. But we have not identified this shift because we’re 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 moved 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. But in these complex environments, boards of individual organizations serve the functions of governance less and less well.

In these environs, governance truly is leadership. And in this new generation of governance, which has most actively evolved in segments of the nonprofit sector where agencies strive to address these complex challenges, nonprofit boards are merely one element and no longer the primary “home” of the governance processes by which we address 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,

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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 participating organizations and entities. Similar dynamics have emerged in some parts of the nonprofit policy and advocacy domain, where different organizations' actions are orchestrated by a coordinated governance process that operates largely beyond the scope of any particular board, even as it deploys lobbying resources from various individual organizations.

The New Nonprofit Governance Model

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 nonprofit governance. But, for many key community problems and issues, they're not always appropriate as the unit of focus.

Governance processes—processes of decision making concerning action based on and grounded in a shared sense of mission, vision, and purpose—include the functions of setting strategic direction and priorities; developing and allocating resources; adopting and applying rules of interunit engagement and relationships; and implementing an ongoing system of quality assurance that applies to all constituent organizations.

In many key areas, these processes have moved above and beyond any individual nonprofit organization. If organizations do not work as an integral part of this larger whole, they don't get to join or stay in the game.

Why don't we see these developments, even when we're looking directly at them? Because we're still prisoners of the hierarchical, control-oriented paradigm of conventional organizing—we continue to look for a central leader (whether a person or a unit).

But the new governance does not look like anything we expect (even though we talk about

these issues quite a lot). Consider these changes:

- No individual or entity is always in charge (though some certainly have more influence than others). In fact, allowing any one entity to regularly be in charge is often resisted.
- The structure continually evolves and changes (though its general characteristics remain consistent).
- We have been “trained” to focus our attention on boards rather than on governance.

Governance is not about organization; it's an essential function in addressing a particular issue or need in our community. But for so long, individual organizations have been the appropriate unit to address problems, and we assumed that it always would be this way. But now, for the most critical and substantive community issues and problems, single organizations can no longer appropriately match the scale of these issues and problems. We've found it increasingly essential to develop alliances and coalitions—extraorganizational entities—to address the multifaceted complexity of these critical needs and issues. And the most successful systems we've developed to govern these alliances reflect the same scale and 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. As anthropologist Luther Gerlach describes them, emerging systems of governance have the following characteristics:

- **segmentary:** they comprise multiple groups and organizations, each of which is only one segment of the whole that works to address the issue at hand;
- **polycentric:** they have multiple centers of activity and influence to advance progress in addressing the cause of the whole, though each does its own work;
- **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 informal relationships that exist among those in leadership roles in the various centers of activity; and
- **integrated:** these networks are connected by a core but evolving ideology that crosses

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In this environment, the boards of individual organizations are guided by and often become accountable to the larger governance system. The frame of reference is larger than the constituent organization.

organizational (and even sectoral) boundaries as those who work to address the full range and complexity of an issue go wherever necessary to engage in their work.

In some cases, integration comes from those who hold a formal position in one organization (e.g., a staff position in a government agency) but who also serve in other organizations (e.g., a board member in a nonprofit agency or a leader in a relevant professional association). All these organizations play certain roles in addressing the particular issue or problem, and no single entity has the authority to direct these efforts (e.g., individuals working in AIDS prevention units or health agencies but who are also active in advocacy organizations for HIV and AIDS prevention).

New Models of Authority, Accountability

Generative leadership and strategy are handled at the meta-organization level; conversely, individual organizations (or cells of operation) handle the front-line action or delivery of services (i.e., operations). This structure is consistent with and fuels the accomplishment of an interorganizational entity's mission, vision, long-term goals, and strategies (all of which 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 systems of organized (but not hierarchical) influence and engagement link multiple constituent entities to work on matters of overarching importance and concern. In this environment, the boards of individual organizations are guided by and often become accountable to the larger governance system. The frame of reference is larger than the constituent organization.

If you're in one of these new systems of governance, your board has less strategic room to move. You're dancing to the tune of a piper (or 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 its former level of sovereignty).

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-service agency is automatically irrelevant because it is part of the larger whole. The board is necessary, and at its level, it offers critical value. But it's not the only level of governance that exists, nor is it the overarching and highly autonomous entity that historically had the luxury of being 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 that are more fluid but no less real than those in conventional hierarchical organizations. So what has changed alongside this new governance?

- Governance must be understood from the perspective of the theory and research on interorganizational relations and, especially, the work to explain the dynamics of networks and organizations as integral but not autonomous units within networks.
- What was once understood as boundary spanning has become 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 individual behavior and results are not adequate to explain what has been accomplished at the community-problem level.
- Fueling and enabling the emergence of this new governance is the growth in so-called strategic alliances—and in the number of organizations whose capacity has evolved to engage in collaborative alliances, with the mutual investment and shared control of resources and sharing of risk.
- All the above dynamics pose greater challenges for accountability. Appropriate accountability must focus on the community level (not on an individual organization); accountability systems must include but cannot be limited to the constituent organizations and their internal management and decision-making structures.

New Challenges

This evolution in governance makes sense from an organizational theory perspective. Organizational theory asserts that an effective organization's design will align with and reflect the key characteristics of its operating environment. Thus, if an organization's operating environment (including the problems it must address) is increasingly dynamic, fluid, and complex, the appropriate organizational response is 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. Their elements just don't look like our conventional organizational elements. Instead, their operating imperative demands that they differ, so the successful model of organization and governance needs 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 the capacity to do the work. Thus, the organizations in the networks addressing complex community problems are likely to include governmental organizations and even for-profit businesses, in addition to nonprofits. The mix of organizations depends on the assets they bring, where assets are defined by the nature of the problem and the needs 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 will find its power over others muted. Interestingly, this includes governmental entities that may still act like they are in charge. The fact that an agency has a legal or statutory mandate to address a problem does not give it any real control over the messy problems that these governance systems have emerged to address. No urban redevelopment agency, for

example, has ever had the capacity to resolve its urban community's problems without bringing other entities into the game, and increasingly, other entities have demanded a substantive role in the decision-making process. Part of the power of this new governance is that it can better accommodate and engage this shared-power dynamic.

Some individual organizations' boards have begun to take on this model. But these boards and organizations work at the network level, such as membership organizations comprising all the service providers in a given domain of service (e.g., the coalition of all emergency service providers in a given metro region). These entities have been created to bridge and cross boundaries, and boards have the explicit charge of providing leadership across agency and sector boundaries to address specific community issues. Most nonprofit boards don't look like this because they have not seen the need. But as a result of this new mode of governance, even individual agency boards now need to rethink how they should be designed 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. In many metropolitan regions, for example, we find networks of organizations that have joined to address the changing challenges of HIV and AIDS. They have their own boards, but they also have a regional planning and funding structure that overarches individual structures.

This overarching structure sets priorities and coordinates the work of individual agencies, including providing the venue for and organizing the processes for making regional-wide decisions about fundraising, marketing, and programming. In these cases, each of the key participating agencies' boards sends representatives to sit on the overarching entity's board (often these representatives are a mix of board members and chief executives). But the overarching entity's board includes members outside these operating agencies, such as members of the community at large (e.g., local-issue activists) who have equal

Organizational theory asserts that an effective organization's design will align with and reflect the key characteristics of its operating environment.

This new mode of governance has significant implications for the next generation of nonprofit board work. It requires different kinds of knowledge, skills, and abilities.

standing with agency representatives.

We see similar dynamics in many other areas of political and programmatic action: in urban redevelopment, in neighborhood revitalization, and in emergency services. In all these areas, overarching governance systems make strategic, community-level decisions that form the basis from which individual agencies develop and implement their own plans and operations.

New Leadership and Accountability Models

This new mode of governance has significant implications for the next generation of nonprofit board work. It requires different kinds of knowledge, skills, and abilities. This is the work of leadership, not management. So it is essential for its participants to be proficient in a different kind of leadership, particularly in the capacity to network, to build multifaceted relationships across boundaries and among diverse groups of people, and to effectively exercise influence in the absence of authority. (In his book *On Leadership*, John Gardner aptly described this as “exercising nonjurisdictional power.”) The ability to perceive a new level of operation is unique, requiring a multi-level systems perspective and a different, often unfamiliar “mental model.”

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 for external structures to hold these systems accountable—to create externally enforced Sarbanes-Oxley types of accountability.

The more diffuse and fluid nature of these designs makes them inherently hard to control (which is why influence is so important). In reality, the locus of accountability for this new level of governance must exist “above” the individual nonprofit—at the community level—yet many philanthropic and governmental funders and regulators are likely to hold individual nonprofit agencies accountable for such community-level performance and impact. They will continue to focus on individual agencies because establishing systems of accountability at the new level will be difficult.

And they will often be frustrated in their attempts to do so, because there is too little control at the individual agency level. This challenge becomes especially interesting in light of federal and state legislative discussions about nonprofit accountability and regulation, all of which treat the nonprofit organization as the primary unit of control.

This is an 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. But we have already developed a new generation of nonprofit governance that is more effectively aligned with and responsive to the needs of the organizations that come together to address the most dynamic and complex needs and challenges confronting our communities.

Indeed, this new generation of governance inherently involves a changing mode of community leadership as society moves 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 real point: the emergence of the next generation of nonprofit and public-service governance.

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Social Entrepreneurship as Fetish

by Fredrik O. Andersson

HOW TO THRIVE IN TURBULENT TIMES, improve organizational sustainability, and generate significant social impact are crucial questions currently confronting many nonprofit leaders and boards. There appears to be an answer within reach, and its formula is as simple as it is powerful: you and your agency need to become more entrepreneurial.

Over the last ten years, the fascination with and interest in social entrepreneurship seem to have grown exponentially. Today, this concept has positioned itself at the very heart of discussions about the future and evolution of the nonprofit sector, as a number of nonprofit executives have “embraced social entrepreneurship as a model of management.”¹ There are several reasons behind this fast development, and I want to mention two in particular.

First, despite the many constructive and positive impacts created by nonprofit organizations both locally and nationally, there exists a looming fear that our current efforts are not reaching far enough fast enough, and that traditional ways of addressing community needs and social issues lack the transformational capacity to deal with many of today’s complex and new social problems. In other words, the search is on for a new paradigm—a “game-changer”—based on fresh

and different ways to create systemic change.

Second, corresponding with this search for novel and innovative ways to deal with social issues, a new generation of philanthropists and institutional donors has been eager to promote the idea that the key to solving all sorts of pressing social predicaments is to be found in business principles and practices. As the story goes, the challenges and perceived inefficiencies of our current approach to social problems will, as Forbes.com described it, “ultimately be properly managed, or maybe even solved, when desperate governments and NGOs finally surrender their ideologies and tap the private sector for help.”²

Social entrepreneurship has united these two ideas to form a powerful fusion from which a new approach is indeed emerging, one that is backed by high-profile advocates like Bill Clinton and Nobel Peace Prize–winner Muhammad Yunus. The nonprofit literature has also noted that the means and tactics of social entrepreneurship and social enterprise “[are] being accorded a status of—if not quite a panacea—then at least a significantly important emergence in the societal

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Despite the tremendous energy and excitement surrounding social entrepreneurship, many nonprofit practitioners find it a highly elusive and difficult topic. I believe that one of the fundamental reasons behind this elusiveness lies within the social entrepreneurship phenomenon itself. More specifically, in contrasting what is being said with what we know about this phenomenon, I have started to believe that in many aspects social entrepreneurship is a fetish, an object of desire—more important for what it symbolizes than for its substance and applicability to nonprofits. My purpose here, then, is to discuss some of these symbolic properties and illustrate what makes them powerful, but also what makes them problematic.

Social Entrepreneurship as Dream Catcher

What exactly does it take to be more (socially) entrepreneurial? Given the praise for the concept and the frequent calls for a more entrepreneurial nonprofit sector, one might think this basic and crucial question has an obvious answer, which is why it is almost ironic that one of the few areas of agreement in this field is that there is no agreement about how to define or operationalize social entrepreneurship. But rather than undermining its legitimacy, this lack of precision has only added to the mystique and power vested in the social entrepreneurship phenomenon. Absent any right or wrong way to conceptualize social entrepreneurship, it has transcended into a shape-shifter that can take on almost any form—or, as Humpty Dumpty formulated it: “When I use a word, it means just what I choose it to mean—neither more nor less.” This becomes evident when one considers the vast number of activities that all manage to fit under the social entrepreneurship conceptual umbrella, ranging from seemingly vague efforts to be more “creative,” “innovative,” and “bold” to more targeted strategies such as the application of business/market principles or the creation of earned income-generating programs. As a consequence, there is a huge smorgasbord of options and recommendations from which nonprofits can pick and choose.

The obvious problem with this Humpty

Dumpty aspect of social entrepreneurship is that a concept that means everything means nothing, and therefore has virtually no utility for practitioners. For example, how will nonprofits be able to differentiate entrepreneurial actions from non-entrepreneurial actions? How and in what way do the various social entrepreneurship menu items differ from one another, and do organizations need to use all of them to be entrepreneurial? Nonprofit managers and boards will find that it is far from easy to get precise answers to these types of questions. But rather than opting for clarity, advocates have skillfully used the plasticity of social entrepreneurship to craft it into a vessel for carrying the ideas, dreams, and hopes of a new and improved nonprofit sector. By predominantly stressing intangible qualities, the social entrepreneurship debate recurrently manages to sidestep the uncomfortable challenge of being specific or concrete. In other words, a key reason why it is so hard to find a specific and concrete answer to the initial question above, regarding what exactly it takes to be more socially entrepreneurial, is that what often needs articulating is not *how* to be socially entrepreneurial but rather *what* social entrepreneurship stands for.

When we look at social entrepreneurship from such a symbolic perspective, we can also see that one of its principal symbolic assets is what it promises. This imagery has indeed been very successful in captivating many nonprofits, foundations, and policy makers. Today it seems virtually impossible to find any aspect of nonprofit organizational life that is not alleged to benefit from being a bit more entrepreneurial. This feature is further accentuated as nonprofits struggle to find their way in times of turbulence and uncertainty.

As Lee Bolman and Terrence Deal have pointed out, when faced with confusion and ambiguity we often turn to symbols that can provide some sense of direction and help anchor hope and faith for the journey ahead.⁴ Social entrepreneurship neatly fits this description, as it promises a better tomorrow. As stated by many social entrepreneurship evangelists, by embracing the role of social entrepreneur, we charge our organizations and ourselves with the capacity to transform our communities and even the world into a better place.

But it is here, at the very core of the symbolic power vested in social entrepreneurship, that we also find one of its greatest limitations: no matter what nonprofits want, they cannot engage in something they do not fully understand how to do. Impetus does not equal ability, and as several social entrepreneurship scholars have indicated, until we know more about the determinants of social entrepreneurship, this critical shortcoming will remain for nonprofits to wrestle with.⁵ So what if we really don't know what "it" is that fuels this notion that social entrepreneurship makes a difference? How do we know it works?

Success Stories

Based on the numerous stories, dramas, and anecdotes of successful social entrepreneurs across the globe—which can be found in the fast-growing segment of literature discussing and depicting social entrepreneurship, as well as the types of information found on websites of foundations and other groups that support social entrepreneurs—proof of the effectiveness of social entrepreneurship seems indisputable. But, while celebrating success is important, the frequent use of hero stories and individual accounts must be treated with caution. First, while it is good to know when social entrepreneurs succeed, we also need to know when they do not. After all, whether the success rate is 5, 15, or 50 percent makes a difference when assessing just how effective being socially entrepreneurial really is. Second, there is a major difference between describing success and explaining success. To be valuable to people in the nonprofit sector, simply showcasing success only makes partial sense unless these stories also explain what caused the success in the first place. Third, from a scholarly perspective, while individual success stories are valuable for descriptive and exploratory purposes, they are less useful for drawing aggregate and wide-ranging conclusions in terms of overall effectiveness or performance. In short, success stories are useful but not sufficient to verify that social entrepreneurship works.

Ask what academics and current researchers have concluded about the overall impact and success of social entrepreneurial activities, and the short answer is: it is too early to tell. The

picture emerging from the research literature is that our knowledge about social entrepreneurship is growing but still in an emergent stage, and the literature is noteworthy for its lack of sound quantitative empirical inquiry, overemphasis on the heroic social entrepreneur, and slow theoretical progress.⁶

Thus, we have two very different assessments regarding the effectiveness of social entrepreneurship. As discussed in the previous section, one might think that such lack of agreement could challenge the legitimacy of social entrepreneurship, or at least result in some caution before prescribing it as a universal solution to social problems; but this is obviously not the case. Instead, as mentioned earlier, while various academics are attempting to move this mosaic field forward in a more balanced direction, there are equally as many impatient advocates who continue to push social entrepreneurship as a panacea for dealing with social problems.⁷

So why do leading philanthropists, prime ministers and presidents, the Nobel Peace Prize committee, and Bono continue to praise, support, and prescribe what many scholars still consider an untested approach to success? Again, to make sense of this situation we must realize that much of the value of social entrepreneurship is located in the intangibles: its meaning and desirability. Viewed from a scholarly perspective, marshaling facts and analyzing data may indeed be the correct or rational way to gain support, but if you want to foster belief, purpose, and passion you are better off using drama and storytelling. It is not difficult to understand that many academics are indeed befuddled by such passion—as a recent research review noted, "There tends to be an underlying assumption that these heroic social entrepreneurs will somehow save the world."⁸ But it is precisely the stories and dramas of successful social entrepreneurs that perpetuate and keep the fetish alive, so that when we hear and think of social entrepreneurship, it is not what is being produced that matters the most but rather what is being *expressed*.⁹

To put it somewhat differently, as the popularity of social entrepreneurship has grown, many of the more spectacular and recurring stories

Ask what academics and current researchers have concluded about the overall impact and success of social entrepreneurial activities, and the short answer is: it is too early to tell.

I'm not suggesting that the efforts and impact created by social entrepreneurs are not real or relevant. But the symbolic properties and lack of academic evidence discussed here do raise concerns about the merits of selling social entrepreneurship as a best practice.

have turned into myths, and myths can legitimize just as well as any statistic. Scott Shane explored the myths of business entrepreneurship and concluded that they appeal to our sense of voyeurism because they provide “a window on a life that seems exciting and exotic.”¹⁰ In addition, myths are light-footed and travel easily in the sea of information, whereas scientific evidence often gets lost in academic journals or trapped in tables and figures. Finally, myths are not bound by either rationality or reality. As Chuck Palahniuk eloquently phrased it, “The unreal is more powerful than the real. Because nothing is as perfect as you can imagine it.”

To be clear, I'm not suggesting that the efforts and impact created by social entrepreneurs are not real or relevant. But the symbolic properties and lack of academic evidence discussed here do raise concerns about the merits of selling social entrepreneurship as a best practice, when the effectiveness of this “thing” is still very much unknown. Ultimately, nonprofit executives and boards must be held accountable for their readiness to critically examine the different aspects and evidence of social entrepreneurship rather than be passively enamored by it. Still, when considering the mix of myths and success stories associated with social entrepreneurship, it is easy to understand its appeal. As a self-labeled social entrepreneur recently told me, social entrepreneurship is a practice in which “everybody wins.”

Social Entrepreneurship as Best Practice

In this final section, I want to concentrate on one myth in particular: that social entrepreneurship represents something inherently good—a best practice that you and your agency ought to engage in. Let's begin with the “goodness” aspect. Especially in the practitioner-oriented literature, social entrepreneurship is explicitly presented as something positive: it's good for individual organizations, good for the internal and external stakeholders, good for the nonprofit sector, good for society. Everybody wins. Several entrepreneurship scholars, on the other hand, are dubious about this assumption. While certain forms of entrepreneurial activity are undoubtedly very positive and productive, there are other activities

that tend to be unproductive—and some are even destructive. Consequently, this plurality of forms “reminds those engaged in the research, practice and policy planning of entrepreneurship that entrepreneurial activities are not fundamentally ‘good’ and should be examined in their entirety.”¹¹

Again, we have an area where scholars seem to approach social entrepreneurship somewhat differently from its advocates. Still, it is not difficult to understand why supporters of social entrepreneurship are eager to highlight the positives. In particular, by constantly reinforcing the image of social entrepreneurship as “good,” a rationale and basis for prescribing it as an advantageous practice is created. Moreover, as Shane has observed, we tend to want to believe that social entrepreneurship is creditable, and this emphasis on its desirable elements breeds conformity and effectively prevents discussions about potential adverse and destructive components from ever reaching the surface.

In addition to being touted as “good,” social entrepreneurship is persistently advocated as being something one can choose to do—a sort of best practice that can be taught and implemented. For example, in the opening chapter of Peter Brinckerhoff's popular book *Social Entrepreneurship: The Art of Mission-Based Venture Development*, we are told that the benefit of the author's approach is that “you will learn how to be a social entrepreneur and how to develop or improve your business development skills, which in turn will make you a better manager in pursuit of your mission.”¹² But there is something very disconcerting about this whole viewpoint.

First, this is an example of the notion that adopting business practices is a way to make nonprofits more entrepreneurial so that they can better solve social-sector problems. Besides the lack of evidence that this works, if business enterprises and their practices were any better than nonprofit or public agencies at solving social problems, why haven't they already done so? After all, they are the ones that use business best practices all the time. Perhaps the dearth of for-profits trying to address social problems exists simply because many business methods and practices do not work in the nonprofit sector, rendering

businesses mostly ineffective in dealing with social-sector issues. There is something paradoxical about recommending business and market-based logic and practices as suitable and effective solutions for nonprofits, given that market failure is seen as one of the principal reasons for the very existence of the nonprofit sector in the first place.

Second, consider the term “best practice.” It represents something with a proven track record, an established path to success that can be replicated and copied by others. As mentioned earlier, business enterprises are not necessarily any better than public or nonprofit agencies at solving social problems, which raises questions about the merits of prescribing them as best practices in the first place. But there is an even more fundamental question: if social entrepreneurship is, ultimately, about finding a new paradigm and breaking away from existing frameworks and approaches, how can it also be defined by a set of best business practices that, by definition, draw on those same established models? Furthermore, if business practices tend not to be all that effective at solving social-sector problems when used by business organizations, it seems almost preposterous to assume that such practices would work any better if taken up by nonprofits.

I view the “goodness” and business best practice myths as two of the most problematic from a nonprofit practitioner perspective because of the illusion of certainty they portray, when the fact is, one of the fundamental aspects of entrepreneurial action is the absence of certainty. The price to pay for being socially entrepreneurial is that there is no way of predicting when such entrepreneurial actions will be successful, and when they will fail. Those agencies that are willing to commit to such uncertainty may indeed create substantial impact, but they may also crash and burn. When, in the mid-1980s, Manfred Kets de Vries set out to describe the dark side of entrepreneurship, he warned that the possibility of accomplishing great change and creating value often comes with difficult decisions to be made, making the entrepreneurial dynamic a disruptive and turbulent one for many organizations.¹³ In other words, entrepreneurial activities are not business as usual; they can seriously challenge the way nonprofits

operate internally, and add additional burdens and tasks to volunteers, staff, and board.

* * *

The aim of this article was to examine some of the symbolic underpinnings of what I have described as a social entrepreneurship fetish that continues to attract followers in the nonprofit, public, and private spheres. Let me be clear: social entrepreneurship is a tremendously exciting subject, with much potential to augment and advance nonprofit theory and practice. It is also a phenomenon that will continue to spur debate and discussion as organizations, policy makers, and communities seek solutions to both current and future social issues and challenges. So my purpose here has not been to reject social entrepreneurship but rather to problematize and perhaps liberate it from some of its theatrical properties. In particular, there is a gap between what we know and what we hope social entrepreneurship will accomplish in the nonprofit sector. From this perspective, social entrepreneurship fetishism is not dangerous—not until it starts forcing itself onto unwilling objects, and I do not think we are there yet.

Nonprofit organizations certainly must continue to play a significant role in American civil society, and in order to face the challenges ahead it is clear that nonprofits need good management, engaged boards, and sound financial practices. Some will also need more resources, staff, and volunteers. But the question to ask is whether there is in fact a need for all nonprofits to be socially entrepreneurial. Given the lack of rigorous research and evidence of what it is, what works, and what doesn't, it appears premature to urge nonprofits to become more entrepreneurial and send them off not only into uncertain territory but, more important, to a place where the consequences of such actions can have serious implications for their existing operations, the people they support, and the communities they serve.

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An Executive Director's Guide to Financial Leadership

by Kate Barr and Jeanne Bell

THERE IS AN IMPORTANT DISTINCTION between financial management and financial leadership. Financial management is the collecting of financial data, production of financial reports, and solution of near-term financial issues. Financial leadership, on the other hand, is guiding a nonprofit organization to sustainability. This is the job of an executive director. He or she is responsible for developing and maintaining a business model that produces exceptional mission impact and sustained financial health. To do that successfully, the executive director has to be ever mindful of essential nonprofit business concepts and realities. The following is a guide to this way of thinking for an executive—a summary of what we see as the eight key business principles that should guide financial leadership practice.

1. Activate Your Annual Budget

Strong annual budgeting is an essential element of financial leadership. The best annual budgets align to an annual plan—a written narrative that all staff and board understand about the core activities the organization will undertake in the coming year and how they will be financed. If the budget includes as-yet-identified income, which is standard for many organizations, that amount

should be clear to all board and staff along with the plan to raise the funds during the year.

Achieve a net financial result. A classic mistake executives make is allowing staff to spend all year on budget when income is not coming in as expected. In fact, it is critical to emphasize to your staff that an annual budget is a plan to reach a *net financial result*—to yield a specific surplus or to invest a specific amount of the organization's reserves through a planned deficit. Whichever the financial goal for the year, if the organization is not running on pace to achieve that net financial result, then even budgeted expenses should be questioned and reconsidered. The budget is never permission to spend when income is not coming in as planned.

Anticipate the future. Given that many organizations raise funds and encounter new risks and opportunities throughout the fiscal year, it is important not to stay overly focused on *budget variance analysis* to the exclusion of rolling analysis of your anticipated financial position. Budget variance is the difference between

A classic mistake executives make is allowing staff to spend all year on budget when income is not coming in as expected.

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Fiscal years are arbitrary units of time; in reality, the decisions we make—and the consequences of deferred decisions—live on well beyond the fiscal year. For this reason, we recommend that organizations build the habit of rolling financial projection.

budgeted and actual results for a given period. While it is useful to understand why predictions were off, it is just as important to be actively anticipating the future. We see too many executives and boards focused on “hitting the budget” rather than anticipating and intentionally shaping their financial futures beyond the current fiscal year. Fiscal years are arbitrary units of time; in reality, the decisions we make—and the consequences of deferred decisions—live on well beyond the fiscal year. For this reason, we recommend that organizations build the habit of rolling financial projection.

Commit to financial projection. At least quarterly, the management team should evaluate what they are learning about current and possible revenue streams, shifts in programming, and strategic opportunities, and there should be a means to capture that up-to-the moment thinking in a financial projection. Midway through the fiscal year, we recommend adding a projection column to the income statement, so that for the rest of the year it includes year-to-date actuals, year-to-date budget, and a column for management’s current projection of where the organization is likely to end the year. Even better, the projection can roll into the “fifth quarter”—that is, across the arbitrary finish line of the fiscal year and into the first quarter of next year.

2. Income Diversification . . . or Not

Income diversification is often touted as a tenet of sustainability—the idea being that having all of your eggs in one basket is by definition riskier than having them in multiple baskets—or in this case, multiple revenue streams. In fact, nonprofit business models vary considerably by field or service type.

Determine the degree of diversification you need. Income diversification is more possible and more necessary in some models than in others. For instance, community mental health services are likely to be heavily government funded, and once a nonprofit has established a successful track record of providing these services, that government funding may remain in place for years. Even though the organization is technically dependent on one set of government

contracts, it may not be in a riskier position than another kind of nonprofit struggling to raise small amounts of money from individuals, corporations, and foundations, for instance. The reliability and competitiveness of your revenue streams dictate the degree of diversification that you need.

Determine risk. Income diversification carries some real risks. Evidence shows that more revenue streams don’t necessarily mean greater annual surpluses or organizational scale. To attract new revenue streams, an organization has to develop and sustain new capacities. As nonprofit finance expert Clara Miller has noted, “Maintaining multiple, highly diverse revenue streams can be problematic when each requires, in essence, a separate business. Each calls for specific skills, market connections, capital investment, and management capacity. Only then will each product attract reliable operating revenue, pay the full cost of operations, and deliver results.”¹ And a recent analysis of high-growth nonprofits by the consulting firm Bridgespan Group found that 90 percent had a single, dominant source of funding. Bridgespan concluded that organizations get to scale by specializing in a certain type of funding, and that diversification, and thus risk management, happens by “securing multiple payers of the same type to support their work.”²

3. Make Cash Flow Your Priority

Most financial reports are historical documents, useful to verify what has already happened and compare to budgets and plans.

Develop a cash flow projection. For looking forward, one of the most important tools is a cash flow projection. Executive directors need to know how the organization’s cash flows, and what to do if the cash doesn’t flow. Unless your organization has built up a substantial base of operating cash, any nonprofit can run into cash flow problems. What causes them? A variety of factors, including seasonal fundraising, annual grant payments, reimbursement-based contracts, and start-up costs for new programs.

Anticipate—and resolve—cash flow issues. Cash flow projections require knowledge and judgment that the accounting department may not have. Because of this, executive directors need

to have a direct role in developing useful cash flow projections, agreeing on the assumptions to use, and reviewing the projections carefully. The earlier you anticipate cash flow issues, the easier it is to address them. As a first step, assess whether the cash flow shortfall is a problem with timing or is an indication of a deficit. The strategies used to solve the cash flow problem should match the cause of the shortfall.

Manage your shortfalls. Timing problems can be prevented by managing the timing of payments and receipts, improving internal systems, or arranging for a line of credit. Shortfalls caused by deficits need to be solved by budget adjustments or strategic choices to absorb a near-term shortfall. All of these options need the input and support of senior management. Managing cash flow is not a one-time activity. Insist that projecting and discussing cash flow every month or quarter become routine practice.

4. Don't Wish for Reserves—Plan Them

“Building a reserve” is on the top of the financial wish list of just about every executive director. It's an understandable goal—just read the preceding section about cash flow and you'll understand why. Having a cushion of cash that can absorb an unexpected delay in receiving funds, a shortfall in revenue for a special event, or unbudgeted expenses can stabilize an organization. Nonprofits that have built up a good cash cushion have had options and opportunities during the recession that have allowed them to respond to reduced income and increased demand more strategically and carefully than those organizations with few extra dollars in the bank.

Achieve a surplus. Wishing you had reserves is not the same as planning for reserves. But where do reserves come from? For most nonprofits, reserves are built up over time by generating unrestricted surpluses and intentionally designating a portion of the excess cash as a reserve fund. On rare occasions a nonprofit will receive a grant to create an operating reserve fund. So step one in planning for reserves is to develop realistic income and expense budgets that are likely to result in a surplus. Step two is to make sure that achieving a surplus is a priority that is understood

and supported by staff and board members. For some organizations, there is an earlier step, too. They have to stop operating with deficits before they can even dream of having a reserve.

Determine your reserve goal. How much should you have? While there are some rules of thumb, generic target amounts don't take some important variables into account, such as the stability of ongoing cash receipts. A commonly used reserve goal is three to six months' expenses. At the low end, reserves should be enough to cover at least one payroll, including taxes.

Manage your cushion. Once a nonprofit has been able to build a reserve, using it must be intentional and strategic. Using reserves to fill a long-term income gap is dangerous. A cash cushion allows you to weather serious bumps in the road by buying time to implement new strategies, but reserves should be prudently used to solve temporary problems, not structural financial problems. To maintain reliable reserves, it's also important to have a realistic plan to replenish them from future surpluses.

5. Rethink Restricted Funding

There is an ongoing debate among grantmakers about whether general operating funds are a better investment strategy than programmatically restricted grants. And frustration with funding restrictions is a common refrain among nonprofit executives. But at times this debate gets oversimplified to a notion that all restricted money is bad and inherently compromising of organizational sustainability, when this is not the case. As an executive, what you need to be concerned with is not whether a grant is restricted but what it is restricted *to*. A restricted grant for a program central to your desired impact and that covers a robust portion of that program's cost is functionally the same thing as general operating support—it is funding a core piece of the work that you do. The two qualifiers are key, though: you are doing something that the organization would do anyway, and you are getting paid fairly to do it. What you need to avoid is chronic reliance on grants and contracts that pull the organization in unaligned directions or that refuse to pay fairly for the promised outcomes.

Wishing you had reserves is not the same as planning for reserves. But where do reserves come from?

As an executive, you seriously jeopardize your organization's funding and reputation if you maintain inadequate systems for tracking contract and grant dollars—it's a true nonnegotiable.

Develop effective grant proposals. Your development of sophisticated grant proposals is essential to incorporating restricted funding in your business model effectively. Take a very broad view of any program you are proposing for funding by including as direct costs such elements as hiring program staff, marketing and outreach to clients, staff professional development, and program evaluation. These are the kinds of organizational expenses that directly benefit programs but for which we too rarely charge our investors. If you believe that program evaluation is essential to monitoring effectiveness of outcomes, it's your obligation to force the issue with funders who classify the cost as "overhead." Incorporating sophisticated language in your proposal narratives that links staff development to program design to strong program outcomes sets the stage for a budget that includes these critical expenses. Restricted funding from foundations and corporations that genuinely understand and value your organization's work can be a very sustainable revenue stream if you are very selective about which funders to pursue, and if you pursue them with well-conceived programs and accompanying budgets.

6. Staff Your Finance Function

Put simply, too many executives have not staffed their finance function properly, and they pay the price with chronically underdeveloped financial systems, low-grade financial reporting, and the lack of a trusted partner with whom to do analysis and projection. In *Financial Leadership: Guiding Your Organization to Long-Term Success*, co-authors Jeanne Bell and Elizabeth Schaffer describe three functional aspects of the finance function: *transactional*, *operational*, and *strategic*. The transactional are the clerical tasks that support the accounting function, such as copying, filing, and making bank deposits; they require someone with excellent attention to detail and exposure to basic accounting principles. The operational are the range of accounting functions, such as paying bills and producing monthly financial statements; they require someone with strong nonprofit accounting knowledge, including managing grants and contracts. And the strategic are

the systems development, financial analysis, planning, and communication about the organization's financial position; they require what we think of as CFO-level knowledge and skills.³

Determine your optimal staffing approach. Every organization needs all three functions, but organizational size and complexity will determine how much time each requires *and* the optimal staffing approach. In general, it is income that makes nonprofits more or less complex. A \$10,000,000 organization that gets all of its money from individual donors requires a very basic accounting system, while a \$2,000,000 organization with government contracts and restricted foundation grants requires a very robust accounting system. As an executive, you seriously jeopardize your organization's funding and reputation if you maintain inadequate systems for tracking contract and grant dollars—it's a true nonnegotiable. If you have these funds in your business model, you should assume that you will need to fund a very experienced, senior finance staff role.

Invest in contract consultants. So how does an organization with limited resources adequately attend to all three finance functions? Increasingly, we are seeing executives pair contract consultants with staff in the finance function. For instance, a small or midsize nonprofit might invest in an excellent full-time staff accountant who can handle the operational functions expertly and provide oversight to an administrative generalist—such as an office manager, who handles the transactional functions during the 50 percent of her workweek that is directed to the accounting function. Then the executive contracts with a CFO-level consultant who spends fifteen hours per month answering any questions the staff accountant may encounter, doing financial analysis for the management team and board finance committee, developing budgets and projections, and so forth. This way, the executive has a strategic financial partner without creating a fixed staffing cost that she can't afford. Board members, including the treasurer, have a role that is distinct from the staff finance team. The executive needs an uncomplicated relationship to her finance team so that she can direct them in developing the analysis and reporting she needs as the organization's financial leader.

7. Help Your Board to Help You

Boards have a governing role in assessing and planning an organization's finances. In too many cases, though, executive directors expect their boards to stay high-level and strategic without equipping them for the role. It is the executive director's responsibility to provide the board with information that is appropriate to members' roles and responsibilities.

Design your financial reports thoughtfully. The board is responsible for short- and long-term planning of the organization, and its members must ensure that systems are in place for effectively using resources and guarding against misuse. The board has legal responsibility for financial integrity but board members are not the accountants, so don't inundate the board with pages of detailed accounting records and then wonder why the board can't see the "big picture." Boards need analysis and interpretation more than they need the numbers. There is no one-size-fits-all financial report. Reports must be designed to communicate information specific to the organization's size, complexity, and program structure in a format that matches the knowledge level and role of board members.

Understand how boards use financial information. The format and content of reports for the board should be determined by their intended purpose. Boards actually use financial information for four distinct purposes: compliance with financial standards, evaluation of effectiveness, planning, and immediate action.

Compliance. Most nonprofits do pretty well with providing the board with financial reports that comply with the board's legal fiduciary role to know how much the organization has received and expended. Historical financial reports, audits, and 990s are the common reports.

Evaluation. For the board to evaluate how well the organization has used financial resources, different information is needed. Comparisons are needed to measure progress toward goals, assess the financial aspect of programs, and consider financial strategies.

Planning. When the board is engaged in planning to project future needs and changes or to develop budget guidelines, they need a big-picture

understanding of the organization's history and of the external environment and financial drivers.

Taking Action. Sometimes the board needs to make a key financial decision to implement a strategic plan, react to a sudden change, or respond to an opportunity. In order to make a wise but timely decision, the board needs to understand the background and situation and scenarios based on one or two possible actions. And form should follow function: before developing financial reports for the board, ask what type of actions or decisions the board will need to make, and provide them with the right amount of information and analysis in a format that fits the purpose. Don't ask your board to maintain a top-level focus on strategy while submitting financial reports better suited to the auditors.

8. Manage the Right Risks

To reduce and manage risks, most nonprofits develop policies and procedures for each area of the organization. The facilities manager maintains controls over keys, access, and insurance coverage. The finance director assures appropriate segregation of duties, internal controls, and checks and balances. Program managers compile information and data to run background checks, keep licenses up to date, and maintain required reporting. If we put them all together in a binder, these policies make up the organization's risk management process.

Assess your organization's risks holistically. If each area assesses and formulates its own risks, who is responsible for deciding which risks have the most magnitude and impact on the organization? Put another way, if a nonprofit decided that at least one of its policies had to be eliminated for some reason, how would you decide which one the organization could do without? For example, which of these possible events pose the greatest risk to the organization's ability to achieve its mission, programmatic, and financial goals: theft of a laptop computer, loss of confidential client data on that computer, or damage to the organization's reputation if client data were made public?

Consider enterprise risk management. Many nonprofits do a better job of managing the

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risk of a small theft than they do of identifying and reducing these other two, much greater, risks. Enterprise risk management (ERM) is a term that your auditors may have brought up recently. ERM is essentially the process of assessing all of the risks that the organization faces with a comprehensive, enterprise-wide view and making decisions about managing risk in the same way. An ERM process considers both risks that are evident today and those that are will emerge as operational and strategic plans are implemented. Some organizations need to complete a formal, extensive internal assessment with a staff team and outside consultants. Smaller organizations can complete their own organization-wide review of risks through brainstorming and discussions. The most important step is to start thinking about all the parts as a whole. In the case of the stolen laptop, for example, too much emphasis on limiting access to the office on weekends might have led a program staff member to store confidential data to take home to complete a needed report. Balanced together, these risks would probably have been managed differently than if looked at separately. With the big-picture view of the organization always in mind, the executive director is the right person to advocate ERM by asking members of his or her team to think beyond their own area to the wider enterprise.

* * *

What's old is new again. These principles are both longstanding practices and emerging trends for nonprofits. Some of these business principles are undoubtedly familiar to you. Others may run counter to what you believe to be a "best practice." Executive directors learn that leading a nonprofit requires a constant balancing of current needs, external demands, and long-term vision. Financial leadership is fundamental to the role and cannot be fully delegated. These principles will help executive directors adapt to the demands of the changing environment and maintain the balance needed for mission impact and sustained financial health.

NOTES

1. *The Chronicle of Philanthropy*; *Money and Mission*; "Shattering the Myth about Diversified Revenue," blog entry by Clara Miller, September 2, 2010, <http://philanthropy.com/blogs/money-and-mission/shattering-the-myth-about-diversified-revenue/26652>.
2. William Foster and Gail Fine [Perreault], "How Nonprofits Get Really Big," *Stanford Social Innovation Review* (Spring 2007): 46.
3. Jeanne Bell and Elizabeth Schaffer, *Financial Leadership: Guiding Your Organization to Long-Term Success* (New York: Turner Publishing / Fieldstone Alliance, 2005), 21.

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A SUMMARY OF THE EIGHT MUST-DO'S FROM THIS ARTICLE . . .

1. Develop your annual budget with a commitment to its net financial result—whether surplus or planned deficit—and then adjust spending during the year if income is not coming in on pace to yield that net result. Then, complement your annual budget with rolling financial projections that incorporate your most current information about probable future financial results.
2. Diversify your income cautiously, ensuring you have the capacity to develop and sustain the programmatic and operational requirements of attracting each new resource type well.
3. Develop cash flow projections along with the budget and rolling projections so that you can anticipate any cash flow problems well in advance, when you have more options.
4. Plan goals for financial reserves based on your typical cash flow cycles and risks, and incorporate reserves into all financial plans and policies. Be sure to foster a financial culture for staff and board that promotes the importance of a regular operating profit or surplus.
5. Pursue restricted funding from those foundations and corporations that understand and value your organization's mission and particular strategies for achieving impact. When pursuing restricted funding, develop proposal narratives and accompanying budgets that link staff development to program design to superior outcomes, including all related costs as direct.
6. Ensure that your finance function is always properly staffed; if necessary, use a mix of staff and expert contract consultants to achieve this.
7. Discuss expectations for financial roles and responsibilities with board leadership to create accountability and information flow that matches the size and life stage of the organization. Make sure to invest time in developing meaningful financial report formats for the board that reinforce organizational strategies and goals and support the board in fulfilling their responsibilities.
8. Introduce the concept of enterprise risk management to your team and initiate an internal assessment of a full range of risks.

From Small to Scale: Three Trade-offs for Smaller Nonprofits Trying to Get Big

by Peter Kim, Suzanne Tollerud, and Gail Perreault

Truth be told, for most smaller nonprofits, growing revenue is more scattershot than science.

“MONEY OFTEN COSTS TOO MUCH,” WROTE the philosopher Ralph Waldo Emerson. Many leaders of smaller nonprofits, struggling to find the funds to grow or sustain programs, surely feel the same way. It is easy to rack up costs chasing after foundation grants, public donations, and government funds, and the wrong chase can be financially fatal.

Yet The Door, a midsize, youth-focused nonprofit based in New York, managed to zero in on the right path to growth from small to relative scale. Founded in 1972, The Door began offering youth services from a free storefront space in Greenwich Village, staffed entirely by volunteers. Today it serves eleven thousand at-risk young people from across New York City with health care, college prep, daily meals, and a range of

other services—all under one roof. The Door has almost doubled in size over the last decade. Like many midsize youth organizations, it relies primarily on government funding, which makes up about three-quarters of its approximately \$11.8 million budget. “Our government funding approach is now a well-oiled machine,” The Door’s executive director Julie Shapiro told us. The question—and in our experience it is the number one question for tens of thousands of smaller nonprofits—is how did they build it?

Truth be told, for most smaller nonprofits, growing revenue is more scattershot than science. Often, they can meet their budgets by inspiring a handful of donors, seizing unanticipated funding opportunities, or patching together a variety of funding sources. At the other end of the spectrum (as reported in the 2007 *Nonprofit Quarterly* article “In Search of Sustainable Funding: Is Diversity of Sources Really the Answer”), nonprofits that grow very large tend to be highly focused: they raise most of their money from a single type of funder (such as corporations or government) that is a good match for their mission.¹

But how do you connect the dots? Is the path to growth linear, or are there distinct, required inflection points in funding strategy as a smaller or midsize organization grows? And how does a

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Figure 1: Youth-Serving Organizations

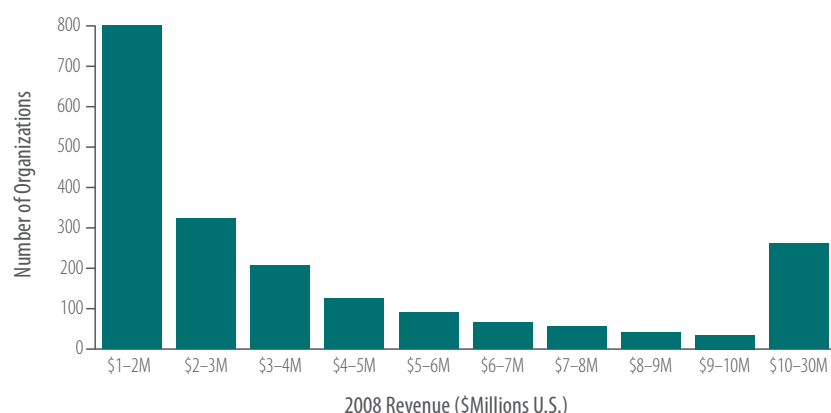
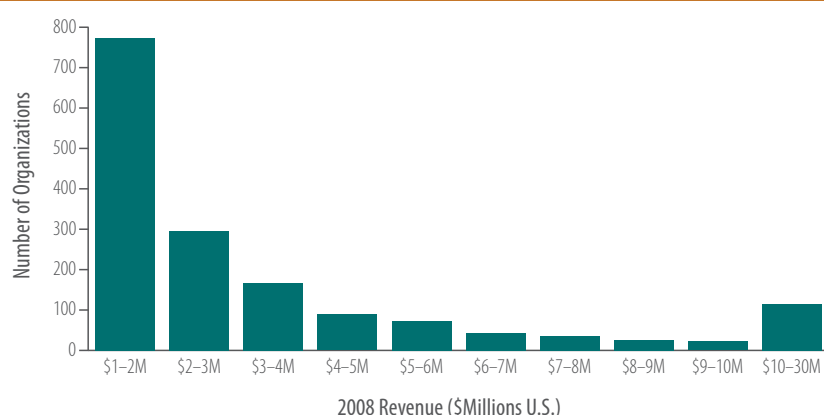


Figure 2: Environmental Organizations



Methodology

We began our study by choosing a set of growing, midsize organizations. We decided on two distinct domains: environmental organizations and youth-serving organizations. Data from the National Center for Charitable Statistics (NCCS) included more than 3,500 organizations in these domains. We focused on organizations that had doubled in size over a ten-year period, with a total revenue of between \$10 million and \$30 million in 2008. Only a fraction of this set—5 percent in environmental organizations and 8 percent in youth-serving organizations—met our criteria. For each organization in this sample, we gathered and analyzed detailed financial data. Interviews with leaders from nonprofits that represent this sample helped refine and explain the drivers behind these trends. Our goal in these interviews was to explore the challenges and benefits of current funding approaches and better understand the paths these organizations took to grow.

smaller nonprofit need to adapt organizationally as funding needs change over time?

To begin to answer these questions, we recently studied a group of fast-growing nonprofits, including The Door. Starting with a sample of roughly 3,500 organizations in the youth-serving and environmental fields, we narrowed our focus to organizations that had doubled their budgets between 1998 and 2008 to reach \$10 million to \$30 million in annual revenues. Only a fraction of the organizations in our sample achieved this level of growth: 5 percent of environmental and 8 percent of youth-serving organizations. In order to understand what sets these fast-growers apart from their peers, we analyzed their funding history and conducted in-depth interviews with senior leaders from over two dozen of them.

Their stories offer guideposts for how small and midsize nonprofits with ambitious aspirations for

growth can find the money to fuel that growth. While the program focus and funding mix of these organizations varied, the key message that stands out is that *their leaders made a series of thoughtful trade-offs that put their organizations in a position to navigate the journey to funding their growth over time*. In particular, we identified three important types of trade-offs:

- Early in their growth trajectories, generally before reaching \$10 million in annual revenues, they made the decision to prioritize the cultivation of a primary type of funding aligned with their program goals, which meant de-prioritizing less-strategic funding opportunities.
- They institutionalized the roles and practices required to raise those types of funding over time, often making tough decisions about when they needed to invest in development capabilities over program priorities.

For nonprofits that funded their operations through a diverse mix of funding sources early in their history, the decision to build around a primary source instead of pursuing diversification can be difficult.

- Many recognized that their funding strategy might need to change as their growth targets grew, and proactively evolved their funding approach over time, which often required them to accept short-term uncertainty and commit to long-term investments that might not bear immediate results.

One important note: we are *not* arguing that growth, in itself, is a virtue. Many nonprofits may already have reached the right size for the work they are doing. But for those that believe they have a successful program model that could reach many more people or have an impact in more places, growth may be a critical path to mission fulfillment. The Door, for example, knew that there were far more at-risk youth in New York City than could be served from its original storefront. And Trout Unlimited (another one of the organizations we studied), which started in 1959 with sixteen dedicated anglers on the banks of Michigan's Au Sable River, believed that there were fisheries across the nation that needed protection and restoration, and tens of thousands of enthusiastic anglers who could help them do it. As Trout Unlimited's CFO Hillary Coley told us, "In thirty years, every child in the U.S. will be able to fish in their home waters. To get there, we'll need to become a \$40 million organization."

Finding Funding Focus

Clear revenue patterns emerged in our group of high-growth nonprofits. Fairly early in their growth trajectories, generally before reaching \$10 million in annual revenues, these organizations identified and cultivated a primary type of funding, such as government or individual, aligned with their program goals. We saw a pattern of revenue concentration around this source, accounting on average for 70 to 85 percent of each organization's total revenues. What we did not see was nonprofits continuing to grow using a largely even mix of diverse sources.²

For nonprofits that funded their operations through a diverse mix of funding sources early in their history, the decision to build around a primary source instead of pursuing diversification can be difficult; the decision can feel counterintuitive since, at times, it may be necessary

to forgo pursuing some seemingly promising funding opportunities. Moreover, relying primarily on a single type of funding may seem like a risky venture. But for most of the nonprofits in our data set, identifying the core source that was most likely to lead to funding success and then diversifying across many funding streams *within* that primary source as they grew provided the necessary risk mitigation.

Consider the experience of The Door, with its focus on government funding. Executive director Julie Shapiro told us: "We wanted to be recession proof, so we diversified across as many [government] agencies and sources as possible." When recession-related government funding cuts threatened half of its contracts, that diversification *within* government funding helped The Door navigate through the downturn. Stories from others who went through difficult times reinforced this message: when funding cuts hit, those with broader funding networks were better able to weather the storm.

Like The Door, the child welfare organizations in our sample relied primarily on public funds, and achieved diversification across levels of government (local, state, federal) and/or types of contracts and grants. The other types of youth-serving organizations, including the Posse Foundation (which focuses on youth in public high schools), and the environmental organizations, generally found greater potential in private support. For example, Trout Unlimited, which now has four hundred chapters nationwide, went after individual donations for community programs with "backyard impact," and now receives the majority of its funding from a broad base of affluent fly fishing enthusiasts who are motivated to protect and promote trout fishing. And in the same way that The Door diversified across government sources, Trout Unlimited has sought to diversify across individual sources, focusing on multiple geographies, income levels, and strategies to engage individuals and mitigate risk. But achieving this goal required Trout Unlimited to invest disproportionately in making sure that their individual-giving strategy was particularly strong. At the same time, the organization focused far less on some of the more scattershot opportunities.

Beyond their emphasis on a primary source of funding, these organizations also prioritized one or two *substantive secondary sources*, which contributed on average 20 percent of total revenues. As with the primary source, secondary sources were carefully selected and cultivated to complement program focus. Their usefulness was particularly significant in three areas:

- *Stabilizing rapid growth.* The Methodist Home of the South Georgia Conference, a child welfare organization, supplements its primary government funding by raising 35 percent of revenues from private sources. That secondary funding comes in handy when government rules change, as they did three years ago, when a rule required the organization to move therapists to a new building off campus. Derek McAleer, the agency's director of development, noted, "That move cost us [a considerable amount,] and there was no [government] money to cover that cost—we just had to eat it." Similar experiences were common across many youth-serving organizations, especially those relying on direct government reimbursements.
- *Supporting programs for which the primary funding source is not a suitable fit.* The Children's Bureau of Southern California, which focuses on child abuse prevention and treatment, found that while public dollars supported the treatment side of their work, this source was not well geared to their prevention programs, which Children's Bureau views as essential to keeping more children safe. It uses money raised from individual donors to support its prevention work. The organization also used private dollars raised through a major capital campaign to construct a new community center complex to house these programs. For The Door, unrestricted foundation funds give flexibility to start new programs aligned with mission, which may not be immediately supported by government funds. In Shapiro's words, "Government is our life, but we don't want to be all government. You never want to be told 100 percent what you should be doing."
- *Laying the groundwork for expansion.* The primary source may be vital to sustaining a site

or program once it is established but maybe not readily available to fund the expansion itself. This is particularly true for government funders, who typically prefer the tried-and-true to the new. But even organizations that rely primarily on individual donors may turn to a secondary source for expansion. Trout Unlimited, which gets the bulk of its money from its fly fishing base, starts new chapters with two to three years of start-up funding raised from a local foundation or government, which gives the new local board and staff time to build membership in the region and replace these start-up dollars with sustainable revenue.

Investing in Individuals and Institutionalized Practices

Funds do not raise themselves, and executing even the most perfectly chosen funding strategy to carry a smaller organization to the \$10 million to \$30 million level requires building significant organizational capacity. Finding new funding opportunities, soliciting support, and deepening the relationships with existing funders needed to fuel growth required our fast-growing organizations to institutionalize roles and practices by adding key staff, defining and redefining roles, and installing practices to keep growth on track. But oftentimes, leaders had to accept new roles or make the tough decision to commit dollars to their development strategy, sometimes at the expense of programmatic priorities, to ensure that their funding engine could continue to flourish.

For the nonprofits in our study, a charismatic executive director (or small team of dedicated leaders) often shouldered the brunt of the fundraising burden in the early stages, particularly below the \$3 million annual revenue mark. However, these organizations regularly reached the point where that burden became too much for the leaders to handle alongside their broader roles. The solution was often a two-pronged approach of supporting (but not replacing) the leaders' fund development role with formal development staffers, and shifting some of their internal management responsibilities to others within the organization.

Deborah Bial, the founding executive director

For the nonprofits in our study, a charismatic executive director (or small team of dedicated leaders) often shouldered the brunt of the fundraising burden in the early stages, particularly below the \$3 million annual revenue mark.

With growth, fundraising responsibilities become too great for one person to juggle alone, and leaders must find the balance of personal time investment and delegation that enables the organization to grow.

of the Posse Foundation, described this shift as she built the organization over the past twenty years: “In the beginning it was just me and one other person. We trained the kids, recruited, visited colleges, *and* raised the money. Today, my role is really external. I work with the board, meet with major donors, and speak at events and conferences.” Like many executive directors, Bial expressed a strong view that involvement in cultivating support is something that will always be part of the role. As she put it, “As an ED, you can never give that up.” And yet, as she noted, “You’re smarter as an organization if you have multiple people with power and authority raising funds.” With growth, fundraising responsibilities become too great for one person to juggle alone, and leaders must find the balance of personal time investment and delegation that enables the organization to grow.

The Tejano Center for Community Concern’s founding executive director reached a similar conclusion about sharing responsibilities with a development team, and he expressed the sacrifice many executive directors make in recognizing that the best use of their time is often in supporting areas beyond their programs. Over twenty years, Richard Farias built Tejano from a five-person operation funded by barbecue plate sales to a widely recognized child welfare organization with its own charter school. “I didn’t get into this business because I wanted to raise money,” he told us. “I got into this business because I felt a burning desire to change things for children and families.” Yet, as Tejano enters its next phase of growth, Farias intends to dedicate the majority of his time to fund development. Like many executive directors, he made the difficult trade-off of delegating program responsibilities to a trusted senior staff member in order to serve most effectively as the face of the organization in the community. His primary goal is to make sure the new capital campaign is a success, and he recognizes that his role in fundraising is critical. Farias reflected on the difficulty of the transition, noting, “I’m the founder. I know where I want to take this organization. But, at the same time, this new role is what Tejano needs now.”

Difficult decisions about the roles and

composition of the board may also be necessary. The Methodist Home of the South Georgia Conference attributes much of its success in maintaining and growing government funding to its board strategy. As the organization grew, it refined its strategy by clarifying board roles and being deliberate about board composition: the Methodist Home now seeks to keep at least two state legislators on the board, as well as influential county-level leaders. “They bring influence and relationships and insights,” McAleer explained. “If I was going to tell you the two keys to the success of The Home, it’s leadership and relationships. Money follows relationships.” At other organizations, the board’s role is more focused on building secondary private sources. For Larkin Street Youth Services, a Bay Area nonprofit that serves homeless, runaway, and other at-risk youth, the board provides a link to other supporters in the community. The organization worked to promote a strong board “culture of giving,” which now underpins the board’s involvement in creating and executing fundraising events. As one board member told us, “It’s compelling to have the board as part of the face of the organization, where people can see that they’re volunteering their time and putting their reputations on the line.” The organizations in our study that managed to grow to this size without such active support from the board found the path incredibly difficult. A leader from one youth-serving organization that had not evolved its board’s composition or expectations, reflected, “I wish I had been more aggressive with the board earlier,” underscoring the importance of making deliberate decisions about who should be on a board and determining what they should and should not do.

A strong development staff is usually needed to support the changing roles of the executive director and the board. As development needs grew beyond what the executive director and board had capacity to execute, these organizations sought to implement structures to share responsibility for fundraising. They invested in dedicated development capabilities and strategically hired staff to hone in on their primary and targeted secondary sources.

Oceana is a case in point. Established by a group of large foundations, in 2001, Oceana is the

The Role of Foundations

Very few organizations in our study broke through to \$10 million to \$30 million in sustained annual revenue by focusing on foundations as a primary source. The few that did, including Oceana, were fairly new organizations. Nearly every senior leader we interviewed acknowledged that foundations are generally more interested in funding catalytic new programs than ongoing operating support. These organizations planned ahead to replace foundation dollars with other forms of support before the funding ran dry. Those that continued to generate funding from foundations were generally able to pitch new programs or innovations to sustain foundation support beyond the first few years—sometimes the same set of foundations and sometimes a new set.

largest international organization devoted solely to protecting the world's oceans. As the organization grew, the day came when its leader could no longer meet personally with every major donor. A development director became critical to leveraging the efforts of Oceana's executive director and board, helping to maximize their effectiveness as the face and voice of the organization while taking on the day-to-day responsibility of meeting with the bulk of donors and potential donors. This role generally goes from "nice to have" to essential as the level of funding an organization requires grows.

Lining up funding for these new development roles was often a great challenge. Leaders we talked to faced a constant tension between investing in the professional capabilities they often desperately needed and funneling more resources toward programs. The experience of Tejano's CEO and founder was common among this group: "We hired our first development officer as soon as we felt we could afford one. We always knew we needed one, but those funds are hard to come by." But these leaders saw the investment as critical to success. Rare, an international conservation organization, added a senior staff role when the executive director concluded that his personal relationships couldn't continue to drive funding and that he needed someone who could focus full-time on propelling Rare's funding strategy.

Breaking through the Funding Wall: Committing to Evolving a Funding Strategy over Time

Building the right development team is not the only change fast-growing nonprofits make to sustain growth. The funding strategy itself may need to evolve over time. While there are myriad ways for nonprofits to raise several million dollars a year, the number of options decreases as the revenue target increases. Growing organizations reach a stage where they must evaluate the extent to which their current funding strategy will let them keep expanding. Many of the nonprofits in our study hit a *funding wall*—in other words, a point beyond which they could not grow significantly with the same funding strategy.³ To continue to grow, they needed to find a way to break through this wall. For many nonprofits this can be difficult, as it may mean laying the groundwork for a new development approach—potentially meaning different people and different skills—with the understanding that a new approach may not bear meaningful fruit for years. In an era of shrinking dollars, such patient, long-term investment in a development strategy can feel risky. But for those who face a funding wall, such a trade-off may be necessary in order to continue to grow to their intended size.

Circumventing a funding wall is almost certain to involve adopting a new *funding model*—a methodical and institutionalized approach to building a reliable revenue base that will support an organization's core programs and services.⁴ While not necessary on a small scale (where less structured approaches often work), funding models become essential to sustainability as organizations get larger. Some nonprofits design and implement their first funding model comparatively early along their growth curve. Among the organizations we studied, this was most common among youth organizations, which have only to survey the field to see that most of their large peers are getting the bulk of their revenue from government. The Children's Bureau took this path, building on early government support with an expanding set of contracts and grants. Others are able to grow for a number of years using more idiosyncratic approaches.

Building the right development team is not the only change fast-growing nonprofits make to sustain growth. The funding strategy itself may need to evolve over time.

[F]unding models are not cookie cutters—stamping out the desired result every time. A match between funding model and mission is essential.

A nonprofit's first funding model may not be its last, however. Several of the organizations in our study have peered into the future and do not see their current models sustaining the growth they seek. Rare topped \$10 million in annual revenue with a focus on high-net-worth individuals in several parts of the world. But experience and research told the organization's leadership team that a funding wall was looming that would impede its programmatic ambitions to support conservation efforts in many more countries. Simply put, there were not enough international high-net-worth conservation enthusiasts out there whom they could enfranchise. In light of this assessment, Rare will pair ongoing cultivation of high-net-worth individuals with the pursuit of a new funding model rooted in public funding that is expected to become the organization's core engine over time. The leadership team, however, has accepted that developing this new engine will take time.

Like Rare, Oceana is also pursuing a funding transition. As a relatively young organization, Oceana still depends largely on support from foundations, corporations, and high-net-worth individuals, many of whom have strong board relationships and have contributed to founding the organization. Bettina Alonso, vice president of global development, anticipates an inflection point. As she explained, "I'm concerned about hitting the 'ceiling' with traditional foundations. Less than 1 percent of the whole of environment funding goes to oceans. I don't think I can get to \$50 million via marine-focused foundations and corporations. Without a doubt, individuals are the source that will take us to \$50 million. We plan to focus there."

Now, it might be reasonable to ask why Rare is shifting *away* from a heavy reliance on high-net-worth individuals at the same time that Oceana is seeking to fund its desired growth by shifting *toward* individual giving. In fact, funding models are not cookie cutters—stamping out the desired result every time. A match between funding model and mission is essential. Rare has been targeting a relatively narrow niche—individuals who want to help fund conservation projects abroad; the difficulty is that the majority of U.S.-based

environmental enthusiasts prefer to give to organizations that support areas that are personally connected to them. Oceana believes that its focus on the ocean, which most contributors personally connect with, and the sea turtles, sharks, dolphins, and other creatures it contains—not to mention an impressive roster of celebrity supporters—will prove appealing to a wider range of potential individual givers.

While the need to branch out from original funders at a relatively early stage is more common, those transitions can sometimes occur when the organizations are quite a bit older. CEO Earl Martin Phalen's approach to the future of Reach Out and Read, now in its third decade, illustrates this point. The organization, which improves child (age birth through five) literacy by partnering with doctors to prescribe books and encourage families to read, has grown to \$12 million by raising federal funds to purchase new books. But Phalen sees greater potential in local communities than in government, given the nature of Reach Out and Read's work and the success of other organizations with a similar model, so he is shifting the organization's focus. The nonprofit is transitioning to a funding model centered on community-based funding—emphasizing parental support of early education, building brand recognition, and seeding regional fundraisers in major cities throughout the United States.

The organizations that want to remain on the path to growth will experience ever-narrowing options to reach the next level. Some with highly scalable funding models will succeed by continuing to hone their current funding model. Others will need to anticipate a funding wall, identify a new funding model that will allow them to break through, and lay the groundwork to make a transition to that new model. Like Phalen's experience, this can be a difficult and slow process that requires patience, but the trade-off may be necessary to keep an organization's growth on a strong and realistic path.

Getting Strategic about Getting Bigger

"Don't make money your goal," Maya Angelou once said. "Instead, pursue the things you love doing, and then do them so well that people can't

take their eyes off you.” In the ideal world, funds would flow freely to the organizations that had done their work so well that they were having a real impact on the people and communities they served. Tezano’s Richard Farias, who got into nonprofit work because he wanted to do things for children and families, wouldn’t be devoting most of his working hours to a capital campaign. Nor would Oceana’s Bettina Alonso, who has spoken to us about “a distress that the funds are never enough for the work we would like to do.”

In this not-so-ideal world, nonprofits need a methodical funding strategy—and perhaps a good dose of good fortune—if they want to grow. Like the other organizations profiled in this article, Oceana has been among a select few that have managed to grow rapidly over the past decade. It has done the things that most of the other fast-growing nonprofits we studied have done—cultivated a primary type of funding, built the team and practices to match its funding model, and continued to evolve its strategy as it grows.

* * *

The organizations discussed here started in widely different places, and their journeys have varied considerably. What they have in common is their remarkable growth—which has carried The Door a long way from its rent-free storefront in Greenwich Village, the Tezano Center for Community Concerns a long way from barbecue plate sales, and Trout Unlimited a long way from those sixteen anglers on the banks of the Au Sable River. Moreover, they have also embraced a common set of practices for funding growth. While a nonprofit can be founded with little more than a good idea and an energetic leader, funding growth requires commitment, thoughtful planning, and the willingness to make difficult decisions along the way. Growth in the nonprofit sector is rarely smooth, but the lessons highlighted here may provide inspiration and direction for organizations with ambitious growth aspirations.

NOTES

1. William Foster, Ben Dixon, and Matt Hochstetler, “In Search of Sustainable Funding: Is Diversity of Sources Really the Answer?” *The Nonprofit Quarterly* (spring 2007): 26–29.

2. Ibid. See also William Foster and Gail Fine [Perreault], “How Nonprofits Get Really Big,” *Stanford Social Innovation Review* (spring 2007): 46. The pattern of revenue concentration resonates with lessons learned in these two studies: nearly all organizations over \$50 million cultivate a single primary revenue source closely aligned with program goals, with that source typically comprising 90 percent or more of total revenue. These large nonprofits tend to benefit from a certain level of stability that comes with scale. They have developed the reputation and relationships needed to generate the vast majority of funding from their primary source, and the confidence to know that this funding is generally reliable. Many of the midsize organizations we studied were on their way, but not quite there, at this point.

3. The concept of the funding wall was first introduced in Foster, Dixon, and Hochstetler, “In Search of Sustainable Funding.”

4. See *ibid* for more on the concept of a funding wall. For more on the concept of a funding model, see William Foster, Peter Kim, and Barbara Christiansen, “Ten Nonprofit Funding Models,” *Stanford Social Innovation Review* (spring 2009): 33–39.

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