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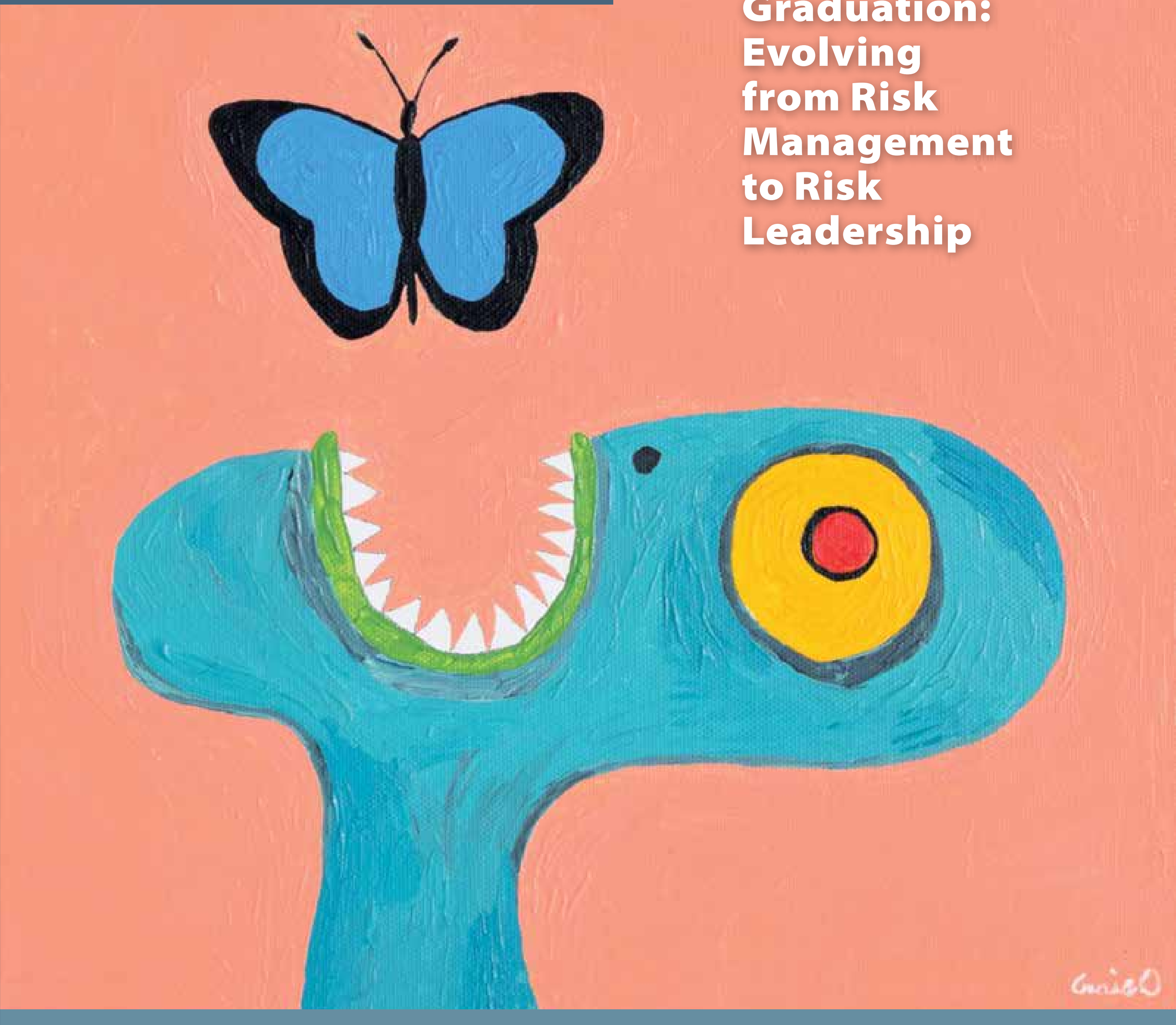
Nonprofit Graduation: Evolving from Risk Management to Risk Leadership



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Andersson and McCambridge *on* Emphasizing Collective Social Entrepreneurship

Leonberger and Ballow *on* Strategies for Engaging Risk


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THE Nonprofit QUARTERLY

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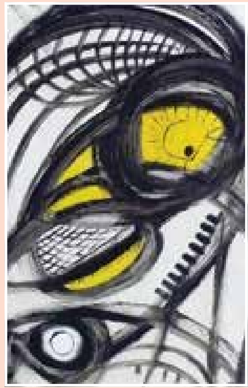

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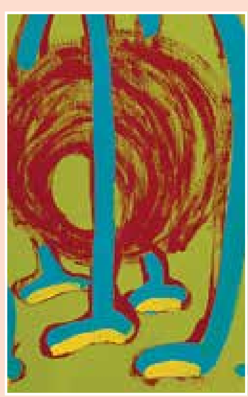

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Welcome

Dear readers,

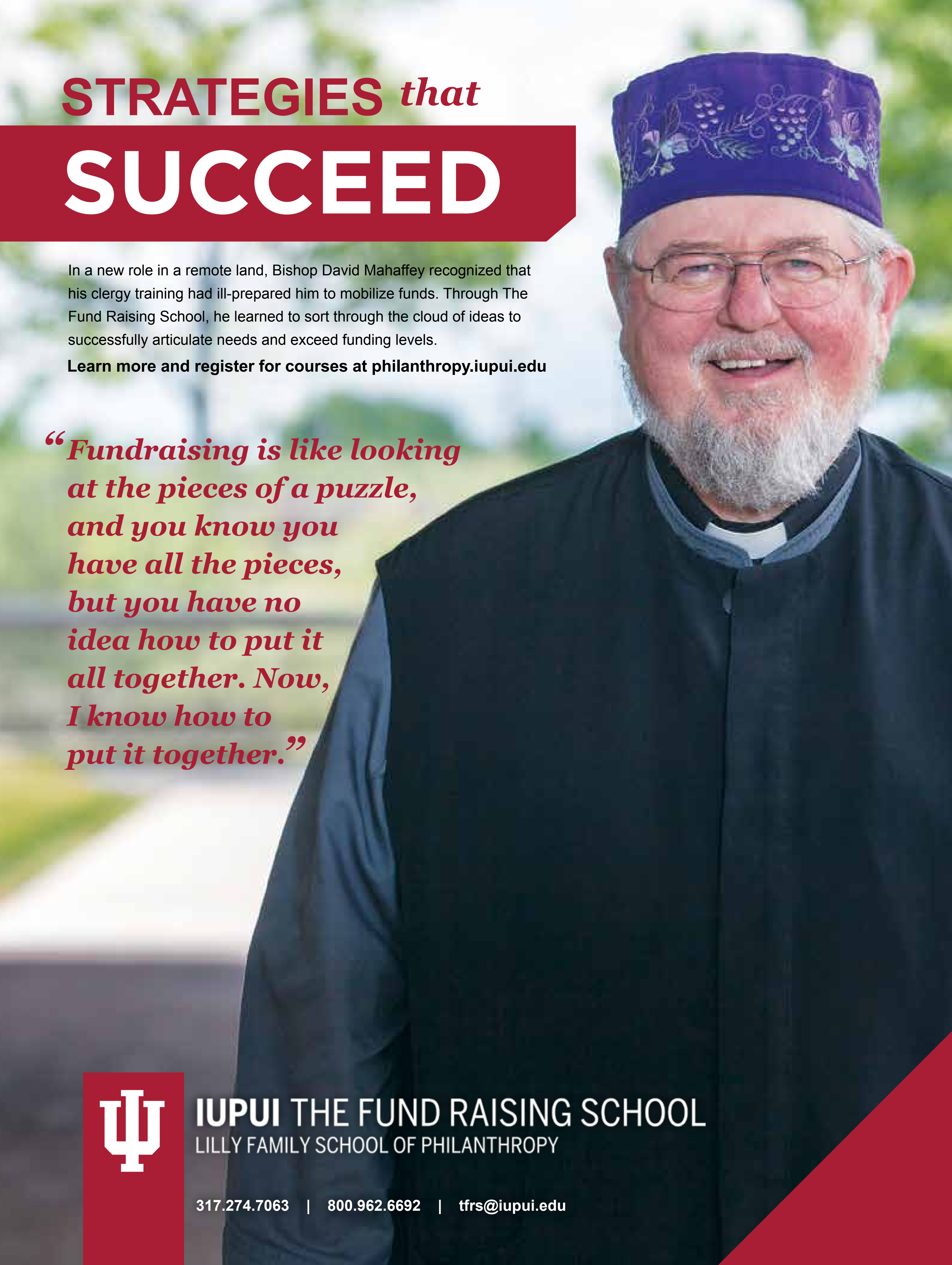
This edition of the *Nonprofit Quarterly* centers on the need for nonprofits to evolve from risk management to risk leadership. As we write this, of course, the country is in something of an uproar, with the fates of many social programs in question. Will the NEA survive, and if it doesn't, what effect will that have on the arts in local communities? What is going on with the resettlement of refugees and with funding for refugee agencies? Will the legal stays on the travel ban hold? Will legal services organizations be defunded at the federal level, and what will that mean for people who have had their benefits cut under changes to Medicaid?

It's all very complicated.

But we see that as all of these threats have materialized, so have active responses to these threats: demonstrations, boycotts, and legal actions have consistently emerged to resist measures that threaten the health, safety, and rights of community members. The responses have ranged from local to state, national, and international. Networks are forming and links are being made across previous boundaries of interest and identity. These responses are the silver lining and pure gold at the heart of the resistance—but to work with the times and make the most advancement in the face of truly massive risk and uncertainty, we must sometimes wander outside of our comfort zones to places where "monsters" lurk. Sometimes, we are needlessly frightened, since oftentimes the best thing to do is invite them in to get to know them. Some may even become our best friends.

For instance, we have to learn to share control, discuss sometimes-uncomfortable issues of race and power, and use our personal and institutional voices in different ways. So we must voluntarily invite more than just the immediate risk that is visited on us—we must welcome other disruptive things into the spaces in which we work to break the hold of the preexisting trajectory. An approach to risk that comes primarily from a place of caution is not strategic—it is narrowly limited in its power.

Thus, this edition is built around the notion of risk leadership rather than risk management—because sometimes, if we want our perceptions to change, we must first change our linguistic frameworks. There are reasons why this sector has become in some minds the nonprofit industrial complex. How much of what we do as a sector is done to seek equilibrium for institutions built on shifting sands, and how much is designed to put the interests of constituents first and foremost—now and in the future? It is well past time for a full discussion of how to take on the responsibility of providing risk leadership when huge change is afoot.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The Nonprofit Whisperer

Changing a bad practice in an unaligned organization takes time and capacity, so if these are not available, try getting a mandate from the top; but even if you can get that, warns the Nonprofit Whisperer, expect pushback as you sort things out. And how does one move forward after the loss of a larger-than-life executive director? Give yourself time and space to process the loss, identify an interim team, create a leadership transition plan, and come up with a six-month work plan. And be prepared to feel off-kilter for at least a year as you grieve the loss.

DEAR NONPROFIT WHISPERER,

I work for a healthcare system with nursing homes in several different states. We are trying to professionalize our grant writing and step up the quality of the proposals that are submitted. I took over this new position in November, only to find out that many of the homes have no one assigned to grant writing or have someone who occasionally writes grants but wears many other hats. Several of the homes do have development officers who write grants. One of them has someone who submitted well over two hundred grant requests last year. Many of those were denied because they were not in the foundation's area of focus or were not geographically pertinent.

I had a conversation with this person and the administrator of the facility, explaining why this "spray and pray" technique is not appropriate, is very probably not tailored to the requirements of the grantmaker, and certainly discredits the healthcare system as a whole. The person persists in requesting approval to submit grant proposals that are not appropriate.

How can I get this person to see that what is being done is unethical and could easily jeopardize the grant requests that other facilities in our healthcare system might make? I should add that this person's requests are almost exclusively for $5,000 or $10,000 for hospital beds—fifty-two beds requested this year so far—rather than one big grant to cover the facility's needs.

We are going to be asking for copies of the grant proposals that are being submitted, but we expect pushback from some of the facilities that are not used to any central oversight. Any suggestions would be greatly appreciated!

Concerned

Dear Concerned,

You are quite correct that "spraying" applications indiscriminately across multiple funders—regardless of the funders' geography and strategies—is a completely ineffective approach and waste of resources. I do not think it discredits healthcare as a whole, but it certainly does make this branch of your organization look bad.

So, you are in the right—but your letter indicates that you do not have the power to step in and simply change procedures, and that you expect "pushback" on completely reasonable suggestions. This speaks to the grant-writing issues as symptomatic of a bigger problem—an unaligned organization. Are you in a position to manage the culture change obviously required in your organization? Your organization's system of nursing homes needs to come under one mission with shared vision, values, and strategy that will then set the tone for cohesion in your communications and fundraising work—and there is very likely a need for alignment in your human resources regarding expectations, clarity in decision making, and effective supervision. This would take time but would be the deepest work toward changing the foundation of how the organization works as a whole and in its parts, creating clarity for your potential funders and likely many others, including staff.

If time or capacity does not permit the tough work of culture change, then simple mandates from the top regarding the grant writing are the quickest path to stopping the poor practice. If, as your letter suggests, you are not in a position that would allow your proposals for change to become commands, can you speak to the person who has the power to formulate a mandate about grant writing? This could result in your getting the space and time to create the needed alignment around grant writing and quality of proposals. You'll need the ongoing backing of that person to ensure that those who think they can do whatever they want out in the field begin to see the light: that they are part of a bigger system and not lone actors. Expect more pushback as you sort this out.

Dear Nonprofit Whisperer,

My organization just lost its executive director to a fatal illness. He was one of those larger-than-life people—a big personality inside the agency and in our networks. There was little warning, and once we did all know he was ill we managed to fill the gap from inside the agency. So much was already in motion, all it took was carrying it all forward—he did not hold things so close that we did not know the terrain.

We were not certain he would recover, so facing our future was both frightening and sad. I am not sure how the board will handle this, and I have to admit to being a little shell-shocked and frozen, and beyond heartbroken—and I think others are dealing with the trauma in their own ways.

The problem is that we are smack in the middle of a very large project that was long a dream of the ED and the agency as a whole, and it is unclear what we must do to make sure we do not lose our community's opportunity. The project will take a lot of nurturing of partners and funders. Is there any kind of guidance you can give us along the lines of what needs to be done first, second, and third in such a situation? And maybe some words for what we might have done differently?

Friend in Need

Dear Friend in Need,

This is one of the hardest situations staff and board members of a nonprofit can go through. I feel for you all. It sounds as though you were fortunate in that your "larger-than-life" leader did not hold things closely but shared his vision and distributed leadership to some levels, and that all of you carried on admirably. The only thing the organization could have done better was to ensure that there was an emergency transition plan in place for all senior staff. Perhaps you did have one—but even then, no one is really prepared for this kind of situation.

It is very difficult when an organization must manage with a leader who is seriously or terminally ill—you want to be supportive, especially if the person still has hope and plans to return—but the day-to-day dictates triaging until there is clarity about the future of the individual. You made it through that phase.

None of this speaks to the enormous grief staff and board members must be holding as individuals and collectively. I would suggest that your first priority is to give yourselves space and time to process what has happened. Are there good process-oriented consultants or grief counselors in your area who know how to gently hold the staff—or even staff and board together—in a meeting and allow people to speak about how they are feeling? Remember, you are all both individually and collectively likely to be experiencing the stages of grief: denial, anger, bargaining, depression, and acceptance. What is most important is carving out time together to talk. Your experience of your departed leader is uniquely yours—so, tell stories, laugh and cry together, absolutely carve out that time for remembrance and love.

And after that happens, please be prepared for folks to be human; there may be some unaccountable behavior, so just be careful to call things quickly and kindly and with as little drama as possible—bringing the group back to vision and task in that order. You may wish to hang on to that consultant for a while.

Back at work, you will want to have another kind of conversation—consider what you do not want to lose and what of your leader's legacy you want to carry forward as organizational principles. This is an important conversation that helps to replace some of the glue that he was for the group.

In the meantime, you will have communicated with all stakeholders that although all have experienced a great loss, you have things well in hand and that the staff and board are a team in pursuing the organization's plans. See Kim Klein's "Mission, Message, and Damage Control" for an in-depth discussion of this.[1] Also, there will be expenses of many different kinds—from consultants to interims to overtime, et cetera. Do not feel shy about reaching out for financial support; this should be a simple ask of a dedicated funder—nothing that requires more than a quiet letter and response by check.

Then, getting on with the work is the best way to honor your former executive director. If the board was a "following board" or strictly involved at the policy level and not very in tune with day-to-day work, they must rely on staff for the next steps. Organize a meeting among senior staff with the executive committee, and cocreate several plans:

1. Identify an interim team from within or plan to hire an interim executive director.
2. Create a leadership transition plan; do not rush to hire a permanent director after losing such a strong leader. If you can afford to hire a nonprofit transition consultant, this is the time to do it. He or she can take a burden off the board and staff by helping to define the transition steps—organizing people and helping the organization to not feel rushed to hire when, in the absence of your leader and during a possible change in management structure, you need space and time to sort through vision.
3. Create a work plan for the next six months that prioritizes what needs to be accomplished, by when, and by what key people. If the board is a take-charge-type group (ideally, they are working together with senior staff to cocreate these plans), then make sure that they are doing the work described in Steps 1 and 2 at some level and asking (delegating to) staff to come up with the six-month prioritized work plan.

All that said, things will feel off-kilter for at least a year as you grieve this loss. Those who take leadership may be seen as interlopers. When the permanent leader or leadership team finally comes in, remember that he or she or they cannot replace your departed leader, and it would be a mistake to expect otherwise. The new leader or leadership team must be given a chance to help stabilize and move things forward, and it will take time for your organization to settle in/adapt to the new situation. My sense is that you and your coworkers have done a wonderful job shouldering work during your leader's illness, and I have full faith in your will and capacity to steward the organization into the future and honor your fallen leader in all the best ways.

Note

1. Kim Klein, "Mission, Message, and Damage Control," *Nonprofit Quarterly* 16, no. 3 (Fall 2009), nonprofitquarterly.org/2009/09/21/mission-message-and-damage-control/.

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Sorting Risk and Uncertainty

by the editors

Risk and caution are important, to be sure, but go too far in that direction and you may find yourself bereft of advancement and short on social leadership. In the face of uncertain times, the trick is to always remain values driven, experiment wisely, and nurture your networks—all of which should be deeply embedded in your practice.

As [Frank] Knight saw it, an ever-changing world brings new opportunities for businesses to make profits, but also means we have imperfect knowledge of future events. Therefore, according to Knight, risk applies to situations where we do not know the outcome of a given situation, but can accurately measure the odds. Uncertainty, on the other hand, applies to situations where we cannot know all the information we need in order to set accurate odds in the first place.

—Peter Dizikes[1]

The distinction vis-à-vis for-profits, described by *MIT News* staff writer Peter Dizikes, above, can also be applied to the nonprofit sector—except that in the nonprofit sector, risk is not measured so much against reward as against organizational harm prevention. And therein lies a profound attitude problem.

The *Nonprofit Quarterly* has always engaged in the risk management conversation a little half-heartedly—there was something about the way this exciting topic has tended to be addressed that struck us as far less than inspired or inspiring. And then we decided to do an edition on risk and uncertainty, and we were forced to delve in.

That is when we realized that what we didn't like was the caution-based framework that predominates. It limited not only our conversations but also our organizations—which are, of course, the product of our conversations.

We cannot argue that caution is unimportant in a sector that is, in large part, based on notions of responsible stewardship—but is it the be-all and end-all of how we should be approaching risk? Without an enthusiastic embracing of risk, there is no advancement or societal leadership, so maybe the questions lie in how we approach and interact with risk—which, due to factors beyond our control, can never be completely managed.

This takes the discussion to an acknowledgment that there is a big difference between risk that is relatively predictable and risk that is far less so. Relatively predictable risk often lies in our financial structures. Unpredictable risk lies in such things as weather patterns—as nonprofits on the Gulf Coast and in New Jersey can tell you—and in other cataclysmic events like 9/11. And then there are many situations in the middle—such as presidential and local politics—that may threaten your community. (You cannot really manage these last two categories, although you can certainly participate in trying to mitigate harm when it looms on the horizon.)

Unpredictable risks and those that lie in the middle of the continuum often pose choices between types of risks that can be taken rather than choices that offer a path to no risk. So, if we spend a good deal of time and energy just trying to avoid risk rather than learning what protects us from it—and projects us forward, even—then we are missing all the fun and potential on the horizon.

"UNEXPECTED" BY CONCHA FLORES VAY/WWW.CUADROSVAY.COM

Predictable Risks

When nonprofits talk about risk management, they are usually discussing it in terms of financial and liability risks—and as complex as these can seem, they may actually be the tamest of the risk categories. Problems in these areas are often self-inflicted, in that one has usually chosen to ignore something that is commonly recognizable. That does not mean that these problems are easy to solve but rather that they can, in fact, be managed.

When the risk you take is measurable—because there are known formulas that could have advised you, and you ignore those formulas—then as board and leadership you have acted imprudently and exposed the organization to preventable risk.

A now classic and oft-cited example of this category is the case of FEGS, a mammoth social services agency in New York that went belly-up after its growth in government contracts far outpaced its other supplemental monies. Why was this a problem? Government contracts rarely pay full costs of service delivery. So, if you do not keep the two in balance, this threatens sustainability. Beyond that, FEGS lost a contract, and the attendant costs of that loss had not been anticipated. In addition, the organization had been running a social enterprise that was not only failing to produce a profit but was also costing the organization money.

The nail in the coffin, so to speak, was due to the social enterprise's having been a back-office support operation producing the agency's financials.

Was the demise of the agency preventable? Absolutely. Had the organization had the right sort of dashboard, the board might have caught all of the signals and made efforts to mitigate the agency's multiple vulnerabilities.

The lack of a thorough understanding of one's nonprofit's business model and its drivers is a very common welcome mat for unnecessary (because it is so predictable) risk. Dashboards done right require that the staff and board agree to attend to the right formulas for the organization's health and sustainability, and that makes it hard to neglect having the right conversations.

When the risk you take is measurable—because there are known formulas that could have advised you, and you ignore those formulas—then as board and leadership you have acted imprudently and exposed the organization to preventable risk.

Unpredictable Risks

Hurricane Katrina is a good example of an unpredictable risk, and the Coastal Family Health Center's (CFHC) experience during the onslaught and aftermath of that storm is illustrative of how organizations can survive and even thrive in the face of this category of risk. CFHC could not possibly have thoroughly planned for what occurred, but some of its preexisting characteristics ended up working in its favor. Some of these characteristics lay in the networks in which the organization was embedded, some lay in the purposefulness of its members, and some lay in the ability to respond quickly to create pockets of order amid chaos.

About his return after the storm to the Biloxi, Mississippi location, on August 30, 2005, CFHC's then-CEO Joe Dawsey said:

> "The door itself was open. . . . A desk was jammed against it so I had to break through. When I did get inside, the mud was probably six or eight inches deep on the floor, and the furniture was just scattered everywhere. Everything had been ruined. All that was left were the top two shelves of the pharmacy in that building. A couple of other staff people were there just standing outside. I don't know how to describe it except that they were in shock. Not just because of this, but because their own homes had been flooded. One of those people and I drove over to the Biloxi clinic and it was even worse. Water and mud and stuff was up over the top of it, and everything in that building was ruined. Then we went over to the Gulfport clinic, and the roof had been blown off. So we kept going to visit Vancleave, where there was some damage, but not as bad."[2]

And not only was the physical infrastructure of CFHC gone—the patient files and billing information had been destroyed also, in both the original and backup locations. The organization quickly established pop-up clinics, staffed by the employees they could locate and anyone else who could be pressed into service. This included a seventy-three-year-old board member whose own house had been destroyed, leaving her, her son, her daughter and son-in-law, her husband, and their dog clinging to the branches of a nearby tree. Within days, they were back at the center, helping with the recovery of people and the organization. This first step took enormous outreach and effort. Then, they began reaching out to their larger networks to establish contacts with funding agencies and relief efforts, and it was there that problems started to emerge—and the group began to need to use one part of their support network to mobilize another. Luckily, the organization's base was solid, even if the individuals within it were decimated and suffering themselves. The seventy-three-year-old board member commented that it never occurred to the group to give up, because the need for the nonprofit was so clear even before the storm (and even before the organization got started).

Upon reading this story, Rikki Abzug, who also studied nonprofits in the aftermath of 9/11, wrote:

> Any organization exists within concentric circles of stakeholders/environmental forces that act upon it, and upon which the organization acts. For any nonprofit organization, a shaky ring—whether it is a global crisis, a national economic downturn, governmental retrenchment, unstable local politics or climate, or even wayward board members or staff—can lead to service and security disruption. When a crisis impacts a series of these concentric rings, the impact on the core organization may well become amplified. This is part of the story of CFHC.
>
> The first crisis Joe Dawsey faced was the innermost organizational facilities crisis—Hurricane Katrina happened most immediately to the infrastructure of the organization. The devastation continued in waves coming out from that center. Crisis came from the missing and displaced staff, and then from the missing and increasingly relocated board. The local community, devastated as well by the storm, could offer few resources, at the same time supplying more pressing issues of concern. The local government and the Feds, disbelieving, then stymied, could also offer no relief. Not only was help from that circle not forthcoming, further pain was inflicted when previous contracts were violated. A crisis of any of these rings would have brought hardship upon the organization. Cascading crises in each one meant that response and recovery would have to start again at the core.
>
> The good news for Coastal was that the CEO and the board remained committed to the organization's mission against a backdrop of widespread and often personal disruption and suffering. That "core" inner circle was able to keep the organization functioning with makeshift facilities and tremendous resolve to service both old and new demands for assistance. With a solid core, the organization is trying to rebuild relationships to the outer rings. As it does so, Coastal would be well served by strategizing how dependent it has to be on the circles furthest from its core.[3]

This idea of preexisting circles of support or functional networks turns out to be incredibly important in the face of unpredictable risk. Abzug also referenced affiliation extensively in her and coauthor Dennis Derryck's research on nonprofits in the aftermath of 9/11:

> Contrary to popular press, some monies for recovery did become available relatively quickly. For nonprofits providing services, the September 11th Fund made both grants and loans available through three coordinating organizations with traditions of assessing organizational needs. The New York Community Trust, Seedco, and the Nonprofit Finance Fund were ready to cut checks for organizations with demonstrated need. But these resources were not highly publicized, so knowledge of such pools of funds became a critical factor in gaining access. One sure route to this knowledge was interorganizational connections to those groups in the know—often umbrella groups.
>
> Umbrella and other intermediary organizations immediately sent out communiqués to their networks through phone, fax, and e-mail trees to assess damage and need. Umbrella organizations were able to match one organization's needs (for temporary

This idea of preexisting circles of support or functional networks turns out to be incredibly important in the face of unpredictable risk.

Between the mostly predictable and mostly unpredictable is a vast continuum of risks that range from starting a new organization to using every spare cent to capitalize a fundraising event.

> space, for instance) with another organization's resources. Foundation grantees often had access to knowledge and additional funding from their foundation grantors. All of this left the unaffiliated small and medium-sized organizations still reeling from the immediate impact.
>
> It could also be argued that organizational networking and affiliation might have provided respite from the very uneven change in client participation that we discovered in our study. Just under half of responding organizations (46 percent) reported a change in client attendance or participation rate. Almost 30 percent reported an increase in client participation, while three-fourths reported a decrease in client participation (the numbers do not add up to 100 percent because some respondents saw increases in some programs and decreases in others). Organizational resources did not necessarily match the new needs—the organizations seeing the most new clients were not necessarily those with enough staff to handle the volume. Affiliation and communication with other organizations could have further matched client demand to organizational supply. Indeed, there were some feelings of ill will when the Red Cross tried to recruit new caseworkers without first exploring options of partnering with neighborhood nonprofits that had caseworkers available.
>
> The short-term costs of nonaffiliation clearly included delayed or no access to recovery resources—including funding and extra staffing. The long-term impact of nonaffiliation continues to plague these organizations in issues as diverse as contracting negotiations, supplier negotiations, knowledge sharing and leverage, and advocacy. A major implication of these observations is that nonprofit organizations need to consider the benefits of affiliation, federation, networking, and knowledge sharing so they do not have to face crises alone.[4]

On top of all that, Abzug and Derryck wrote, some organizations were plagued with budgets made up almost entirely of restricted funds, allowing no financial or service flexibility when it was needed—and, in the case of performance-based contracts that were paid on a reimbursement basis, creating interruptions of services that cost agencies on a permanent basis.

That Vast Middle Continuum of Risk—Controlled and Informed Risk-Taking

Between the mostly predictable and mostly unpredictable is a vast continuum of risks that range from starting a new organization to using every spare cent to capitalize a fundraising event. Sometimes the uncertainty in a space like that is overwhelming and must be balanced by hope, informed by as much information about variables and models as can be mustered, and sometimes by a sense that there is nothing else to be done.

As one example, over the last decade news sites have been profoundly transformed, and a greatly expanded field of nonprofit news sites has emerged out of a sense that journalism as it was currently placed was doomed. Thus, there was risk in staying still, but there was also risk in beginning alternatives.

There were few reliable business models to point to for the nonprofit start-ups. Were large donors the answer? How about paywalls or syndication—what part did *they* play? Was the answer big events? Citizen journalism? Collaboration with news outlets? A tight field focus? Many nonprofits bumped along for a few years before they began to sort out those revenue streams that fit their own operations. Meanwhile, they were being exhorted by funding institutions to get their acts together—to demonstrate sustainability. It was, in general, simply a risky business, often held together by committed journalists.

Fortunately, one committed funder (the Knight Foundation) realized that it was necessary to provide some documentation of the various experiments being tried so that there was some overall sense of what was working, and for whom, even as readership expectations grew and technology continued to change. There were many false paths, and the trick was not to blow all of one's money gearing up for any one option before being certain that the direction was right.

Still, for some, trying to build the ship on rough waters took a toll—and sometimes, even after a number of deficit years, boards were asked to reinvest their faith; and what could they depend upon to do that? They could depend upon (1) information from other sites and (2) their own organizations' attention to the disciplines of short and controlled cycles of experimentation.

The Risk of Being Values Driven in a Revenue-Dependent World

It is a sad fact that many nonprofits, being resource dependent, over time become cautious about voicing their beliefs in the public square. What a waste! The last half-year has put all of that to the test. What we have seen is that the organizations that do make their positions clear are repaid with even more support from those who appreciate their work. In some cases, speaking out honestly and from a place of values can feel very risky, but we rarely see that end in a loss—and *not* speaking out can lead us all directly into a kind of uninspiring, slowly downward-spiraling hell.

We have seen any number of small and large examples of this in the past few years. There is the story, for example, of the Girl Scout troop that was told by a large donor that funds would not be forthcoming unless they committed to not serving trans girls. The group not only refused to accept the deal but also widely broadcast the fact that they had turned the money down on principle—and donations rained upon them in far more abundance than would have had they knuckled under.

And, when the sector has recently needed speedy responses to political threats, supporters have stepped forward en masse—and that is protection in and of itself. This is in the category of taking on a more immediate risk to protect oneself against a slow, self-hating death.

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As mentioned elsewhere in this edition, the nonprofit sector works specifically on wicked problems—and these, by nature, can have endlessly complex variables: bottom lines that are at war with one another and multiple stakeholder visions of what success looks like. Language about our endeavors varies with political perspective and worldview. To one population, Planned Parenthood is a necessary component of women's health; to another, it is a device of evil. One administration may wish to fund refugee resettlement, and a subsequent one may not.

Each of these situations (and we usually have many evolving at any particular time) deserves a response that is well informed, confident, and as timely as possible. And here is what you need for that:

1. A strong values-based identity.
2. Strong networks or circles of support and information.
3. Excellent disciplines that include foresighted environmental scanning (often done through networks and through closeness to your base) and the ability to try tactics and track their results in tight experimental loops in real time.
4. A reasonably flexible budget.
5. Good risk leadership that has all of the above embedded in its practice.

Risk is a byproduct of our work, and, as such, we need to get good not only at managing it but also at using it to launch ourselves to the next level of effective and powerful practice.

Notes

1. Peter Dizikes, "Explained: Knightian uncertainty," *MIT News*, Massachusetts Institute of Technology, June 2, 2010, news.mit.edu/2010/explained-knightian-0602.
2. Rikki Abzug, "Coastal Family Health: Built to Last," *Nonprofit Quarterly*, September 21, 2007, nonprofitquarterly.org/2007/09/21/coastal-family-health-built-to-last/.
3. Rikki Abzug, "Commentary: A Concentric Circle of Devastation and Displacement," in Abzug, "Coastal Family Health."
4. Rikki Abzug and Dennis Derryck, "Lessons from Crisis: New York City Nonprofits after September 11," *Nonprofit Quarterly* 9, no. 1 (Spring 2002), nonprofitquarterly.org/2002/03/21/lessons-from-crisis-new-york-city-nonprofits-post-september-11/.

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What are the questions that boards need to be asking themselves in terms of taking on risk in a more structured and complete way? In this conversation about the limited ways in which nonprofits tend to approach risk, David Renz stresses how important it is for nonprofit boards to open up their idea of risk from one of short-term crisis management to a more dynamic, ongoing act of general governance.

From *Risk Management* to *Risk Leadership:*

A Governance Conversation with David O. Renz

Editors' note: *In this interview, nonprofit governance expert David Renz points out that it is not enough to "manage" risk; rather, modern nonprofit boards must learn to welcome and become intimate with it, because our work in this sector has risk embedded at every level. And while many think of risk in predominantly financial terms, there are any number of risks we take that are born of omission rather than commission. Renz is the Beth K. Smith/Missouri Chair in Nonprofit Leadership and the director of the Midwest Center for Nonprofit Leadership, an education, research, and outreach center of the Department of Public Affairs in the Henry W. Bloch School of Management at the University of Missouri-Kansas City.*

The Nonprofit Quarterly: *What is it that you think nonprofits bring to questions of risk that is not unique to them per se but more prevalent among nonprofits than for-profits?*

David Renz: Your question implies something that deserves to be overtly acknowledged: that the dimension of risk is more complex, multidimensional, and even (in some ways) more dynamic for nonprofits when compared to for-profits. This complexity derives from the foundational element of nonprofit existence: that nonprofits exist for the purpose of social impact and the creation of social value, and therefore that there are multiple dimensions of risk management and even "risk governance" to which savvy nonprofit boards and executives are attuned. Flowing directly from this is the reality that nonprofits have to be and generally are more sensitive to the perspectives of and competing tensions posed by the diverse and divergent interests and expectations of different stakeholder communities. These expectations exist with regard to *actually* meeting key stakeholder needs, but also with regard to how they go about addressing those needs and interests. They cannot afford to ignore the expectations of certain stakeholders just because they are less relevant in short-term financial terms.

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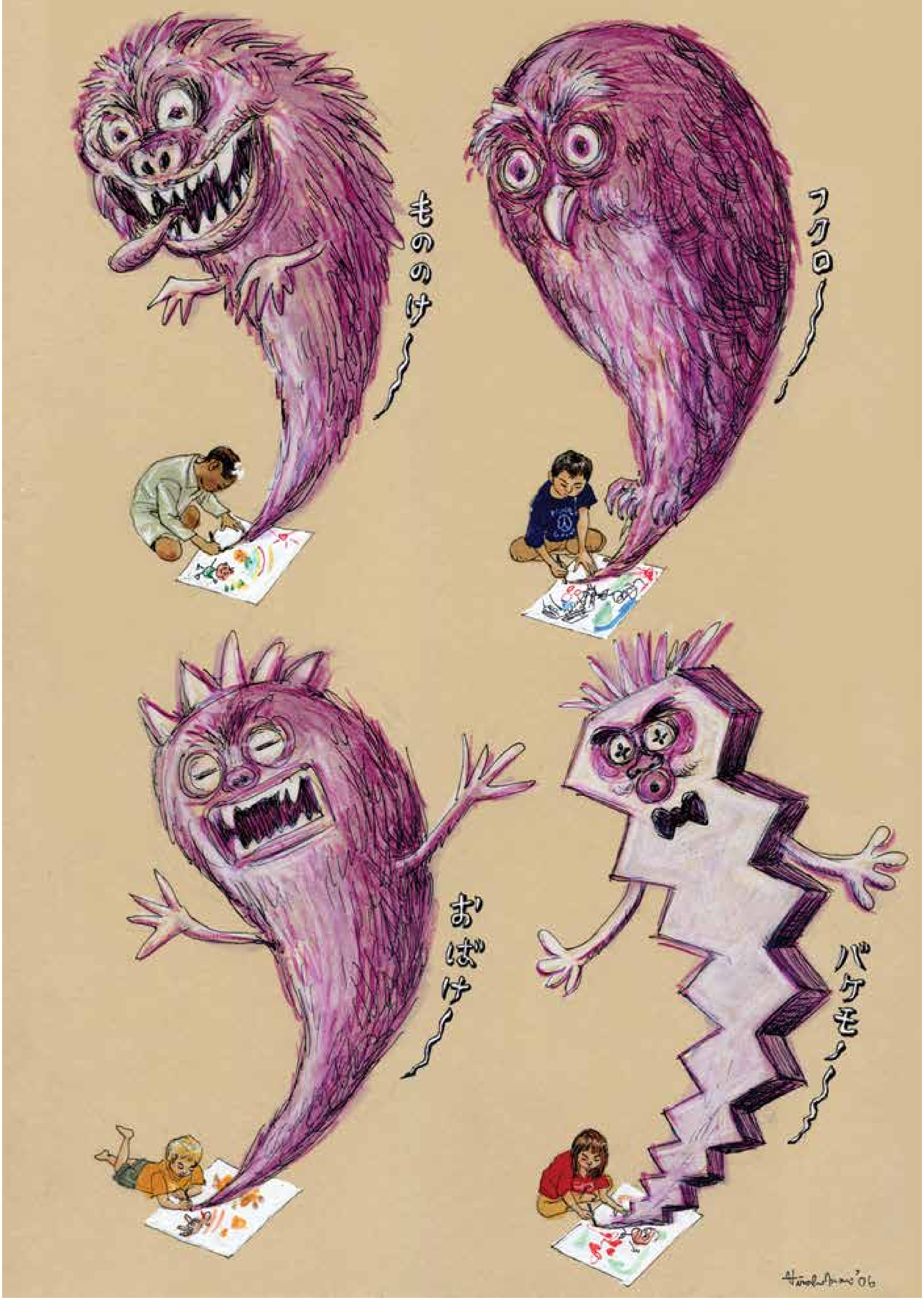
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The for-profit world is moving in that direction. Companies like United Airlines have discovered that many of their stakeholders actually care whether they drag a physician off an airplane, or other behaviors like that. But that degree of exposure and character with stakeholder audiences is especially significant to the nonprofit community—although, I must say that the nonprofits with which I work tend not to perceive or discuss such matters as matters of risk, even though they fundamentally must be understood and addressed as such.

Nonprofits are, I find, more inclined to consider and act on certain aspects of risk that they share with for-profit organizations—issues around the need to shore up eroding business models and revenue streams, and danger that the marketplace will "move out from under them" when it comes to key clients' or funders' inclinations to remain clients and fund or pay for services. And neither sector, to me, seems to be appropriately attuned to the multiple and complex dimensions of risk associated with employment and talent—although nonprofits, of course, must also weigh human resources issues for both paid and volunteer talent.

NPQ: *In your observations and reading, what particular characteristics of the way that nonprofits approach and assess risk questions have you noted? Are they enthusiastic about them? Do they ignore questions of risk until they find themselves injured by the side of the road?*

DR: With some notable exceptions, I think the entire construct of risk has been missing from most nonprofit organization governance and management deliberation. By and large, most nonprofits have just not given it much thought—and that's particularly true when you think about boards and the governance end of the risk discussion. I think there is a general tendency to be risk averse because it is perceived to be safer—and frankly, I think that too many nonprofit boards tend to look at risk only from a fiduciary perspective. This certainly is necessary but is just not sufficient. And, when I say fiduciary, in this case I'm drawing from the governance categories described in Chait, Ryan, and Taylor's book *Governance as Leadership*, where they sort out three types of governance: generative—that is, fundamental questions about where and how we exist to serve, leading to judgments about purpose and mission; strategic—which asks how we best proceed in the direction we discern is most important; and fiduciary—which is about how we ensure that our assets and resources are stewarded and deployed in the most cost-effective and safe manner.[1] There are strategic and generative dimensions to risk that I think are not generally even perceived, much less addressed, by a typical nonprofit management team—and definitely not by a typical nonprofit board.

With some notable exceptions, I think the entire construct of risk has been missing from most nonprofit organization governance and management deliberation. By and large, most nonprofits have just not given it much thought.

NPQ: *We do tend to think of risk in a preventative way rather than in a generative way—can you talk a little bit about that?*

DR: Yes, the imperative here is to embrace risk leadership rather than just risk management. The question is, are we taking the most appropriate risks our constituents and stakeholders deserve from us, as well as engaging in an appropriate level of fiduciary care? I think issues exist with regard to risk in all facets of nonprofit organizational strategy as well as operations, even though nonprofits often do not recognize this. At the mission and strategy level, especially when it comes to programming, I think the risk-averse—and, frankly, risk-agnostic—character of board behavior leads organizations to continue operations in program areas beyond the time when they are really delivering the greatest value to and for the stakeholder and client communities they exist to serve. There is less perceived risk in being slow to act to make change; organizations seem to think it's safer to make the move to new and different kinds of programming—innovative and entrepreneurial new strategies—only when it's extremely clear that such change is necessary and well advised. But the risk is that of mission performance. You may well be short-changing your clients in a world where the changes in client need warrant earlier and more dramatic changes in programs and services.

There are some other areas, too. One to which I've recently given more thought (and from multiple perspectives) is risk with regard to leadership at both board and executive levels. For instance, there are boards that don't achieve an appropriate degree of diversity and inclusion, that are not engaged in systematic thoughtful board development (including bringing new members and officers on)—that are, in fact, accidentally or unknowingly choosing what may seem a less risky course. But at what price? Particularly since we know from some recent research that improved board diversity, if inclusion goes with it, tends to be associated with better program performance. And with respect to risk at the executive leadership level, at core is the risk of experiencing unplanned or poorly planned succession strategies—a growing issue in a time when there's more and more attention around sustainability and performance. I think a good share of nonprofits and their boards prepare for succession largely from the point of view of emergency intervention or succession (such as if an executive becomes ill), yet the greater risk lies in failing to be more systematic and long term in one's orientation toward growing and developing the next generation of executive as well as board leadership—leaders prepared to keep the organization moving even when something goes awry.

NPQ: *What you're really making is a distinction between the more obvious and somewhat immediate categories of risk—where you say, well, these things might happen if we ignore, say, overdependence on a funder or a risky political situation—and this whole other category, where you just kind of ignore your context and don't respond to it properly.*

DR: Yes—partly because we're often operating in that mode in the belief that the context is not changing very much. I don't meet anybody who thinks it's not changing at all, but the sense that it's not shifting very much leads to a false sense of security. And one of the things I find interesting is the sense that in our society—and therefore among those who serve on our boards (and some executives)—we are choosing between risk and no-risk options, as though there is a risk-free alternative. So the more relevant concerns are: are you preparing to address the risks that could be problems, and are you preparing to *take* the risks that might position your organization more effectively and successfully for its next generation of service?

NPQ: *To what extent do you think the revenue models of nonprofits drive this excess of caution?*

DR: I think they do drive it, but the irony is that as today's revenue models tend to lose their relevance, it's a sort of eroding foundation for many nonprofits—they don't have the sensors in place to even perceive an impending change until it gets later than it really should. They get this sense very late—and, too often, too late to act to save the organization or program. And the time cycles for such change are getting shorter and shorter. I think with legislative and policy environments as they currently are, the danger of context shifting more dramatically and more frequently is more common—and significant, too. So, one of the elements of risk in my opinion—not solely my opinion, of course—is delay or failure in responding. And this accidentally positions an organization for an even riskier course, including staying with the business model that's worked for a long time yet no longer is viable, even in the fairly immediate future. When it comes to hidden dimensions of finance, I love Clara Miller's article on capital structure;[2] well, for risk, I think there's a comparable notion of risk structure to be considered, as well.

NPQ: *So, in terms of how boards can take on a risk in a more structured and more complete way, what are the questions that they need to not only be asking themselves but also have a real appetite for? Because part of this is simply about the appetite for questions that bring you out to the edge of your practice, right?*

DR: Right—although I do think that it actually begins at a simpler level, which is helping boards to begin to give regular thought to risk and to think about it in a somewhat more substantive and sophisticated way, so they become more

[T]here are boards that don't achieve an appropriate degree of diversity and inclusion, that are not engaged in systematic thoughtful board development . . . that are, in fact, accidentally or unknowingly choosing what may seem a less risky course. But at what price?

The reality is, a lot of folks are still trying to come to grips with the notion of generative thinking. And, in a rapidly changing societal environment—and as the ecosystem continues to shift in more frequent, dramatic, and complex ways—it ought to be and usually is informing the strategic planning process.

open to the kind of conversation that I think you describe with your question. It's not necessarily apparent. One of the phrases that my students regularly throw at me now when we talk in class about risk, is, "So, that's a thing?" Similarly, I think many boards don't get that risk is "a thing" in the nonprofit world, and that they do have a risk profile, regardless of whether they've intentionally chosen it or not.

So, we need to regularly host discussions about risk, starting with beginning to reflect on what is the nature of the risk profile that an organization currently has. This offers the benefit of serving as a way to begin raising awareness and to enhance sensitivity while exploring some of the simpler risk questions. It's not necessarily going to get you into the deeper generative questions, but at least such introductory dialogue gets a board into some of the strategic kinds of thinking that, frankly, every strategic planning process should be paying explicit attention to. I believe that strategic planning typically does this, if it's done thoughtfully. But, too often, the processes that I've observed do not include this, because boards see such reflection or assessment as quite superfluous or extraneous. Some leave it to management, mistakenly considering it to be a management or operations matter. There are parts that are operational, but they flow out of the choices at the strategic level.

The reality is, a lot of folks are still trying to come to grips with the notion of generative thinking. And, in a rapidly changing societal environment—and as the ecosystem continues to shift in more frequent, dramatic, and complex ways—it ought to be and usually is informing the strategic planning process. Further, planning is often happening in shorter cycles, sometimes less elaborate and formalized yet more real time and dynamic—and this is reflective of risk in the environment, too.

As I alluded to earlier, it is common for the discussion of risk to come up only when it's associated with risk that I associate more with for-profits. A key example is when an entity is considering creating an earned-income venture. Then it starts to act a little bit more like a for-profit enterprise and think about risk in that context. But, of course, the danger may be that the real risk will be to undertake an earned-income venture that is inconsistent with the general mission, vision, and values of the organization, and will alienate stakeholders—yet the organization does not get it. The board and top executives don't even perceive that they're crossing that boundary until the community or some group of key stakeholders makes an issue of it. And that can be expensively late.

NPQ: *There are so many aspects to risk: reputational risk, cash-flow risk, risk of an act of God. And there are so many ways to approach the question of risk. How do you think boards generally need to be set up to ask those "what if?" questions that organizations very rarely address unless they're larger?*

DR: I really do believe that it makes the most sense to couch them in terms of strategic direction, because if we exist to meet the needs of a segment of our community—certain groups of stakeholders—then, as we consider how well we're meeting their needs and how their needs are shifting and evolving, a logical complement to the process of developing options and exploring options is to consider what aspects of risk are associated with those options. The reason I tend to encourage folks to think about the concept of risk before they start making those particular judgments is because—somewhat analogous to coping with ethical questions—when you're in the middle of trying to weigh options, you lose sight of the fundamentals and principles. And certainly the folks who advocate for more effective risk management and even "risk governance" are pushing people to recognize their general risk assumptions. I go back to the concept I used earlier: the risk profile. What is our tolerance for risk, and what kinds of risks are more or less appropriate? And I think the answers to this can grow out of a stakeholder discussion that informs strategic planning and is at the very beginning of a process, even growing out of that generative conversation. Sometimes I think it might be funny, in a perverse sort of way, to actually start a planning discussion with a board by asking its members to answer the question,

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(L-R) Courtesy of Perez Art Museum, Miami, FL; Andrew Shurtleff Photography; Photo property of the Sant Louis Art Museum, St. Louis, MO

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[W]hen I talk with boards about resources, one of the things I always tease them about is that they rarely give thought to one of the most critical of organizational resources or assets—the trust and credibility they have with their stakeholder communities, both donor and client.

"What are all the risks that our organization has been taking that are ill advised?" Let's just try to get them to begin to think about that. My guess is that they would not be able to think of many of the risks.

NPQ: *Those that are most looming. . . .*

DR: And that are even potential. I mean, anything with regard to assets has a risk dimension to it. And, when I talk with boards about resources, one of the things I always tease them about is that they rarely give thought to one of the most critical of organizational resources or assets—the trust and credibility they have with their stakeholder communities, both donor and client. So, they don't even think about that kind of potential risk problem until it's so late that they're fighting fires—when the discussion has shifted from strategic to urgent, and they have closed off many of the more attractive options that they could have exploited if they had seen things earlier, when they weren't actually a problem. Sometimes the risks are appropriate and must be taken, but it's still important to understand you're taking them and assess the consequences and how best to address them.

NPQ: *And there may be other alternatives to the course that one is taking that have either less risk or less of a payoff.*

DR: Yes. It's a cost-benefit dynamic, but with regard to risks specifically.

NPQ: *So, how does a board manage risk without understanding its own enterprise plan? If you don't understand the dynamics of your own business model, how do you reasonably take on risk? Or is that really a precursor?*

DR: I would say it is a precursor, because business models are so integral. Again, it's like Clara Miller's notion of capital structure.[3] There's an inherent risk structure in the design of one's business model; there's an inherent risk profile built into one's organizational structure. Bob Herman and Dick Heimovics wrote a long time ago about board-centered executive leadership—about how important it is for executives to prepare their boards to lead rather than assume they are ready to do so.[4] I think risk is another category where expecting board members to arrive prepared to weigh decisions in any kind of a substantive way—much less a sophisticated, environment-changing way—requires support from the organization and top executives. Now, those of us at nonprofit academic centers and other capacity-building programs could do more to help boards and board members prepare, in principle, to think in more productive and sophisticated ways about this. But what I've observed is that it's hard to think about these things in principle. Until board members are actually enmeshed in a situation where there is a real risk problem or threat to consider, it's hard to conceive of the nature and form of the risks. We need to start helping boards to do this, and to do it better.

NPQ: *It's a funny thing to have neglected all this time.*

DR: Yes, but I think it reflects the fact that historically nonprofits were less risky forms of enterprise, as a category. Certainly, there has been a lot of variation, and sometimes nonprofits just didn't recognize it. But I think the nonprofit operating environment was more forgiving forty or fifty years ago for many enterprises, including nonprofit organizations, than is the case now and certainly than will be the case moving forward.

NPQ: *When you look at what happened to all of those arts organizations during the recession—so many of them with the same profile going into crisis. It should have taught us something that is now clearly known by everybody else, but I don't think that it has.*

DR: True. And that may be another way to help nonprofits be more proactive. It may be that the associations and advocates for particular mission categories (for example, various membership groups for an industry or field like the arts) help lead. Maybe that's one of the places to start to raise awareness, because you can be a little more specific about kinds of risks that would be common or even logical, when you are specific by mission category. Nobody is confused about the fact that the nature and forms of risk are completely different for the Red Cross blood system versus a community museum.

But, again, I think it's partly a matter of helping people begin to get their heads around this topic and to try to do so before there's a crisis. As I said earlier, it's very tough to think your way through it when it becomes a matter of crisis.

In fact, part of the proactive side of this is to even identify what the kinds of risks are that might be most likely to jump out at us, and have that discussion with the board. To consider what some of the most important categories are. To do a little scenario thinking, and weigh the degree of risk that we really think is there. The idea of emergency succession planning for executive directors reflects that orientation, but it tends not to have been a very systematic practice. Emergency succession just happens to be one particular category that boards have been more aware of.

NPQ: *Do you have anything else you're driven to say about this topic?*

DR: Boards need to be in the game from the start. They need to be risk savvy—to be systematic and thoughtful—before it becomes an urgent or emergency issue.

NPQ: *It is like that piece of research that Rikki Abzug and Dennis Derryck did a while ago, after 9/11, which described how organizations that were more connected—that were more networked—were better able to access the information quickly, even under the most difficult of circumstances. And their constituents were better served as a result.*[5] *And it's interesting because we know that understanding the business plan has got to be a good precursor of risk assessment and management—but perhaps being networked and understanding what's coming down the road is also a precursor.*

DR: I think it is. Another facet I have been thinking about is that being networked helps you develop or sustain resilience in times of threat. And it's something we see illustrated in individual communities when people realize they need to help each other in times of crisis—such as when a tornado knocks down a town and we come together and try to help each other. Well, even though nonprofit groups experience a completely different category of risks and problems, the same is true, I believe, for nonprofits.

I have to add a completely different element, too. Another kind of driver that's independent of the specifics of boards is the non-conscious dynamics of group process. When groups engage in decision making about group choices associated with risk, they're making choices that actually get amplified in one direction or another from what the participating individuals would be inclined to choose on their own. And in the early days the research was overly simplistic, and it simply said that groups, when they come together, tend collectively to choose a riskier course of action than would be the case when individuals are confronted with that same decision situation. The research subsequently has become more nuanced, and what social psychologists have figured out is that the direction of the risk is in fact a matter of whatever is the cultural tendency for that situation or environment. The degree of risk selected is amplified when a group of people come together to decide. So, if your tendency would be (and this may be why we sometimes see a lack of thinking about risk) to avoid risk or think that risk is not an issue, then when we collectively come together we're even more inclined to reinforce that risk-aversion or risk-ignorance dynamic. And it's the non-conscious stuff that plays out in some pretty unintended ways.

Further, I think this dynamic has a real relevance when you're thinking about innovation—nonprofit innovation, or nonprofit efforts at entrepreneurial or socially entrepreneurial thinking. We need to start by understanding the implicit values built into the decision. This is relevant to questions of board composition and diversity, and it's important to think about, because when you bring a group of individuals together as a board, it's

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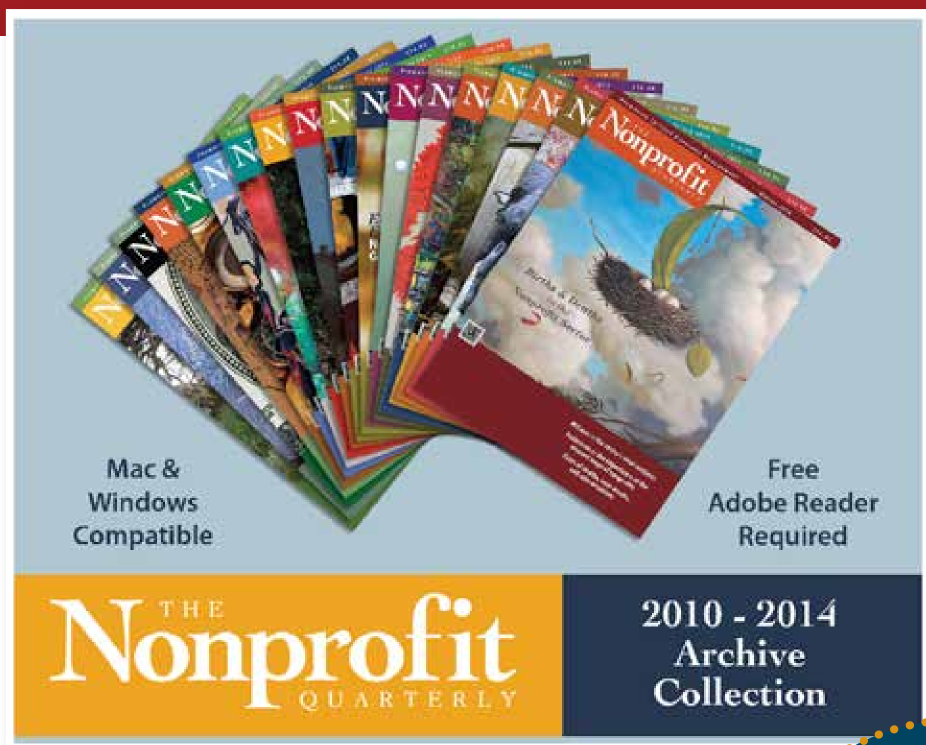

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the cultures and the sorts of risk heuristics of the folks who have come together on that board that will be amplified in one direction or another. So, if you have a board that is not particularly diverse and that doesn't understand the full range of decision making and issues and challenges confronting the organization, you may see these dynamics lead to suboptimal decisions just for that reason—and it's not that people are even making choices so much as they're just following a path that's almost automatic for them.

NPQ: *That's interesting, because if you think about that in relationship to creating boards that are more inclusive, it makes perfect sense. It's already a culturally reinforced group, and it becomes more and more impossible over the years to actually get through the various protective measures that it has.*

DR: That is important to think about, too.

NPQ: *Yes, it's certainly a scary notion.*

DR: And another of those sometimes amusing group dynamics that many have come to know is the so-called "Abilene Paradox," the theme of which is: how is it that groups at times come together to select a course of action that *none* of their members individually thinks is even a good idea? So these two aspects of group dynamics—the issue of the "choice shift" and the Abilene Paradox—can help explain why we sometimes end up making decisions about risk for reasons that are completely irrelevant to the substance of the options, and maybe even choose a course of action that none of us thinks is sensible.

NPQ: *We've seen this happen on boards playing with the idea of buying a building, and the way they're making the decision becomes completely irrational but is driven by something that is more powerful than any caution.*

DR: It's real.

NPQ: *It's real, but you know you don't know what it's really made of.*

DR: Right. And for those who want to believe that truth inherently derives from group involvement, you have to be careful; group process that is ineffectively supported and facilitated isn't always going to reflect truth and insight. It can go in many different directions.

For me, the bottom line is that there is a myriad of elements that combine to affect how well a board and its members address the issue of risk in the governance of a nonprofit organization. Some are the result of varying levels of knowledge, experience, and overt attention that boards and their members bring to the consideration of risk and what is warranted and appropriate for their organization; and some are the result of seemingly irrelevant factors, such as group and interpersonal dynamics. And they all affect organizational effectiveness. It's time for executives and boards to consider how to more fully and effectively prepare boards to engage in the increasingly important work of risk leadership as well as risk management. Our organizations' futures depend on doing this well.

[I]f you have a board that is not particularly diverse and that doesn't understand the full range of decision making and issues and challenges confronting the organization, you may see these dynamics lead to suboptimal decisions just for that reason—and it's not that people are even making choices so much as they're just following a path that's almost automatic for them.

Notes

1. Richard P. Chait, William P. Ryan, and Barbara E. Taylor, *Governance as Leadership: Reframing the Work of Nonprofit Boards* (Hoboken, NJ: John Wiley & Sons, 2004).
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The Exciting Embrace *of* Risk *and* Leadership:

Thoughts for Today's Activists

In a set of short thoughts that can each act as a reflection point for practitioners, Dr. Wheatley brings us back to the basics of taking principled and shared leadership in an uncertain world, where self-organization is ever more present. Her instructions are quite simple—but they may be the most useful set of leadership disciplines one will ever learn.

by Margaret J. Wheatley

***Editors' note:** The following excerpts are taken from Margaret Wheatley's new book,* Who Do We Choose to Be?: Facing Reality, Claiming Leadership, Restoring Sanity *(Berrett-Koehler Publishers, 2017), with permission.*[1]

Leadership

Leaders are essential for their vision and insight. Keeping "eyes on the prize" is a leadership function. But the danger for visionaries is blind followership and a cult mentality where people surrender their free will and common sense to the leader even if the leader abhors this. (And too many enjoy it.)

Leaders carefully and consciously attend to the integrity and actions of the movement: Do actions embody its values? Does it need to shift tactics and strategy? Does it need to rest and reorganize itself or seize the moment and push forward?

Margaret J. Wheatley is a well-known consultant, speaker, and writer, and cofounder and president of The Berkana Institute—a global nonprofit, founded in 1991, that has been a leader in experimenting with new organizational forms based on a coherent theory of how living systems adapt and change. Publications include: *Leadership and the New Science* (1992, 1999, 2006); *Finding Our Way* (2005); *Perseverance* (2010); and *So Far From Home* (2012)—all by Berrett-Koehler Publishers.

The work of social change requires a commitment to personal change. Leaders must be self-aware, noticing how they're being influenced and changed, in both positive and negative directions. Embodying the values is the only way to ensure their vitality.

Self-Organizing

Self-organizing requires a clear sense of identity known to everyone in the organization and the personal autonomy to figure out how to put that identity into action moment by moment.

There will always be differences over which actions to pursue, and that's as it should be. What's critical is that the identity is truly visible in every action. In organizations, identity is the values and principles we establish at the beginning. And then, as work gets done and decisions get made, the identity is also the culture that forms as patterns, norms, and expectations. Where there is strong agreement on who we are and sufficient trust in one another, self-organizing develops astonishing capacities and creativity. Terrorists and social justice

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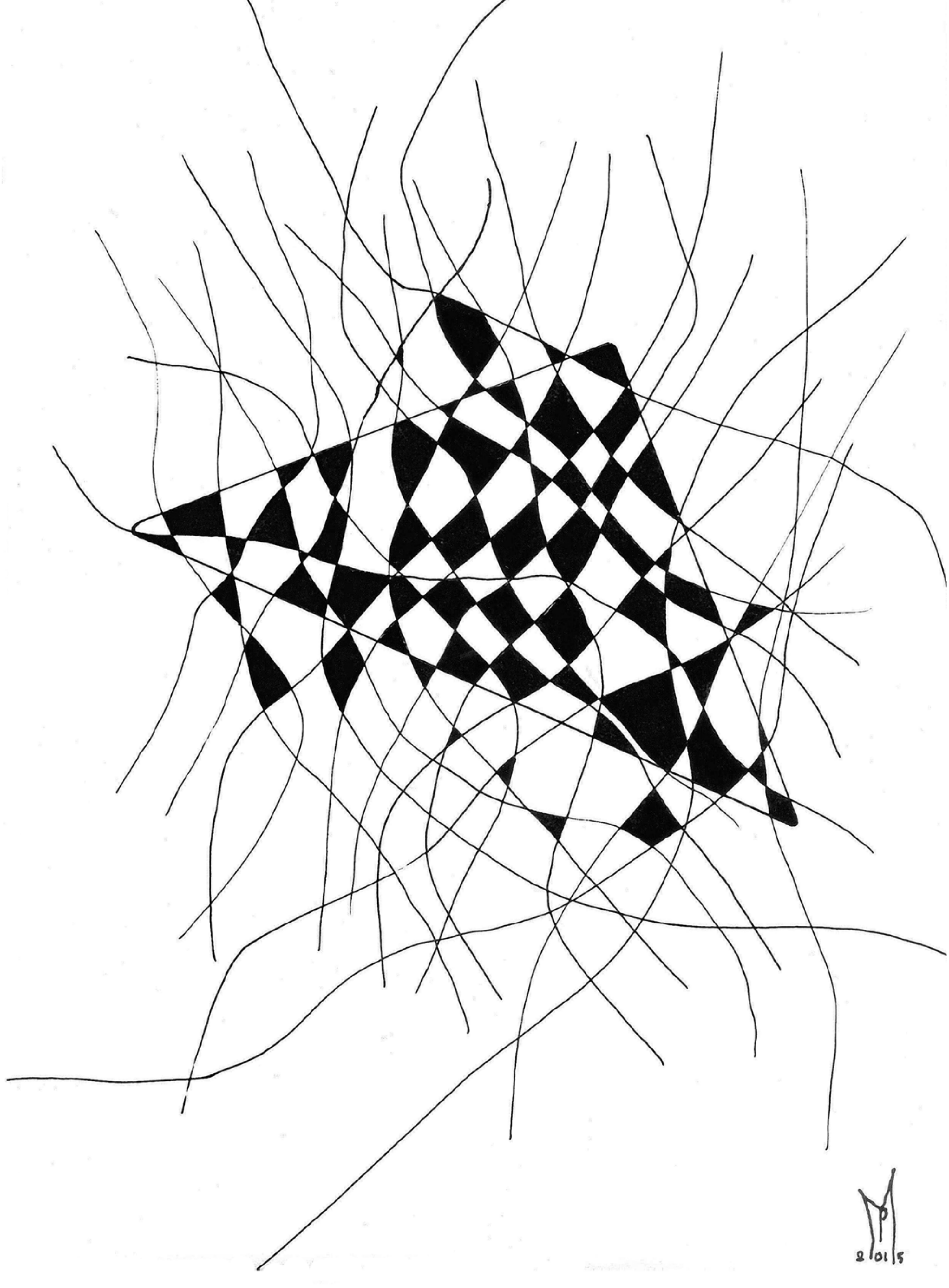
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Someone has to stay alert to what's happening to the identity as decisions are made and work gets done. If we're doing well, someone has to ensure that our smugness and arrogance don't seal us off from change. If we're doing badly, someone has to stop us from hunkering down and becoming overly defensive or beating ourselves up for having failed.

movements each become more effective as they learn how to work with self-organization.

The first essential act for leaders of a self-organizing system is to keep watch over the identity. It is foolish to think it won't change as people make their own decisions about their actions. They will always shift it toward more extreme in order to make a difference and get attention. It is equally foolish to get so distracted by events and crises that you stop watching what's happening to the identity. If you lose focus and get absorbed in crises, you end far from where you intended to be—more controlling, more bureaucratic, less trusting, more demanding, exhausted, and wondering what happened. (I think you know this pattern. We all do.)

The second essential act of leadership is to ensure that people are using the identity to determine actions. This is especially important in a crisis when reactivity is high and there seems to be no time to reflect.

In my experience, very few leaders take advantage of order for free. They don't quite trust the power of identity to ensure coherence and continuity. As events intensify and pressures increase, control creeps in and the slippery slope takes shape. Therefore, another essential skill for leaders is self-awareness and the ability to notice who you are becoming as you respond to unending pressures. Where has fear or distrust begun to influence decisions? Where have you asserted control? Was it necessary? What happened to relationships as a result? This quality of self-reflection isn't easy, and even if you commit to it, it becomes a casualty of crises and disappears. The best way to ensure that you reflect honestly about your own behavior is to have one or more people who will speak truthfully to you. And whom you know to listen to because they have your best interest at heart.

What I've described here requires hierarchy, not a structure usually associated with self-organizing systems. Networks are self-organizing and they don't have hierarchy. But, as I've already noted, self-organization requires sane leaders.

Someone has to stay alert to what's happening to the identity as decisions are made and work gets done. If we're doing well, someone has to ensure that our smugness and arrogance don't seal us off from change. If we're doing badly, someone has to stop us from hunkering down and becoming overly defensive or beating ourselves up for having failed.

Even though, in my early years of promoting participation and self-organization, I was critical of leaders at the top, I've come to see that people need visionary leaders. Not charismatic demigods or Masters of the Universe, but people they trust because they embody the values and qualities we're working toward. Leaders don't have to be perfect, and it helps to make one's personal struggles and challenges visible. But people need to see what's possible. That it is possible to live with integrity. That humans can still live and work well together. That we can still behave as human human beings, *Homo sapiens sapiens*.

This is why we need leaders.

And why leadership can be a noble profession.

The critical action for leaders is to ensure that what gets set in motion at the start of an organizing effort is healthy. The "self" of self-organization is the critical variable.

Who Do We Want to Be?

What are the values, intentions, principles for behavior that describe who we want to be? Once established, are these common knowledge, known by all? As we work together, do we refer to our identity to make decisions? How do we respond when something goes wrong? Do we each feel accountable for maintaining the integrity of this identity?

These questions lie at the epicenter of creating a healthy self-organizing group or organization. They bring us back to alert, open behaviors—the true sanity of any living system. A living system is a learning system.

If we are working well with emergence, these questions become part of our everyday perceptions. We don't ask them occasionally or once a year at a retreat. We all have to become more observant, more open to differing perceptions, more open to new interpretations. However, only the leader is in the position to see the whole of the organization. No matter how willing people might be, everyone is overwhelmed and consumed with their own work. Sane leadership is developing the capacity to observe what's going on in the whole system and then either reflect that back or bring people together to consider where we are now.

This is working with emergence. And self-organization. In a dynamic, organic way.

Action Learning

You have a theory of action. As you put that theory into action, as you interact with those in power, new strategies and practices become clear. You learn how the system works as you work with and challenge the system. You adapt to be more effective in reaching your goals.

Vigilance around behaviors and tactics is essential so that those acting to change things don't shift back to the old behaviors they're now opposing. You need to expect that the values and practices of the dominant culture will show up in you if you were raised in that system.

Time to reflect and learn from experience is essential. Knowing how to host exploratory conversations and support reflective processes are paramount leadership skills.

Thinking well, with insight and discrimination, are sources of power. Two essential skills are dialectical thinking to explore paradox, difference, and the evolution of issues; and systems thinking to determine root causes so energy is not wasted on superficial actions.

Note

1. Margaret J. Wheatley, *Who Do We Choose to Be?: Facing Reality, Claiming Leadership, Restoring Sanity* (Oakland, CA: Berrett-Koehler Publishers, 2017). Excerpts were taken from (in order of appearance) pages 161, 167–69, 231–32, and 160; some section heads do not come from the original publication, and some paragraphs were omitted and some were reordered.

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Social Entrepreneurship's All-American Mind Trap

by Fredrik O. Andersson and Ruth McCambridge

Social entrepreneurialism in the United States has fallen into the relatively common yet bothersome foundational trap of imaging social entrepreneurs largely as individuals rather than collectives. This, we posit, is not only archaic and sectorally misplaced but also severely limits the potential of the social enterprise movement.

In a world filled with persistent and emerging social, economic, and environmental problems, a modern crusader has emerged with the power to save the day—the social entrepreneur. After long being overshadowed by its much more visible and celebrated sibling, the business entrepreneur, social entrepreneurs have taken center stage as a new type of superhero fighting injustice, poverty, and other social evils across the globe.[1] The powers and undertakings of social entrepreneurs are communicated and illustrated via powerful stories in research and the media and supported by celebrities, policy-makers, philanthropists, and a growing number of intermediary support and funding agencies.[2]

The notion of social entrepreneurship has become an arousing and intoxicating subject that has turned the social entrepreneurship discourse into a grand narrative. Not only are social entrepreneurs celebrated as fundamental social change agents, their superhero images are further reinforced by the tendency to repeatedly frame socially entrepreneurial actions and impact in positive terms. As a consequence, as Pascal Dey and Chris Steyaert put it back in 2012, "anyone who raises questions or concerns is immediately looked at suspiciously because social entrepreneurship has, in the dominant perception, already passed the test of critical scrutiny."[3]

The *Nonprofit Quarterly* has previously highlighted the necessity of a more nuanced discussion regarding the "goodness" of social entrepreneurship as it is now framed;[4] however, the purpose of this piece is not to discuss the merit of social entrepreneurship as such but rather how it is being imaged and defined as an act primarily of an individual rather than a collective.

The issue we are focusing on here is far from new—Paul Light's 2006 article "Reshaping Social

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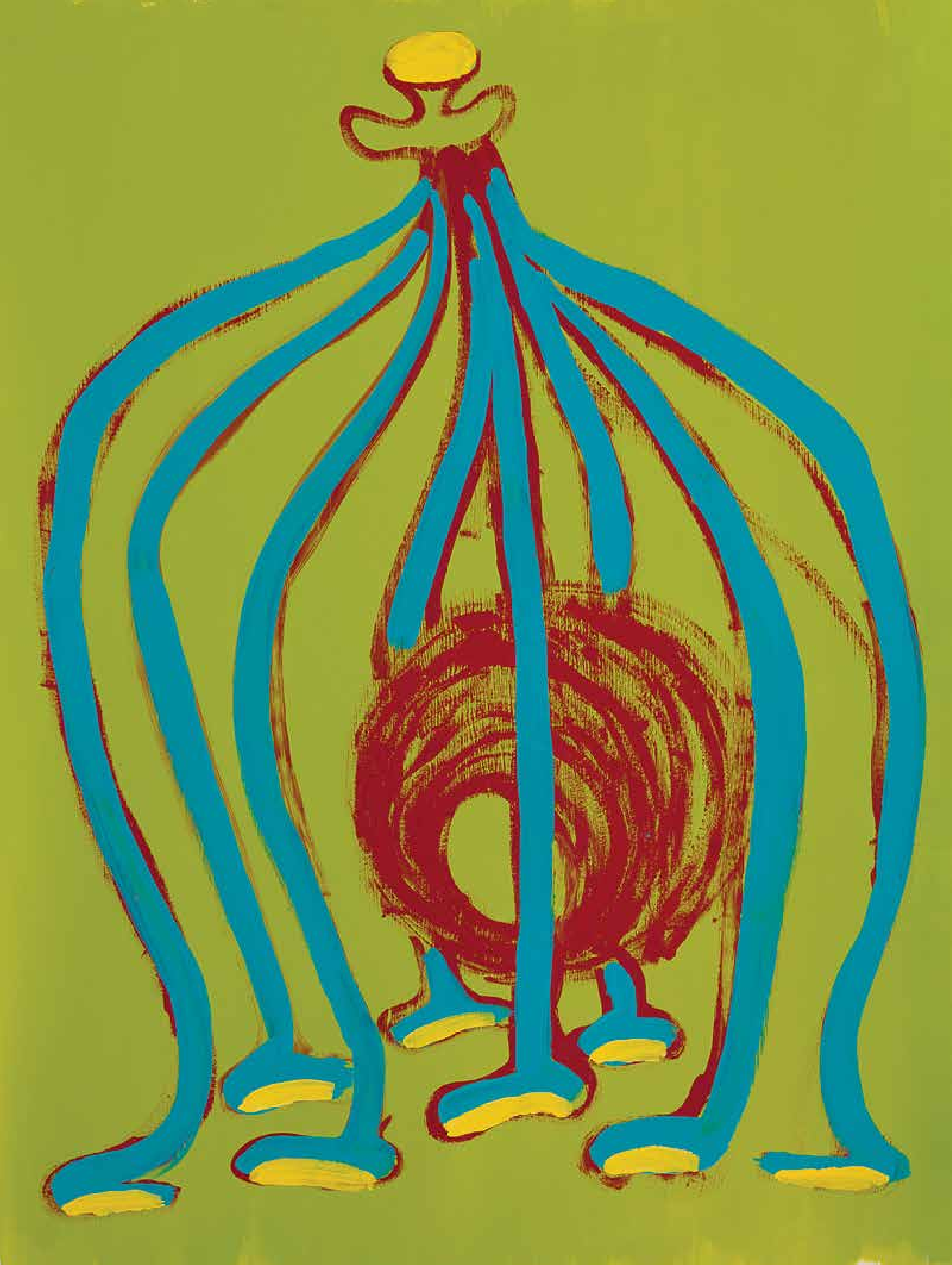

That framework of the bold individual entrepreneur as the hero of the age is profoundly ineffectual, counter-evolutionary claptrap—and not just in the civil sector, where we are all about collective action for the public good. It is plainly displaced in our time of open systems and networks.

Entrepreneurship," for example, delves into the subject—yet a reminder is much needed.[5] In seeking to communicate the deeds and value of social entrepreneurship, there is often a strong focus on the *individual* social entrepreneur. Colorful and gripping depictions present the idea of twenty-first-century supermen and -women solving the complex issues of our time. To be clear, we are not saying individuals don't matter; on the contrary, individual agency is a key component of any form of entrepreneurship. However, the fictionalized narrative of the social entrepreneur as a lone ranger needs to be disrupted and problematized—hierarchies based on the charisma, contact, and intelligence of one leader are the wrong form for the work of this sector.

Warring Frameworks

The Lone Ranger Story

That framework of the bold individual entrepreneur as the hero of the age is profoundly ineffectual, counter-evolutionary claptrap—and not just in the civil sector, where we are all about collective action for the public good. It is plainly displaced in our time of open systems and networks. In 1987, Robert Reich wrote in the *Harvard Business Review*:

> To the extent that we continue to celebrate the traditional myth of the entrepreneurial hero, we will slow the progress of change and adaptation that is essential to our economic success. If we are to compete effectively in today's world, we must begin to celebrate collective entrepreneurship, endeavors in which the whole of the effort is greater than the sum of individual contributions. We need to honor our teams more, our aggressive leaders and maverick geniuses less.
>
> The older and still dominant American myth involves two kinds of actors: entrepreneurial heroes and industrial drones—the inspired and the perspired.[6]

But the "extraordinary individual" mythology is insistent and embedded in the powerful cultural mythology of the United States—and as such, it is an easy draw for attention and capital. As a result, instead of looking to solutions that not only have collectively positive effects but that are also collectively wrought, we have seen a kind of serial sideshow of highly lauded start-ups—each of whose founders gets his or her own fifteen minutes of fame, which generally flames out within years if not months.

The Community Will Narrative

There is another cultural tradition and mythology that is just as longstanding in this country: our dependence on collective action. We are used to seeing this happen in the face of a disaster—a community rushes toward rather than away from danger, somehow dividing responsibilities and coordinating in an almost magical way. Each independent actor is autonomous, but all are looking to get as much done as possible to make things right. That is the other great American story: a community comes together and works away at the same endeavor, making use of the collective intelligence—the diverse perspectives and disciplines, but common interests—of its members. That is, after all, our national birth story, so it is something that we know resonates—but we have allowed *that* mythology to lie fallow when it comes to the economy.

But there is far more than ideology to recommend the story of the power of a committed group over the power of an individual in today's complex world. As Reich describes it:

> In collective entrepreneurship, individual skills are integrated into a group; this collective capacity to innovate becomes something greater than the sum of its parts. Over time, as group members work through various problems and approaches, they learn about each others' abilities. They learn how they can help one another perform better, what each can contribute to a particular project, how they can best take advantage of one another's experience. Each participant is constantly on the lookout for small adjustments that will speed and smooth the evolution of the whole. The net result of many such small-scale adaptations, effected throughout the organization, is to propel the enterprise forward.[7]

And that may also, in the long run, make it more sustainable over time—multiple anchors of commitment informed by multiple points of view and streams of information.

When you add to this the advancements in technology that we have seen over the past twenty years and the increasing cultural acceptance of open systems and networked endeavors, we see something so much more intriguing and promising in practice than a simple hierarchy led by one extra-driven individual. As Reich put it:

> [U]nder collective entrepreneurship, workers do not fear technology and automation as a threat to their jobs. When workers add value through judgment and knowledge, computers become tools that expand their discretion. Computer-generated information can give workers rich feedback about their own efforts, how they affect others in the production process, and how the entire process can be improved.[8]

Thus, the social enterprise sector may be floundering because it has quite simply missed the boat when it comes to its founding narrative and the structural assumptions that flow from that.

Wicked Problems

There are any number of other reasons why philanthropy and venture philanthropy should be spending more concentrated time in exploring collective entrepreneurship. The nature of the problems we are trying to address in this sector require that we stay grounded in the changing realities and dialectics of communities, and that takes a collective intelligence and commitment.

In the early 1970s, Horst Rittel and Melvin Webber employed the term *wicked problems* (coined by Rittel in the mid-1960s) to describe issues with innumerable causes—problems that are tough to fully comprehend and define, and that don't have a single and/or correct answer.[9] There are plenty of wicked problems, many of which social entrepreneurs are said to be seeking to remedy, including poverty, hunger, racism, and environmental deprivation. According to Rittel and Webber, wicked problems have several core properties, four being outlined below, as summarized by John C. Camillus in the *Harvard Business Review*:

- Every wicked problem is essentially unique. An ordinary problem belongs to a class of similar problems that are all solved in the same way. A wicked problem is substantially without precedent; experience does not help you address it.
- Every wicked problem can be considered to be a symptom of another problem. While an ordinary problem is self-contained, a wicked problem is entwined with other problems. However, those problems don't have one root cause.
- The existence of a discrepancy representing a wicked problem can be explained in numerous ways. A wicked problem involves many stakeholders, who all will have different ideas about what the problem really is and what its causes are.
- The planner has no right to be wrong. Problem solvers dealing with a wicked issue are held liable for the consequences of any actions they take, because those actions will have such a large impact and are hard to justify.[10]

Given the above properties, a main implication of wicked problems is the difficulty for any single agent (individual or organization) to effectively address them. In other words, it is virtually impossible for a single social entrepreneur—superhero or not—to make a dent in a wicked problem let alone progress toward any sort of solution. Instead, attacking major issues such as poverty requires support and actions more or less coordinated by multiple players. Hence, it is time we recognize the almost ironic tendency of defining social entrepreneurship as the activity of lone rangers and instead embrace the notion of social entrepreneurship as a collective endeavor.

Refitting Our Organizational Mind-Sets

In a recent interview with the *Nonprofit Quarterly*, Douglas Rushkoff said that he sees nonprofits with their roots in the commons as natural hosts to businesses that are socially responsible:

> I mean, it seems like simple logic, but it's looking at a resource as something that we want to maintain over time. We want

The nature of the problems we are trying to address in this sector require that we stay grounded in the changing realities and dialectics of communities, and that takes a collective intelligence and commitment.

The work of fine-tuning practices for collectively managed structures has not yet had the kind of investment it needs from philanthropy, but it is not without a tradition to build upon. In fact, in much of the rest of the world, the term *social enterprise* more quickly brings to mind the cooperatively rather than the individually led and conceived entity.

> to maximize the value that everybody can create, as opposed to . . . well, the way a short-term company looks at something. The ideal scenario for them, I guess, is when you go to someone else's country, you mine for things and you mine for things in such polluting ways that you make it impossible for the local community to do subsistence farming anymore. So now everybody has to work for your company if they want to have an income, and then even after you're gone, they don't have a way to sustain themselves, so they become utterly dependent on you and the World Bank or foreign lenders in order to buy chemicals or whatever they need to try to grow on their polluted topsoil. It's the anti-commons view.[11]

Though some socially entrepreneurial ideas start inside the head of an individual, many start as an excited discussion between people who put a concept or concepts together from different disciplines and commitments. Ideas are cheap unless you can make your idea the idea of others. In the entrepreneurship literature, the term *liability of newness* is often used to emphasize the lack of legitimacy facing those seeking to transform new and innovative ideas into reality. At the very beginning, the individual social entrepreneur may have nothing to offer but promises and hopes, so he or she needs the support of others to move forward. In a fascinating TED Talk titled "How to Start a Movement," the entrepreneur Derek Sivers observes that if we focus our energy on individual leaders, we may not end up with much, as the true impact of a movement lies in building coalitions with others.[12]

And those entrepreneurial ideas built, nurtured, adjusted, cried about, sweated over, and generally maintained in concert with others come with their ready-made group of adherents.

This is not to say that collective entrepreneurship comes without its own sets of inherent problems. The work of fine-tuning practices for collectively managed structures has not yet had the kind of investment it needs from philanthropy, but it is not without a tradition to build upon. In fact, in much of the rest of the world, the term *social enterprise* more quickly brings to mind the cooperatively rather than the individually led and conceived entity.

And there is much to consider here. In their paper "A Primer on Collective Entrepreneurship," Molly Burress and Michael Cook point out, "Collective entrepreneurship is described as a mode of engagement in which members of the collective operate with a high degree of autonomy," and that we need to better understand over time "the most effective mechanisms for 1) motivating individuals to act in the best interest of a group, 2) developing the notion of a collective fate among stakeholders, and 3) maintaining structures that organize individual entrepreneurial activity without succumbing to the rigidity of hierarchy."[13]

• • •

Thus, rather than focusing on who the social entrepreneur is, a much more interesting question is why and how do various stakeholders come together in pursuit of socially entrepreneurial ends? How might philanthropy change its image of entrepreneurialism from an individualistic notion to a collective one, so that what we see at the end of the capitalization of new ideas is sustainable shared ownership or stewardship enterprises that have been and are continually fine-tuned to fit a system?

This article only begins to explore some of these issues; we want to begin to push the point that while innovation and entrepreneurial activity are native to the nonprofit sector, we undercut that by consistently raising up the individual as the driver of action. That does not fit with what we now see as leadership in the sector, where movements are built collectively overnight, and even the most powerful of those involved are less and less being imaged as the driver.

In this case, the uncertainty of our world requires the many to envision solutions that can work well in individual communities while spreading across boundaries. We know, generally, how this is done—so why is social enterprise exempt in this building of an interconnected future?

Notes

1. See *The New Heroes*, Public Broadcasting Service (PBS), 2005, www.pbs.org/opb/thenewheroes/; and

Trish Ruebottom, "The microstructures of rhetorical strategy in social entrepreneurship: Building legitimacy through heroes and villains," *Journal of Business Venturing* 28, no. 1 (January 2013): 98–116.

2. M. Tina Dacin, Peter A. Dacin, and Paul Tracey, "Social Entrepreneurship: A Critique and Future Directions," *Organization Science* 22, no. 5 (September-October 2011): 1203–13.

3. Pascal Dey and Chris Steyaert, "Social entrepreneurship: critique and the radical enactment of the social," *Social Enterprise Journal* 8, no. 2 (2012): 90–107, 91.

4. Fredrik O. Andersson, "Social Entrepreneurship as Fetish," *Nonprofit Quarterly* 18, no. 2 (2011): 64–68.

5. Paul C. Light, "Reshaping Social Entrepreneurship," *Stanford Social Innovation Review* 4, no. 3 (Fall 2006): 47–51.

6. Robert B. Reich, "Entrepreneurship Reconsidered: The Team as Hero," *Harvard Business Review* 65, no. 3 (May 1987), 77–83.

7. Ibid.

8. Ibid.

9. Horst W. J. Rittel and Melvin M. Webber, "Dilemmas in a General Theory of Planning," *Policy Sciences* 4, no. 2 (June 1973): 155–69.

10. John C. Camillus, "Strategy as a Wicked Problem," *Harvard Business Review* 86, no. 5 (May 2008): 98–106.

11. Douglas Rushkoff, "The Sustainability Prerogative: Nonprofits in the Future of our Economy," interview with Douglas Rushkoff, *Nonprofit Quarterly*, April 25, 2017, nonprofitquarterly.org/2017/04/25/douglas-rushkoff-non-profit-sustainability/.

12. Derek Sivers, "How to Start a Movement," TED video, 3:09, filmed in February 2010, www.ted.com/talks/derek_sivers_how_to_start_a_movement.

13. Molly J. Burress and Michael L. Cook, "A Primer On Collective Entrepreneurship: A Preliminary Taxonomy" (working paper, University of Missouri, Department of Agricultural Economics, 2009), 23, 25.

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THE Nonprofit QUARTERLY

Risk & Reward:

Positioning Your Nonprofit for Sustained Impact

by Katie Leonberger and Jeff Ballow

To have a true understanding of how best to engage with the most critical risks, nonprofits must understand the relationship between risk and opportunities, and become adept at identifying and engaging with risk in a sector in which risk and uncertainty are inherent. This article offers a framework for doing just that.

MARY HUNG UP THE PHONE, STUNNED BY THE NEWS THAT HER NONprofit's largest funder was dramatically reducing funding because of a change in giving focus. This funder's annual gift, which comprised 60 percent of the organization's annual revenue, was crucial to funding the nonprofit's renovations to its newly inherited building, making it safe for the public. This building, an unimaginable gift that had arrived twelve months earlier, would enable the historical society to revive its programs and better serve its community. Now the dream of its renovation seemed impossible, and the additional fixed costs that the building represented made it a threat to the organization's survival rather than an opportunity for expansion.

Mary's story is far from unique in the nonprofit sector; in fact, it is extremely common. While we most often hear dramatic stories about the closures of large nonprofits that affect thousands of clients and hundreds of employees—as in the case of Federation Employment and Guidance Service Inc. (FEGS)—nonprofits of all sizes and issue areas are challenged with risks on an ongoing basis.[1]

KATIE LEONBERGER is president and CEO of Community Resource Exchange (CRE). **JEFF BALLOW** is director of consulting for strategy and risk management at CRE.

"COYOTE'S DANCE" BY MARINA NOVIKOVA/WWW.SAATCHIART.COM/ACCOUNT/PROFILE/293875

In a sector in which risk is inherent and uncertainty is a constant . . . identifying and engaging with risk have never been more important for nonprofits. Not doing so undermines our sustainability, along with the well-being of the people we serve.

Foundations decide overnight that their attention and money are needed elsewhere, and governments at every level decide anew their priorities each time an administration changes hands; loss of funding can happen at the worst possible time. Events like this devastate not only the organization in question but also its clients, its employees, and its donors.

To fully engage with risk questions, nonprofits need to take an intentional approach and become more strategic in their consideration of their own business model—how mission and financial sustainability interact—and their specific contexts. For example, board and staff need to become intimate with the dynamics of the organization's budget and the relationships and circumstances that underlie those dynamics. Similarly, to have a true understanding of how best to engage with the most critical risks, nonprofits need to push themselves to understand on the one hand how all areas of operation interrelate and affect mission achievement and on the other hand how to maximize opportunities—by intentionally taking risks—that will further mission achievement and organizational sustainability. Only in this way can they responsibly engage with risk and opportunities—linked as they so often are.

Why Risk Leadership Matters

In a sector in which risk is inherent and uncertainty is a constant—particularly as we see more changes coming out of Washington—identifying and engaging with risk have never been more important for nonprofits. Not doing so undermines our sustainability, along with the well-being of the people we serve.

Even before the November election, numerous examples of nonprofit closures confirmed the need for nonprofit boards, leaders, and staff to better understand how to identify, assess, and engage with risk. We have seen this in our work at Community Resource Exchange (CRE) as our client organizations grapple with challenges such as inconsistent funding or multiyear contracts with flat funding, capped overhead rates, changing community needs, and increasing demand, to name a few. This manifests in real-life examples, such as a $14 million local workforce-development agency that had to close its doors after suffering a massive loss in cash. The cash loss followed from investment in a new office at the same time that a major grant was cut. Combined, these losses made it impossible to weather the shocks, given the nonprofit's already tenuous financial health after years of overreliance on government funding. Another example is a youth-serving organization that is now pursuing a merger to preserve core services after losing its 501(c)(3) status as a result of failing to file its 990 or fulfill basic contract commitments—all of which might have been avoided had the board been informed and proactively engaging with risk all along. From these organizations, as well as nonprofits that are performing well, we've seen a desire to learn more about risk and not only how to intentionally manage it but also how to make the switch from risk management to risk leadership. For example:

- Between 2015 and 2016, New York's Human Services Council (HSC) brought together thirty-two seasoned human services executives, social sector leaders, and experts in nonprofit management to form its Commission on Nonprofit Closures. This group recommended, among other things, that nonprofit boards and staff "be engaged in risk assessment and implement financial and programmatic reporting systems that enable them to better predict, quantify, understand, and respond appropriately to financial, operational, and administrative risks." Assessing, managing, and mitigating risk was identified as a crucial endeavor for all nonprofits, regardless of size, age, or issue area.[2]
- Follow-on articles and reports have supported the imperative, such as a paper published by Oliver Wyman and SeaChange Capital Partners in 2016, titled *Risk Management for Nonprofits*, and Ted Bilich's "A Call for Nonprofit Risk Management" in *Stanford Social Innovation Review*.[3] Grantmakers also have identified the need for risk management; for example, in January 2017, the Open Road Alliance and Arabella Advisors published *Risk Management for Philanthropy: A Toolkit* to promote best practices and conversations around risk management between funders and their nonprofit grantees.[4]

- Nonprofit conferences and convenings have further supported this need. For example, Ahead of the Curve (AOTC), a consortium of New York City–based capacity-building organizations, came together last year to host a convening to "advance [the] collective knowledge of the discipline of risk management" within the nonprofit sector.[5] The two hundred nonprofit leaders, consultants, and academics who attended were all hungry to learn.
- At the national level, groups like the Alliance for Nonprofit Management are similarly discussing and preparing to better support nonprofits as they assess and engage with risk.

CRE's own conversations with nonprofit leaders about risk, and the discussions highlighted above, confirm that: (1) nonprofits both need and desire to better engage with risk, in order to embrace risk leadership, and (2) we need a framework and tools to do so.

The intentionality implied in the above discussions suggests a change in perspective for nonprofit leaders to move beyond viewing risk management as crisis management and embracing it as necessary, forward-looking planning. This is a positive development. When organizations practice risk leadership and consistently and strategically engage with risk, they not only head off potential crises but also position their organizations to successfully fulfill their missions, grow strategically, respond to evolving community needs, and present their organizations as smart investments to savvy donors and funders.

For many organizations, this will require a significant shift—with staff and board leadership partnering closely to understand the organization's risk profile and continually engaging with questions of risk throughout the year. In addition, many boards will have to think more expansively about risk, moving from a fiduciary-focused view (a safer and more comfortable place for many boards) to also grappling with questions of risk related to the organization's mission and strategic direction. Staff play a critical role in helping to shape and inform these conversations by providing context, perspective, and useful data. Staff and board leadership may have to reframe the board's perception of its role related to risk, helping board members understand the necessity and value of moving beyond considerations solely regarding financial risk and into the larger questions of mission and strategy. In our work on the ground with clients, some boards understand this right away while other boards need more coaching and support.

Consider a youth development organization that chooses to turn down a government contract that doesn't cover the full cost of service delivery. While in the short term this could seem detrimental to mission fulfillment, it allows the organization to concentrate its energy on maximizing impact for grants and contracts that do cover full costs, while building the organization's financial strength for the future. Or, consider a supportive housing group that proactively identifies where the risk may lie in building out a new service offering. Rather than shy away from the risk inherent in innovation, the group can demonstrate risk leadership—after an informed assessment—by pursuing the new offering while mitigating any identified risks, in order to reach the best outcome for its clients.

The practice of risk engagement is not limited to organizational leadership; it should be inculcated across all levels of staff so that it becomes interwoven into the very fabric of organizational culture. At its core, risk management is the preventive care that every nonprofit needs to remain fit and healthy. Indeed, as we enter an uncertain period when nonprofits and the communities they serve respond to new threats, the ability to engage with risk is more important than ever.

A Framework for Risk Engagement

What, then, is risk? At CRE, we define risk as an organization's exposure to a single catastrophic event or multiple events of consequence that can harm the viability of an organization. This is similar to the definition offered by SeaChange and Oliver Wyman in their report, which defines risk as "unexpected events and factors that may have a material impact on an organization's finances, operations, reputation, viability, and ability to pursue its mission."[6] While we often think of a

When organizations practice risk leadership and consistently and strategically engage with risk, they not only head off potential crises but also position their organizations to successfully fulfill their missions, grow strategically, respond to evolving community needs, and present their organizations as smart investments to savvy donors and funders.

single event—such as Hurricane Sandy, which devastated hundreds of nonprofits and their communities in 2012—multiple smaller events can lead to the same outcome. In short, unanticipated risks can derail achievement of strategy and mission and can threaten an organization's sustainability.

To be sure, many nonprofits have been managing risk informally for years; if they weren't, our sector wouldn't be as robust or impactful as it is. But while some organizations may even engage with it intentionally—perhaps through a chief compliance officer, board risk management committee, and annual reviews—this certainly is not the norm.

To be sure, many nonprofits have been managing risk informally for years; if they weren't, our sector wouldn't be as robust or impactful as it is. But while some organizations may even engage with it intentionally—perhaps through a chief compliance officer, board risk management committee, and annual reviews—this certainly is not the norm. It is for this reason that we have invested time in defining, identifying, and classifying risks in the nonprofit sector.

CRE has developed a simple yet powerful framework and tool to help organizations think about risk intentionally and holistically. The CRE Fitness Test (CREFT) considers risk indicators and organizational activities across six operational categories and delivers an overview of a nonprofit organization's risk preparedness. A key term here is the word *holistic*. We often hear nonprofit leaders discussing risk in a financial context—and, to be sure, finance is a key area in which risk may lie; however, risk can be found throughout all areas of a nonprofit's operations, and it is often the nonobvious areas that can catch an organization by surprise.

The CREFT framework comprises six categories of risk: *Leadership, Governance & Strategy*; *Personnel & Administration*; *Finance*; *Compliance & Legal*; *Programs & Services*; and *External Environment*. These categories are outlined in the table below. This framework has been tested with dozens of nonprofits and forms the basis for depicting a nonprofit's level of risk preparedness. It is also the shared framework for risk that AOTC steering committee members will use going forward.[7]

This framework is meant to help a nonprofit proactively identify where it is vulnerable to risk, taking a comprehensive look at the organization. It is most effective when this is done at all levels of an organization and with input from staff and board. This process builds awareness about the many facets of organizational risk that nonprofit boards and staff should track and assess; it also enables an organization to complete the first step of a three-step process—identifying where the organization is vulnerable to risk. The next two steps involve leadership and staff assessing the potential impact and probability of those risks, followed by decisions on how to manage or mitigate the risks they consider most urgent or important.

Category	Description
Leadership, Governance & Strategy	Risks in the areas of organization-wide policy making, planning, monitoring, and oversight—including fiduciary responsibility and board engagement
Personnel & Administration	Risks in the areas of human resources policies/practices; safety; real estate and facilities; administrative policies, practices, or performance; and data and information security
Finance	Risks in the areas of financial practices, performance, oversight and controls, monitoring, and reporting
Compliance & Legal	Risks in the areas of quality monitoring and improvement; legal, regulatory, and industry requirements; and compliance with contractual or grant obligations
Programs & Services	Risks in the areas of program monitoring and quality, including mechanisms for quality assurance and decision making
External Environment	Risks originating in or from the community, market or sector shifts, and communications, including reputational risk

Exploring Where Risks Cluster

In the summer and early fall of 2016—after close to a year of developing CREFT, with input from nonprofit leaders—CRE consultants, laptops in hand, tested the assessment with ten nonprofits throughout New York City. These organizations, as a group, were very diverse. They included organizations that were founded in the nineteenth century as well as those started during the Obama administration. The largest group that responded has a budget of $34 million and a staff size of nearly eight hundred people, while the smallest organization operates with a budget of $1.5 million and a staff of about twenty. These nonprofits represent a great variety of issue areas, including education, health, housing, and community organizing. In all cases, the responding staff member was the executive director or another member of the senior management team.

The ten organizations took a survey with one hundred and fifty questions grouped into the aforementioned six categories, and within those six categories are approximately twenty-five subcategories. Under *Compliance & Legal*, for example, questions are grouped into two subcategories: *Contracts & Grants* and *Legal & Regulatory*. For the most part, respondents answered questions based on frequency—ranging from always to never—of the presence or absence of specific practices and policies, as well as some key indicators of organizational health (e.g., number of days of cash on hand). The resulting scores provide a picture of an organization's susceptibility to risk, or vulnerability.

After the testing sessions, respondents described a range of feelings: from validation ("We're doing a lot of these practices"), to curiosity ("I'd like to know more about many of these practices"), to concern ("We clearly need to tighten up our practices in certain areas"). In addition to this helpful feedback about the experience of taking CREFT, we found that the very act of completing such an assessment helps to raise awareness about risk—for example, its many dimensions, where it might lie—among nonprofit leaders. Through this testing, we also received data that allowed us to develop preliminary hypotheses about where risk clusters. The paragraphs below summarize these initial findings and provide some supporting data to illustrate these observations. We insert additional perspective where useful, pulling from the input provided by the dozens of nonprofit leaders and managers with whom we have discussed risk over the last year.

Overall Risk Picture

As we reflect on the data in aggregate, one key observation jumps out: Nonprofits seem to be up-to-date and performing well for required or basic organizational practices that involve staying in compliance with legal and regulatory requirements or the basic terms of funder grants or government contracts (for example, reporting on fundraising activities and having a process for maintaining client eligibility, current for each program and service). Yet these same organizations are less consistent at implementing practices or procedures that seem more optional—for example, having the board complete annual compliance training; having some type of annual program evaluation to improve programs; or using decision-making criteria to determine whether programs should be opened, closed, or maintained. As we think about what's required to build strong organizations that can weather challenges over the long term, these latter capacities are key to ensuring sustainability. Relatively lower scores in this area give pause for concern as we think about the health of the sector overall.

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Areas of Lower Risk

Among the nonprofits that have taken CREFT to date, the following groups rated themselves highest on effectively managing risks in the categories of *Personnel & Administration*, *Compliance & Legal*, and *Programs & Services*.

Personnel & Administration. *Personnel & Administration* is a broad category containing questions about data and cybersecurity, staff management, safety, and labor-law compliance, among others. Groups reported consistently strong practices across these subcategories, and, in particular, seem adept at providing a strong policy environment around HR management and staying in compliance with labor laws and

Taken together, the picture that emerges within the finance area is one of organizations meeting short-term needs but less clearly delivering on longer-term financial planning and sustainability practices.

standards. Risk abounds for organizations that do not have a firm handle on HR law, so the positive practices here struck us as significant.

Compliance & Legal and Programs & Services. Not unlike the data for *Personnel & Administration*, the *Compliance & Legal* data suggest that the respondent organizations are staying on top of government financial reporting requirements and complying with key legislation such as New York's Non-profit Revitalization Act of 2013. Moreover, and important from a risk perspective, these groups seem to be actively monitoring legislative activity and adapting to new demands and requirements. In the *Programs & Services* category, the responding groups once again are effectively managing some of the most significant risks—investigating client-related incidents and ensuring that clients are eligible to use their services. However, they tend to rate themselves lower around practices such as program evaluation, planning, and quality assurance, which could carry risks for these organizations down the road.

Areas of Higher Risk

Among the six categories, respondents rated their organizations lower in *Finance*; *Leadership, Governance & Strategy*; and *External Environment*.

Finance. In the *Finance* category, three items stood out as potentially significant challenges—all of which fall within *Oversight & Internal Controls*, the lowest-scoring subcategory.

- It appears that these respondent organizations do not consistently test their internal controls—those critical checks and balances that help organizations reduce the risk of fraud and negligence. CRE has worked with many organizations in which theft or even haphazard accounting/bookkeeping have caused or hastened an organization's decline. Strong internal controls that are periodically tested help to prevent these situations.
- In addition, organizations do not seem to consistently monitor the costs of their employees' fringe benefits as compared to the amounts allocated for that same expense in their grants and contracts. This could present a significant risk for organizations, especially those in more budget-constrained environments. Not having the resources to cover benefits would present a challenging set of decisions for leadership, and if optional benefits are cut or reduced, employee retention and/or morale would likely suffer, too.
- Finally, respondents report that systems between finance and program generally are not integrated, and moreover, that financial reports are not routinely provided to all departments—presumably program included. This lack of coordination and information flow between two critical organizational functions—not uncommon but of note nonetheless—could result in excess spending and unmet contract milestones (and, ultimately, reduced revenue).

Taken together, the picture that emerges within the finance area is one of organizations meeting short-term needs but less clearly delivering on longer-term financial planning and sustainability practices.

Leadership, Governance & Strategy, and External Environment. An inconsistent or weak flow of financial information between the staff and board can present significant risks for any organization, yet our test groups appear to manage this critical ongoing information exchange reasonably well. However, the boards of our test organizations seem to be getting less information about key items with potentially significant financial implications—for example, insurance claims and client and staff incidents (e.g., on-the-job injuries). This, of course, compromises the ability of these boards to provide the kind of risk leadership that their organizations really need.

Interestingly, our test organizations rated themselves lower on the use of critical management practices such as strategic and business planning, the use of key performance indicators, and even risk-management planning. These organizations could be caught flat-footed should the environment shift or change suddenly. The role of the board in helping to push for and fully participate in planning of all kinds and performance monitoring is unquestionably important.

The data suggest these organizations may be caught off guard, too, if they receive unfavorable press or are required to communicate externally about an organizational crisis. Given potential risks for our sector that are or could be coming out of Washington, it may now prove critical for nonprofits to develop and demonstrate risk leadership in these areas.

Finally, within the *External Environment* category, disaster/extreme weather scenarios are a clear area of vulnerability. The majority of groups reported that they are susceptible to extreme weather, but few (20–40 percent) maintain up-to-date plans to respond to facility emergencies and safety concerns, or believe that senior managers are familiar with disaster response and recovery plans. Even fewer (about 20 percent) schedule regular tests for emergency alerts and disaster response.

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These CREFT results indicate that organizations are attending to core aspects of organizational functioning, especially what is required (e.g., mandated reporting, labor-law compliance)—yet some critical challenges emerge, such as internal controls. Some of the organizational challenges highlighted in the data have a canary-in-the-coal-mine feel to them. For example, does an under-reliance on planning—from strategic to business to risk management—portend deeper challenges for these organizations and their staff and board leaders down the road?

In the months ahead, CRE expects that more organizations will complete CREFT, adding to this growing set of data about how nonprofits are engaging with risk, and providing us with the opportunity to draw more robust conclusions about the need for risk leadership in our sector. While a small sample, our ten test organizations nonetheless provide a glimpse into areas of both effectiveness and challenge related to nonprofit risk management. Our hope is that this preliminary, holistic look at nonprofit risk helps other organizations begin to think about their own vulnerabilities, overall risk profile, and the need for risk leadership.

Notes

1. See, for example, Theresa Agovino, "Major social-service nonprofit to shut down," *Crain's*, January 30, 2015, www.crainsnewyork.com/article/20150130/NONPROFITS/150139985/major-social-service-nonprofit-to-shut-down.
2. *New York Nonprofits in the Aftermath of FEGS: A Call to Action* (New York: Human Services Council, 2016), 26. (CRE president and CEO Katie Leonberger cochaired the Leadership and Management Committee of this commission.)
3. Dylan Roberts et al., *Risk Management for Nonprofits* (New York: Oliver Wyman and SeaChange Capital Partners, 2016); and Ted Bilich, "A Call for Nonprofit Risk Management," *Stanford Social Innovation Review*, July 13, 2016. (The Oliver Wyman/SeaChange report highlighted that most New York City nonprofits are financially fragile and do not have practices in place to assess and mitigate risk—for example, setting financial targets, benchmarking, scenario planning. Ted Bilich identified high-profile nonprofit failures as a call for active risk management, and offered recommendations on when in an organization's life cycle it is best to engage in risk management—and how to begin doing so.)
4. *Risk Management for Philanthropy: A Toolkit* (New York: Arabella Advisors and Open Road Alliance, 2017). (This report covers how the absence of risk management practices is a systemic failure across the philanthropic sector. The resulting toolkit focuses on providing guidance to funders on how to implement best practices in risk management.)
5. Wendy Seligson, *Ahead of the Curve Symposium: Defining, Assessing and Managing Risks at Nonprofits* (New York: Ahead of the Curve, 2017). (CRE served on the Steering Committee of AOTC.)
6. Roberts et al., *Risk Management for Nonprofits*.
7. Seligson, *Ahead of the Curve Symposium*, 9.

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Risk, Uncertainty, *and* Nonprofit Entrepreneurship

by Fredrik O. Andersson

Nonprofit entrepreneurship is an experimentally oriented process that takes time to develop and does not lend itself well to quick and certain gain. These "properties of uncertainty," the author writes, "make it exceedingly difficult for any nonprofit entrepreneur to convey and communicate his or her entrepreneurial vision in such a way that other actors (e.g., funders) are able to assess its value and implications." Until this inherent polarization is properly conceptualized, a general misunderstanding of the implications of entrepreneurialism will continue to plague the field.

[As] we know, there are known knowns; there are things we know we know. We also know there are known unknowns; that is to say we know there are some things we do not know. But there are also unknown unknowns—the ones we don't know we don't know.

—Donald Rumsfeld[1]

I'll admit, I don't normally look to former defense secretary Donald Rumsfeld for keen scholarly insight. However, Rumsfeld's now (in)famous passage eloquently illuminates what this article is all about: the importance of separating the risky from the uncertain. As Nicolai Foss and Peter Klein noted in *Organizing Entrepreneurial Judgment: A New Approach to the Firm*, the above quote also captures and helps explicate a principal function of entrepreneurship.[2] Drawing from the seminal work of Chicago economist Frank Hyneman Knight, the goal of this article is twofold: first, to discuss the difference between risk and uncertainty; and second, to deliberate on why the latter is essential for comprehending nonprofit sector entrepreneurship.[3]

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The Difference Between Risk and Uncertainty

Frank Hyneman Knight (1885–1972) is perhaps not the most recognized economist of the twentieth century. Yet, as a scholar he provided early and important contributions to the study of financial markets and entrepreneurship. He also mentored several noteworthy students at the University of Chicago, including Nobel Prize recipients James M. Buchanan, George Stigler, and Milton Friedman. One key area of interest for Knight was economic dynamism, and in particular the link between economic change and knowledge. Rooted in his doctoral thesis, Knight's book, *Risk, Uncertainty, and Profit* (1921), argued for—and introduced—his now illustrious distinction between risk and uncertainty.

To elucidate the difference between the concepts, Knight focuses on three types of probability, in which circumstances involving two of the types can be said to capture risky situations, and

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[T]rue uncertainty can never be removed, addressed, or eradicated through the use of a priori or statistical probability; nor can it be insured against. Instead, when dealing with uncertainty, we must rely on judgment and put the resources we control in play in anticipation of future uncertain returns.

circumstances involving the third type can be said to capture situations entailing uncertainty. *A priori probability* reflects situations where one can assess the probability of an event in a deductive manner. Imagine visiting a casino: When playing blackjack or standing at the roulette table, you not only know where these events will take place (i.e., you can define the state space—set of all possible configurations—of the game) but you can also come up with the probability of where the ball will land or the probability of pulling a certain card from the deck (which is the basis for the codified basic strategy in blackjack). Hence, roulette (for example) involves taking a risk knowing what you know with regard to the probability that the ball will land on red or black (and this number or that number).

The second type is *statistical probability*, which reflects situations in which the probability emerges as the result of experiences and events. In other words, by looking at and learning from empirical data, we can start to figure out and calculate the probability of certain situations. Consider, for example, how an insurance company operates. By studying and learning from data using numerous repeated events, such as car accidents, an insurance company can get a pretty good understanding of the probability of car accidents in different situations. Again, driving and owning a car involve risk, but by joining with others and pooling these risks, we are also able (or at least given the option) to insure against them.

The final type of probability is *estimated probability*, which Knight depicts in the following way:

> The distinction here is that there is *no valid basis of any kind* for classifying instances. This form of probability is involved in the greatest logical difficulties of all, and no very satisfactory discussion of it can be given, but its distinction from the other types must be emphasized and some of its complicated relations indicated.[4]

Situations with estimated probability are not risky but, rather, uncertain, and shaped by "the fact of ignorance and necessity of acting upon opinion rather than knowledge."[5] What Knight here suggests is that true uncertainty can never be removed, addressed, or eradicated through the use of a priori or statistical probability; nor can it be insured against. Instead, when dealing with uncertainty, we must rely on judgment and put the resources we control in play in anticipation of future uncertain returns.

Uncertainty and Nonprofit Entrepreneurship

So what does this have to do with entrepreneurship? To answer this question, we need to start by saying something about the time when *Risk, Uncertainty, and Profit* was first published. During the early twentieth century, many economists had started to discuss how new economic value could be generated under conditions of perfect competition. Several economic models of the time postulated that competition on the free market would always reduce profits to zero—that is, reach an equilibrium with no profit. Hence, an obvious question arose: How does new profit come about? Knight offered the following answer:

> Profit arises out of the inherent, absolute unpredictability of things, out of the sheer brute fact that the results of human activity cannot be anticipated and then only in so far as even a probability calculation in regard to them is impossible and meaningless.[6]

Knight is postulating that in order to unlock and potentially extract profits, one must engage in uncertain market activity. That is, decisions must be made and actions must be taken not knowing what the expected total returns will be, how much to produce, what quantity of product input to purchase, and so on. This is, in essence, the function of the Knightian entrepreneur: the undertaker under uncertainty. What distinguishes entrepreneurship from other economic phenomena is the activity of bearing uncertainty—or what economist Peter Klein identifies as "judgmental decision making under conditions of uncertainty."[7] Put somewhat differently, entrepreneurship clarifies how new value (in this case, taking the form of profit) is generated by directing our attention to the notion that entrepreneurs can be compensated with concomitant rewards and returns for having the prudence and willingness to take action, bestow resources up front, and put their reputation on the line in the face of uncertainty, where judgment represents their only available guide.

Today, Knight's work is considered one of the classical economic theories of entrepreneurship (alongside work of other scholars such as Joseph Schumpeter, Ludwig von Mises, and Israel Kirzner). Clearly, these theories focused on entrepreneurship from the perspective of firms operating in the private market, which raises the question of whether insights from these theoretical contributions have any utility in studying the various strands of social entrepreneurship, including those seeking to apply the entrepreneurship concept to the nonprofit sector. Several scholars maintain that the answer to this question is yes. Gordon Shockley and Peter Frank, for example, posit that "the tenets of the *[sic]* Schumpeter's and Kirzner's classical economic theories are perfectly suited to giving coherence to social entrepreneurship theory, indeed possibly for all forms of 'non-market' entrepreneurship."[8] Likewise, Wolfgang Bielefeld makes the observation that because social entrepreneurship stands on the shoulders of business entrepreneurship, "at the very least, all of the factors associated with entrepreneurship are potentially relevant to social entrepreneurship as well."[9]

Furthermore, there is an apparent need for more theory discussion, clarification, and development in the social sector entrepreneurship field. Certainly, over the past decade, progress has been made. Still, social entrepreneurship (in particular) is often used more as a slogan or inspirational catchphrase than a theoretical framework for testing and building a rigorous body of academic knowledge. Theory development is not an easy or rapid process, and whether it is possible to link social sector entrepreneurship to economic entrepreneurship theory remains to be seen.

However, this author believes the Knightian perspective has much to offer those interested in nonprofit entrepreneurship, because, just like for-profits, nonprofits seek and control resources and deploy those resources in anticipation of uncertain gains, trying to avoid losses.

Undoubtedly, as we overlay and apply the Knightian template to the study of nonprofits, there will be areas and features that do not align, fall outside its boundaries, generate tension, and so on—but herein also lie opportunities and challenges for nonprofit scholars to twist, turn, and debate. Thus, in the final section of this article, I will point out some of the key implications of the Knightian approach for studying nonprofit entrepreneurship.

Nonprofit Entrepreneurship: Being Different, Starting Organizations, Marshaling Resources, and Lighting Fires

Many discussions about nonprofit entrepreneurship center on the quality of newness, but I view nonprofit entrepreneurship to be much more about *difference*, and the question of how difference is generated. As economist Mark Casson notes: "The entrepreneur believes that he is right, while everyone else is wrong. Thus the essence of entrepreneurship is being different—being different because one has a different perception of the situation."[10] In *Organizing Entrepreneurial Judgment*, Foss and Klein discuss why shouldering uncertainty is key to understanding entrepreneurship. According to Foss and Klein, the most vital feature of Knight's distinction between risk and uncertainty is not whether probabilities can be calculated but rather how they are estimated and ultimately shared with others. "Knightian uncertainty is thus primarily about *the ability to articulate and communicate, or transfer, estimates about the future*."[11]

So, even though the nonprofit entrepreneur may have a clear vision or image of what to do, he or she cannot fully portray, compress, and explicate the details of this vision using any of the tools and techniques associated with risk analysis. Put differently, the properties of uncertainty make it exceedingly difficult for any nonprofit entrepreneur to convey and communicate his or her entrepreneurial vision in such a way that other actors (e.g., funders) are able to assess its value and implications. As Wim Wiewel and Albert Hunter noted more than thirty years ago:

> [J]ust as it is hard for a new business to convince a bank that it will prove to be a good

Many discussions about nonprofit entrepreneurship center on the quality of newness, but I view nonprofit entrepreneurship to be much more about *difference*, and the question of how difference is generated.

investment, new not-for-profit community organizations have a hard time convincing foundations, corporations, and city departments of their worthiness. The problem for a new organization is that it has nothing to offer but promises.[12]

[I]f one accepts the notion that the nonprofit sector exists due to market failure, then nonprofit entrepreneurs are indeed true bearers of uncertainty, given the complexity of the multiple "markets" they must operate in simultaneously.

The consequence of uncertainty is that "there is no market for the judgment that entrepreneurs rely on," which is why entrepreneurs often find it necessary to start new organizations as the primary vehicle for taking on the unknown unknowns in the pursuit of making a difference.[13]

The Knightian approach does not only help to elucidate why new nonprofits emerge. The notion that entrepreneurial judgment is costly has further implications—namely, that in order to exercise judgment, one must obtain control over and marshal resources.[14] Hence, a key question nonprofit scholars must examine is, how do nonprofit entrepreneurial agents come to control such resources? Furthermore, how do nonprofit entrepreneurial agents organize and employ scarce resources? Because the Knightian perspective stresses deeds, merely possessing resources does not make one a nonprofit entrepreneur. Entrepreneurial judgment is ultimately residual, so the control of resources is imperative because it permits the nonprofit entrepreneur to control the decision making surrounding how, when, and where to deploy such resources.

What makes Knight's perspective interesting and appealing from a nonprofit entrepreneurship perspective is that uncertainty in the nonprofit domain takes on a character that is an order of magnitude and complexity higher than in the private domain. For example, if one accepts the notion that the nonprofit sector exists due to market failure, then nonprofit entrepreneurs are indeed true bearers of uncertainty, given the complexity of the multiple "markets" they must operate in simultaneously.

Adding another layer of complexity is the fact that many of the resources used by nonprofits are jointly owned and controlled. In other words, a critical area for nonprofit scholars to investigate is how nonprofit entrepreneurial agents not just obtain but also maintain control over resources (tangible and intangible) to invest in their entrepreneurial efforts and in anticipation of uncertain future rewards.

Finally, nonprofit entrepreneurs and nonprofit organizations are deeply dependent on others—for example, their board, donors, volunteers, and community. The centrality of this interconnectedness brings to the forefront the relational and social aspects of nonprofit entrepreneurship. Consequently, a major task for nonprofit entrepreneurs willing to shoulder uncertainty is to connect with and influence others who share their mission and vision. The Swedish scholar Daniel Hjorth uses the metaphor of fire to describe this particular element of the entrepreneurial process—that is, the ability of the entrepreneur to ignite his or her entrepreneurial flame in others:

> The breakout of the entrepreneurial event is described in terms of fire and as the release of creative social energy. It is the desire to achieve this event, to be part of creating it, and to become part of this fire (to be lit) that attracts people into the entrepreneurial process. Using fire to understand entrepreneurial processes further highlights the role of passion and politics in such processes. It also highlights the drama of the event of entrepreneurship.[15]

In recent years, I've sensed that the discussion about nonprofit entrepreneurship is becoming increasingly preoccupied with economy, calculation, and strategic decision making. Hjorth's depiction reminds us that we also need to focus on the narrative of the nonprofit entrepreneurial process, where passion, social interaction, wit, and reciprocity are equally essential elements in the process of negotiating uncertainty.

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In a popular article, Roger Martin and Sally Osberg make a simple yet critical observation: no matter what prefix we seek to attach to the entrepreneurship concept (social, nonprofit, institutional, etc.), we must first clarify and comprehend what we mean by entrepreneurship.[16] This article highlights uncertainty, as articulated by Knight, and the notion of judgment as intriguing and fruitful starting points for comprehending the notion of entrepreneurship and advancing nonprofit entrepreneurial thinking.

I want to end by pointing to two areas for continued discussion and future exploration. A central task for those seeking to advance the Knightian perspective is to explicate and conceptualize the specific mechanisms of judgment. Because we still know relatively little about the processes by which nonprofit entrepreneurs form their beliefs about future conditions, further research is needed to begin comprehending the cognitive as well as behavioral feats that establish and shape estimates of the future.[17] Also, it is important not to assume that entrepreneurs are wiser or endowed with better judgment abilities about uncertain futures. After all, many entrepreneurial undertakings fail, which implies the frequent occurrence of poor choice making and/or poor use of scarce resources. Instead, we need to acknowledge nonprofit entrepreneurship as an experimentally oriented process. Hence, nonprofit entrepreneurship signals action, in which the nonprofit entrepreneur continuously gathers, organizes, reorganizes, and puts resources into play, in pursuit of uncertain returns.

Though the notion of nonprofit entrepreneurship as a process may seem obvious, many scholars and practitioners still tend to ignore its implications. Processes take time—meaning we must have a theory that can capture and depict changes over time, and methods to study them that reflect this process. We cannot allow urgency and pursuit of short-term gain to crowd out what is important and takes time to develop.

Notes

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2. Nicolai J. Foss and Peter G. Klein, *Organizing Entrepreneurial Judgment: A New Approach to the Firm* (Cambridge, UK: Cambridge University Press, 2012).
3. Frank H. Knight, *Risk, Uncertainty, and Profit* (1921; repr., New York: Cosimo Classics, 2006).
4. Ibid., 225.
5. Ibid., 268.
6. Ibid., 311.
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8. Gordon E. Shockley and Peter M. Frank, "Schumpeter, Kirzner, and the Field of Social Entrepreneurship," *Journal of Social Entrepreneurship* 2, no. 1 (April 2011): 8.
9. Wolfgang Bielefeld, "Social Entrepreneurship and Social Enterprise," in *21st Century Management: A Reference Handbook*, ed. Charles Wankel (Thousand Oaks, CA: SAGE Publications, 2008), 22–31.
10. Mark Casson, *The Entrepreneur: An Economic Theory*, 2nd ed. (Cheltenham, UK: Edward Elgar Publishing, 2003), 13–14.
11. Foss and Klein, *Organizing Entrepreneurial Judgment*, 85.
12. Wim Wiewel and Albert Hunter, "The Interorganizational Network as a Resource: A Comparative Case Study of Organizational Genesis," *Administrative Science Quarterly* 30, no. 4 (December 1985): 486.
13. Klein, "Opportunity Discovery, Entrepreneurial Action, and Economic Organization," 178.
14. Foss and Klein, *Organizing Entrepreneurial Judgment.*
15. Daniel Hjorth, "Lessons from Iago: Narrating the event of entrepreneurship," *Journal of Business Venturing* 22, no. 5 (September 2007): 713–14.
16. Roger L. Martin and Sally Osberg, "Social Entrepreneurship: The Case for Definition," *Stanford Social Innovation Review* 5, no. 2 (Spring 2007): 28–39.
17. Two interesting examples examining this particular element are Jeffery S. McMullen, "Entrepreneurial judgment as empathic accuracy: A sequential decision-making approach to entrepreneurial action," *Journal of Institutional Economics* 11, no. 3 (September 2015): 651–81; and Andrew C. Godley and Mark C. Casson, "'Doctor, Doctor . . .' entrepreneurial diagnosis and market making," *Journal of Institutional Economics* 11, no. 3 (September 2015): 601–21.

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Board Responsibilities: The Basics

by Herrington J. Bryce

This article outlines in clear detail the legal and ethical duties of the nonprofit board. "The key to avoiding failure," the author explains, "is the way the organization is managed. And at the very top of the management pyramid is the board of directors."

Editors' note: *This article is adapted from Chapter 7, "Decision-Making and Governance Structure in Lessening the Burden of Government," in Herrington J. Bryce,* Nonprofits as Policy Solutions to the Burden of Government *(De|G Press, 2017) by permission.*[1]

A BOARD IS NEEDED TO INCORPORATE a nonprofit, to get it tax exemption, to apply for a bank account, to properly file annual reports, and to do most important transactions. This is so because the principal roles of the board of directors are to represent the public (or membership) interests in the organization and to represent the organization as its legal voice.

The logic goes as follows: Nonprofit and for-profit corporations are not natural persons, meaning that they have rights and responsibilities but cannot read, write, think, or execute for themselves; corporations need a human group or person to do so and to guide decisions so that they positively influence the organization and the commitments it has made, including the choice of its chief executive and how it will carry out its mission.

In virtually every state, therefore, a nonfunctioning board is a cause for the involuntary closure of the organization by the attorney general, because this means it has no guiding or accountable voice—the CEO being the agent or instrument for implementing what that voice approves. What specific actions are required of the board to demonstrate and exercise its roles in guiding and representing the best for the organization? To fulfill these roles, the board must be able to accomplish at least the following essential tasks:

1. Approve the budget.
2. Review, sign, and assure submission of annual reports.
3. Review and authorize personnel policies relevant to hiring, promotion, dismissal, compensation, whistle-blowers, independent contractors, key employees, sexual harassment, and fairness to the disabled and other groups.
4. Meet annually and as needed, even if only electronically.
5. Review and approve plans of reorganization, growth, and contraction.
6. Review and approve plans for major asset sales and acquisition.
7. Review and approve major gifts, including the terms of the gifts.
8. Review and approve the organization's plans to do major borrowing.
9. Review and approve the organization's investment policy and plans to open banking and other financial accounts.
10. Review and approve major changes in retirement, benefits, and compensation for all employees, with special focus on reasonableness for top executives.
11. Review and approve amendments to the bylaws.
12. Provide and be prepared to receive complaints and allegations of wrongdoing that affect the senior staff—its omission or commission, including conflicts of interest.
13. Discharge and replace its members for reasons authorized by the bylaws.
14. Create committees and hire consultants.
15. Write policy and review status of its own membership for independence, conflict of interest, self-dealing, competence, performance of duties, and compensation.
16. Be prepared to authorize lawsuits by the organization, receive them, and dispose of them by settlement agreed upon by them, if necessary.
17. Authorize liability, bonding, and other insurance and indemnification.
18. Authorize collaborations, other commitments of the organization, and their terms.
19. Require accountability, transparency, loyalty, and conformity by key employees, and protect the identity and integrity of the organization.
20. Request dissolution and carry out its terms.

21. Approve changes in the organization's name and address.
22. Approve changes in the number, composition, qualifications, authority, or duties of the governing body's voting members; and in the number, composition, qualifications, authority, or duties of the organization's officers or key employees.
23. State the requirements for a quorum or for any class of issue.
24. State the conditions and procedures for calling emergency meetings.
25. Keep records of its activities.

Board Members and Conflicts of Interest, Nonindependence, and Self-Dealing

The relationship of the trustee to a family, to a business, and to the organization itself matters. Therefore, there should be a concern for conflict of interest (a concept that focuses on personal or private gains from a specific transaction), and concern for the independence of a board member (a concept that refers to the relationship of the board member to the organization: is he or she a part of the organization and therefore likely biased in favor of the organization rather than objective?). There should also be concern for self-dealing (a concept that describes using an organization to advance personal benefits when it is clear that the personal gains outweigh the gains to the organization).

The fact that a member may be nonindependent does not necessarily mean that the member has a conflict of interest. But it can raise the question: Is the person's view likely tainted or biased? When a board member is not independent, that has to be recorded, but it is not prohibited. Interlocking directorates may, therefore, have several members who are nonindependent but not necessarily self-dealing. For a member of the board to be considered independent, all four of the following conditions must be met:

1. The member may not be a compensated officer or employee of the organization, its affiliate, or other related organization, or any other with which the filing one does business.
2. The member may not have received compensation exceeding $10,000 from any of the above during the reporting year.
3. Neither the member nor a member of his or her family may have had an economic transaction with the organization or its affiliated or related organizations during the year.
4. Neither the member nor a member of his or her family may have had an economic transaction during the year with an organization doing business with the filing organization or its affiliates.

A member is not considered to be nonindependent just because:

1. The member receives compensation from the organization contingent upon his or her being a member of a recipient group of the organization.
2. The voting member is a donor of any amount to the organization.

Obviously, these concepts of conflict of interest, nonindependence, and self-dealing need to be given further and keener attention, depending on one's own organizational design and relationships (see Table 1).

Dealing with Possible Conflicts of Interest

A conflict of interest occurs when a person stands to gain from decisions he or she makes that are likely to benefit him- or herself, family, or business associates at the expense of benefit to the organization. A nonindependent board member may not necessarily have a conflict of interest vis-à-vis a particular transaction. A conflict of interest vis-à-vis a transaction may just as easily occur (if not more so) with an independent member of the board. A conflict of interest implies that the person has subordinated or is at the risk of subordinating his or her duty (loyalty) to the organization on an organizational matter to his or her

Table 1. Conflicts of Interest, Nonindependence, and Self-Dealing

Conflicts of Interest: This concept relates to specific transactions. Who in a particular transaction may be exposed to a conflict of interest (regardless of remuneration from any party) because of direct or indirect ties to parties standing to gain (and also lose) from the transaction directly or indirectly? If not the person, then relatives, associates, or businesses? A conflict of interest policy should apply to employees (especially those in senior management) as well as some independent contractors (especially those integral to the nonprofit operation; for example, doctors in a hospital).

Nonindependence: This concept applies primarily to voting trustees—those who by their actions can influence the decisions and direction of the organization. A person is not an independent trustee if he or she receives remuneration from the organization (other than from being a trustee), or if his or her relatives, businesses, and associates do business with the organization and any of its affiliates. Being a donor of any amount does not make a trustee nonindependent.

Self-Dealing: This concept applies to donors and other benefactors of the organization. It also applies to trustees and senior management when there are (a) excessive or prohibited transactions or (b) transactions from which a donor or member of the management can benefit or from which their relatives, associates, or businesses can benefit. This type of violation, unlike the two above, comes with financial penalties to management.

Except for self-dealing, where penalties may apply, the reliance is on transparency and good judgment. A policy on any or all of these should be part of the annual orientation of managers, and especially of trustees—principally because it is possible to be inadvertently trapped. Policy should be refreshed annually with a simple question: Have there been any changes in your condition or the condition of your relatives, associates, and businesses that could expose you to being classified as a disqualified person (to whom the concepts of conflict of interest, nonindependence, and/or self-dealing apply)?

own gain or the gain of a family member or business associate.

Every nonprofit organization needs to consider ways to avoid conflicts between the interests of the organization and those individuals in management, governance, and decision-making roles in the organization. The IRS has recommended that organizations consider adopting a conflict of interest policy that includes provisions to which these individuals should conform when considering transactions in which they have a potential, actual, direct, or indirect financial interest.

The Risk of Self-Dealing

Self-dealing is invariably a consequence of a conflict of interest. If the latter were the signal of a likely opportunity, the former is the action that takes advantage of the opportunity for personal, family, or business-related gains or the gains of another manager or independent contractor (such as excessive compensation).

Section 5233 of the California Corporations Code clearly defines self-dealing as any transaction involving the organization and in which one or more trustees or officers have a material financial benefit, unless: (1) the attorney general gave approval; (2) the organization entered into the transaction for its own benefit; (3) the transaction was fair and reasonable for the organization; (4) it was favorably voted for by the majority of the board, not including the affected members; and (5) the board had information that more reasonable terms were not available. In addition, the California law, as in most states, not only defines self-dealing but also gives the time period in which it must be reported or corrected and the way liabilities are shared. A sixth condition that is covered separately stipulates this. The penalty for the infraction of self-dealing may include the return of the property with interest, payment of the amount by which the property appreciated, and a fee for the use of the property. It may also include a disciplinary penalty for the fraudulent use of the assets of the organization.[2]

Again, self-dealing does not bar an honest, arm's-length transaction that benefits the nonprofit and does not unduly favor the trustee or officer over others. These types of transactions should always be approached with very careful legal and ethical scrutiny and within the scope of a carefully crafted and existing policy. Discussions involving the questioning of the involved parties—as well as decisions—and the supporting or exculpatory information should always be retained.

Dealing with Nonindependence

Each member of the board has to be classified as independent or not, and if not, why and how. Moreover, there is no prejudgment that is correct about the relevance of nonindependence. A key employee who might also be a member of the board is nonindependent by virtue of his or her employment in the organization, and another member of the board who is not an employee may be nonindependent because his or her firm has a close relationship with the organization—such as sponsorship of its operations or services to it, or being a client of the organization (or vice versa). Knowing where board members may be coming from is important in evaluating the possible impact or perspective they might bring to specific board decisions—especially transactions with financial implications.

Standards at the Root of All Trustee Actions

At the root of conflicts of interest, nonindependence, and self-dealing are three simple standards: *duty of loyalty*, *duty of care*, and *duty of obedience*. Together, they define the fiduciary responsibility of the trustees and the officers of a nonprofit, both of whom can be held personally liable for monetary damages for breaching these duties. A trustee who behaves in conformity with these standards escapes personal liability for his or her action on behalf of the organization, even if the result is an error so serious as to cause the organization to lose its status. The standards guide actions; they do not judge their brilliance or consequences.

These standards recognize the possibility of error, so they judge only unintentional negligence—not whether the decision was fruitful or intelligent. The application of these principles in a court of law prohibits second-guessing as long as the trustees made their decisions in good faith. This is called the *business judgment rule*. What follows is an explanation of the three.

Duty of Loyalty

The duty of loyalty means that while acting in the capacity of a trustee or manager of a nonprofit, a person ought to be motivated not by personal, business, or private interest but by what is good for the organization. The use of the assets or goodwill of the organization to promote a private interest at the expense of the nonprofit is an example of disloyalty; in such cases, an individual places the nonprofit in a subordinate position relative to his or her own interest. The nonprofit is being used. One purpose of the annual reporting referred to above is to check on self-dealing.

Self-dealing is a form of disloyalty. As described earlier, self-dealing means using the organization to advance personal benefits when it is clear that the personal gains outweigh the gains to the organization. A trustee is not prohibited from engaging in an economic or commercial activity with the organization. Such a transaction can, however, be construed as self-dealing if it can be shown that: the trustee gained at the expense of the nonprofit; the trustee offered the nonprofit a deal inferior to what is offered to others or what the nonprofit could acquire on the open market; or, the nonprofit was put in a position of assuming risks on behalf of the trustee. A numerical amount, $5,000 or more, makes the self-dealing an illegal—not just an unethical—infraction.

Another form of self-dealing can occur when two or more nonprofits merge assets or transfer assets from one to the other, and they have the same trustees. Here, the issue is whether a good purpose is being served. Therefore, before consummating a merger, or any other major transaction, it is wise to set a barrier against self-dealing.

One might assume that a common way the board of trustees must defend the nonprofit organization against self-dealing is in cases of corporate officers abusing their trustee status for the benefit of their firms; however, this is not the case. A board will more likely need to defend its organization against the organization's founder(s). It is not unusual to find that after years of personal sacrifice in calling the public's attention to a good cause, founders of organizations confuse the assets of the nonprofit with their own, confuse the interests of the organization with their own, and begin to take dominion over these assets or install themselves or relatives in highly favorable tenured positions. Operating under the burden of loyalty, boards must separate these persons from the organization.

Duty of Care

The duty of care requires trustees of nonprofits to act in a manner of someone who truly cares. This means that meetings must be attended, the trustees should be informed and take appropriate action when needed, and the decisions must be prudent.

The test of prudence depends on state law. In many states, the trustees of nonprofits are held under the same rules that govern trustees of for-profit corporations. In these states, prudence can be construed to mean making decisions not unlike those expected of any other group of trustees faced with relatively the same "business" facts and circumstances. In other states, nonprofit trustees are held to a higher standard, where prudence means using the same wisdom and judgment that one would if his or her own personal assets were at stake. The first is called the *corporate model* and the second is called the *trust model*.

The duty of care can deny using ignorance as a defense. Therefore, it is inconsistent with this duty to allege that a trustee or manager does not hold any responsibility merely because he or she is unaware. To know *is* the duty. It is this duty that makes many compassionate but busy people reluctant to serve on nonprofit boards. In a real sense, they can't care enough—that is, not in the legal sense.

Duty of Obedience

The duty of obedience holds the trustee responsible for keeping the organization on course. The organization must be made to stick to its mission. The mission of a nonprofit is unlike the mission of a firm. The mission is the basis upon which the nonprofit and tax-exempt status are conferred. Unlike a firm, a nonprofit cannot simply change its mission without the threat of losing either its nonprofit or tax-exempt status, or both.

Economic Transactions and the Trustees

Table 2 (following page), enumerates certain economic transactions that require decisions by the trustees—and, therefore, carry the possibilities of conflict of interest, self-dealing, corruption, malfeasance, and personal penalties on the trustees for failure to comply with the duties of loyalty, care, and obedience. The member may not be excluded from participation but may recuse him- or herself, or require a vote or permission by the board for his or her participation. Furthermore, these transactions come with the right of the trustees to be informed by the operating managers of the organization—and may even require the approval of the trustee either by bylaws, state laws, or by the other parties to the transaction. They are inescapable in the role of being a trustee.

Excessive Economic Transactions and Due Diligence

Every economic transaction has the potential for some form of compensation where—by a lack of exercising their duties of loyalty, care, obedience, and the additional duty of due diligence—trustees agree to or put forward a compensation that is offensively excessive. This occurs with compensation of key employees, the trustees themselves, and with independent contractors and vendors.

Trustees are responsible for negotiating and agreeing to executive compensation and key employee contracts. Key employees satisfy two criteria: (a) their full aggregate compensation of all types from the organization (its subsidiaries, its affiliates, and disregarded groups—joint ventures and corporations of which the nonprofit is sole member and must include in its 990 reports) exceeds $150,000 annually, and (b) they hold a position of responsibility for making the decisions concerning any of the key employees. The federal law, "Taxpayer Bill of Rights 2," makes trustees disqualified persons. For purposes of compensation, a disqualified person is any trustee, manager, donor, or entity (and in the case of a hospital, any physician) who had substantial influence over the organization in the five years preceding the date of the "excess transaction." Any firm in which a member of the board directly or through family relationship owns or controls 35 percent or more of the voting stock is itself a disqualified person. Therefore, the firm would also be limited in its economic relationship with a nonprofit organization. This is to prevent a member of a nonprofit board who is also a business owner—or who is related to one—from doing business with the organization and for excessive fees.

Any such disqualified person (the trustee or the firm that he or she—or his or her relatives—controls) who obtains excess benefits (such as overcompensation) can be subject to an excise tax of 25 percent of such an excess; and any disqualified person who knowingly participated in this agreement would additionally be subject to an excise tax of 10 percent of the excess up to $10,000. The focus of this law is on executive compensation, but it applies to all kinds of transactions—including the payment of trustees or any other disqualified person as defined above, or the payment in a sale of a product or service rendered by them. The law considers excessive compensation to any disqualified person to be self-dealing; for example, using the assets of the organization for personal benefit.

Participation in self-dealing is willful if the disqualified person engaged in the act voluntarily, intentionally, and consciously. Self-dealing refers to benefiting—or having some other related person benefit—excessively from a transaction. It can occur from an act or the failure to act when one is required to express an opinion or decision about that transaction and fails to do so. Therefore, liability also arises from silence and the lack of action to stop or to record objection to an excess benefits transaction—unless there is reasonable cause to believe that the trustee or other disqualified persons did not know of the transaction, and did not know that the transaction would be deemed self-dealing. Failure to have inquired about whether the transaction was an act of self-dealing, where this inquiry is clearly indicated, does constitute an act of negligence and could likewise result in being penalized by the imposition of the excise tax.

But when is compensation excessive? It is excessive when the compensation

Table 2. Economic Transactions That Require Decisions by Trustees

1. Changes in financial advisors or institutions
2. Changes in the mission of the organization, whether by amendment, interpretation, or by emphasis
3. The allocation of the annual budget, both costs and expenditures
4. The sale of the organization's assets
5. The acquisition of capital assets or initiation of programs
6. The annual performance of the organization—financially and in terms of its output
7. Hiring, departure, or transfers in the top tier of the organization
8. The signing of contracts by independent contractors as well as key employees
9. Major collaborations or partnership arrangements involving the organization
10. The leasing of major assets by the organization, whether as lessor or lessee
11. Disputes in which the organization is likely to be involved, whether by clients, employees, or others
12. Planned changes or agreement to any compensation schemes of employees, executives, and independent contractors, or compensation that could be considered excessive
13. Independent assessment of financial activities and performances of the organization
14. Specific performances of endowments and other funds subject to restrictions—dealing separately with restrictions imposed by donors from restrictions imposed by the trustees
15. A projection of earnings and expenses by source with caveats of a projection, and the identification of any uncertainty, twists, turns, and plans for more than a year, if that is feasible and requested
16. A discussion of diversion of funds and taking action
17. The written authorization of debt and of any specific borrowing arrangement
18. The written authorization of fundraising campaigns and contracts and choice of firm
19. The hiring of auditors, receiving of their reports, and requiring organizational response
20. Discussion prior to acceptance of large gifts, whether outright or deferred, and their terms
21. Claims and potential settlements of corruption, discrimination, negligence, or harassment
22. Any legal action against the organization, including failure to file proper documents
23. Establishment and monitoring of internal controls
24. Approval of major advertising or use of the organization's logo or reputation
25. Decisions on dissolution, major collaboration, mergers, and other reorganizations
26. Setting investment policies for unnecessary risk exposure and investment protection
27. The assessment of purchasing contracts
28. An assessment of the organization's business-income stream and alliances
29. Any cross-subsidization or subsidization of one program by another or by the organization that is tenuous
30. Minimization of self-dealing, conflict of interest, personal inurement, and manipulation, fraud, and failure to comply

exceeds the economic value of the benefit the organization got in return or when the compensation is calibrated to the organization's revenues or reflects personal inurement.

The law does provide for the organization to indemnify or insure the disqualified person against the cost of any penalty or taxes due to an "excess transaction." It does, however, also require that this insurance or indemnification be included in the compensation. Hence, the more the organization covers for the disqualified person, the greater the tax or penalty on all disqualified persons found to have knowingly participated in the transaction.

The principal defense against excessive economic transactions is comparable compensation information—in other words, do comparable organizations justify what is being accepted or offered?

Duty of Organizations to Trustees and Their Rights

Trustees have the right to expect that the nonprofit organization has exactly the same duty to them as they have to the organization. They should expect obedience to their policies that are consistent with the mission of the organization. Trustees share liability for infractions; therefore, they should expect that their directions will be obeyed. It is they, rather than the employees, who represent the public interest. Timely and relevant information and interaction consultants (including auditors, compensation experts, lawyers, and the chief executive of the nonprofit) are first defenses against unwitting self-dealing, conflict of interest, and general failure to perform their duties of loyalty, care, and obedience. Trustees, therefore, have a right to know, and the organization has a duty to keep them informed.

Accordingly, trustees should expect a duty of care directed toward them. As their duty of care toward the organization means that they need to be informed and to act prudently on behalf of the organization, they should expect that they will be kept informed about those things that matter. These include being kept up to date on major changes in the organization's direction or assets, annual budgets and financial statements, changes in key employees, new risks to which the organization is exposed, employee compensation packages, and evaluations of the organization's performance.

The duty to the trustees also encompasses loyalty. This concept implies a protection of the trustees. Trustees have a right to presume that the relationship between them and the organization is aboveboard (so to speak), at reasonable arm's length, and that the organization does not expose any trustee to personal or professional risks—even if it forewarned him or her that such risks might be present. Put simply, they have a right to expect that they are not being used or "set up," that the information given them to form the basis of their decisions is as clear, complete, correct, and relevant as possible, and that the organization will not act imprudently.

Consistent with the exercise of prudence, trustees may rely on information they obtain from appropriately assigned employees, accountants, lawyers, engineers, and other experts. Relying on the expertise of such persons is an act of prudence and not necessarily a skirting or shifting of responsibility.

In the *Guidebook for New Hampshire Charitable Organizations*, New Hampshire's attorney general advises that directors should have the following specific rights (in addition to others):

1. To have a copy of the articles of organization (incorporation or deed), by-laws, and other documents that are necessary to understand the operations of the organization.
2. To inquire about an orientation session for board members and about a board manual containing the policies and procedures for the organization.
3. To have reasonable access to management and reasonable access to internal information about the organization.
4. To have reasonable access to the organization's principal advisors, including auditors and consultants on executive compensation.
5. To hire outside advisors at the organization's expense.[3]

Observe that these rights are consistent with exercising the duty of care, and with the law's protection of trustees and officers if they rely on the expert judgment of persons such as auditors and accountants, lawyers, and investment advisors. They are also consistent with the organization's duties to the trustees.

These rights translate to the trustees' right to know, be informed, and have their actions followed. Some of these are required by law, such as trustee approval of amendments; some are required by practice, such as a bank's stipulation that a trustee resolution be supplied before it extends a loan; some of these are subtle, such as informing trustees about major transactions so that they can determine if there is a potential conflict of interest; and some of these are early warnings or pleas for help, such as giving a projection not simply of the annual data but of what they may look like under certain projections—such as if trustees continue to operate as they have been.

Liability of Trustees

No matter how much protective action is taken, there is always the possibility of a trustee's being sued or involved in a lawsuit against the organization. How does the organization protect the trustee?

First, by timely information as discussed above, so that the trustee can take adequate action; second, by covering the trustee through insurance and indemnification; and third, by disclosures.

The board of trustees of a nonprofit organization may be sued by (1) the members in a so-called *derivative suit*, whereby the members are suing the trustee on behalf of the greater good of the organization; (2) a third private party; (3) a government; and (4) one of its own members or employees. Liability may arise either for actions taken or for the failure to act. Furthermore, in some instances, liability may arise because of the actions of other trustees or officers. For example, a trustee can be held liable for failing to block an inappropriate action by other trustees or by management. The duties of care and loyalty mean that a trustee cannot choose to look the other way when an officer or another trustee may be involved in actions that are wrong.

This liability threat would discourage many good people from serving nonprofits. If the trustee can be held personally liable, then he or she faces the possibility of being sued and having to pay monetary damages out of personal resources. Even if monetary damages are not assessed, the trustee faces the unpleasant possibility of having to spend time and resources in a personal defense. In addition, there are the emotional and social costs.

Recognizing this deterrent, many states have taken actions to limit a trustee's personal liability. For volunteers as well as trustees, states range from no protection to protection only if the act was not intentional, was the result of negligence or breach of fiduciary responsibilities, was a knowing violation of the law, or was a result of a reckless action or one done in bad faith.

In general, an officer or trustee is immune from civil suit for conducting the affairs of a nonprofit unless the action taken is willful or wanton misconduct or fraud, or is gross negligence, or if the person personally (or through a relative or associate) benefited from the action taken.

A trustee is liable for unlawful distributions of the assets of the organization. An unlawful distribution can be one that is inconsistent with the mission of the organization, inconsistent with the bylaws and tax-exempt laws, outside the powers of the organization, and for private gains of the trustee or associates. A loan to a trustee is just one type of unlawful distribution. Using the assets for political purposes is another, and so is excessive executive compensation.

Not only are the trustees who voted in favor of the unlawful distribution liable, but so are all other directors who failed to voice an objection. Arizona 10–3833 requires that objections be noted in the minutes of the meeting when the act was taken or by 5:00 p.m. the next business day. It further states, "The right to dissent does not apply to a director who voted in favor of the action." Still further, any trustee found liable for the unlawful distribution shares that culpability and can be held equally liable with all trustees who voted affirmatively, all trustees and members who shared in the distribution, and all who failed to dissent in the manner prescribed by law.[4]

Even though the nonprofit has the power to indemnify a trustee or officer, some states specify the conditions under which such indemnification can be offered. In Mississippi 79–11–281, indemnification can be offered only if the trustee (1) conducted him- or herself in good faith and (2) believed that the conduct was in the best interest of the organization—or at least not contrary to its best interest or those of its members.[5]

The nonprofit may not indemnify the trustee or officer when he or she is judged to be liable to the nonprofit or in any situation where he or she benefited improperly. Indemnification may be limited to reasonable expenses incurred. Generally, reimbursement may occur only after the case is disposed, but Mississippi, as an example, provides for payment in advance. However, the trustee must provide a written statement attesting to having undertaken the action in question in good faith, stating that the trustee promises to repay the sum if the judgment is against him or her, and declaring the act not one that would otherwise preclude indemnification. A trustee that is entitled to indemnification may turn to the court to have such indemnification paid by the nonprofit. If the proceeding is against the organization rather than against the trustee, the trustee may be indemnified by the organization for his or her expenses. This is the case if the trustee acted in good faith.

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A board of directors or trustees of a nonprofit organization is an essential part of the design of the organization and how well it abides by its mission, the expectations of its members, its clients, and state, local, and federal governments. The way a board is constructed is important because it affects the representation of various interests and the efficacy of the board.

The composition has to do with the number and distribution of persons on the board and the way it is divided by function. The functions are not perfunctory; they facilitate the capacity of the board to carry out its principal purpose of being the voice of the organization and the various interests that the organization serves. To do this competently involves carrying out a variety of specific activities and first being true to the organization in doing so. This means putting the organization first (loyalty to it and the care it takes to do that well). Self-dealing is to be avoided; conflicts of interests are to be minimized.

The issues here are not just ethical; they are also legal and therefore given attention as core duties of the board. The single best advice: board members must care sufficiently to be fully informed, fully involved, and fully compliant. Short of this, there is personal risk of liability and organizational risk of failure—to the detriment of those the organization was intended to serve.

The success of the board depends upon all that has been outlined above, but to carry out any of these best practices requires that the organization—especially the chief executive—recognize the importance of providing the board with timely information. Society depends upon nonprofit organizations for a variety of essential functions—from education to health, art to social services, and housing to general welfare, to name a few. The success of these organizations in serving the public depends not only upon monetary resources but also on the ability of these organizations to function in an orderly and efficient manner. When a nonprofit organization fails, promises fail—and so do the expectations of the public and the direct clients and donors. And society has one organization less that it can call upon to provide needed services. The key to avoiding failure is the way the organization is managed—and at the very top of the management pyramid is the board of directors.

Notes

1. Herrington J. Bryce, "Decision-Making and Governance Structure in Lessening the Burden of Government," in *Nonprofits as Policy Solutions to the Burden of Government* (Berlin, Germany: De|G Press, 2017): 125–43.

2. "CORPORATIONS CODE – CORP, TITLE 1. CORPORATIONS [100 - 14631], DIVISION 2. NONPROFIT CORPORATION LAW [5000 - 10841], PART 2. NONPROFIT PUBLIC BENEFIT CORPORATIONS [5110 - 6910], CHAPTER 2. Directors and Management [5210 - 5260], ARTICLE 3. Standards of Conduct [5230 - 5239], § 5233," California Legislative Information, leginfo.legislature.ca.gov/faces/codes_displaySection.xhtml?sectionNum=5233.&lawCode=CORP.

3. *Guidebook for New Hampshire Charitable Nonprofit Organizations*, 1st ed. (Concord, NH: Office of the NH Attorney General Charitable Trust Unit, 2005), web.law.columbia.edu/sites/default/files/microsites/career-services/Guide%20for%20New%20Hamphire%20Charitable%20Nonprofit%20Organizations.pdf.

4. "§ 10-3833. Liability for unlawful distributions," Arizona State Legislature, www.azleg.gov/viewdocument/?docName=http://www.azleg.gov/ars/10/03833.htm.

5. "2013 Mississippi Code, Title 79 - CORPORATIONS, ASSOCIATIONS, AND PARTNERSHIPS, Chapter 11 - NONPROFIT, NONSHARE CORPORATIONS AND RELIGIOUS SOCIETIES, MISSISSIPPI NONPROFIT CORPORATION ACT, § 79-11-281 - Indemnification of director, officer, employee, or agent," law.justia.com/codes/mississippi/2013/title-79/chapter-11/mississippi-nonprofit-corporation-act/section-79-11-281/.

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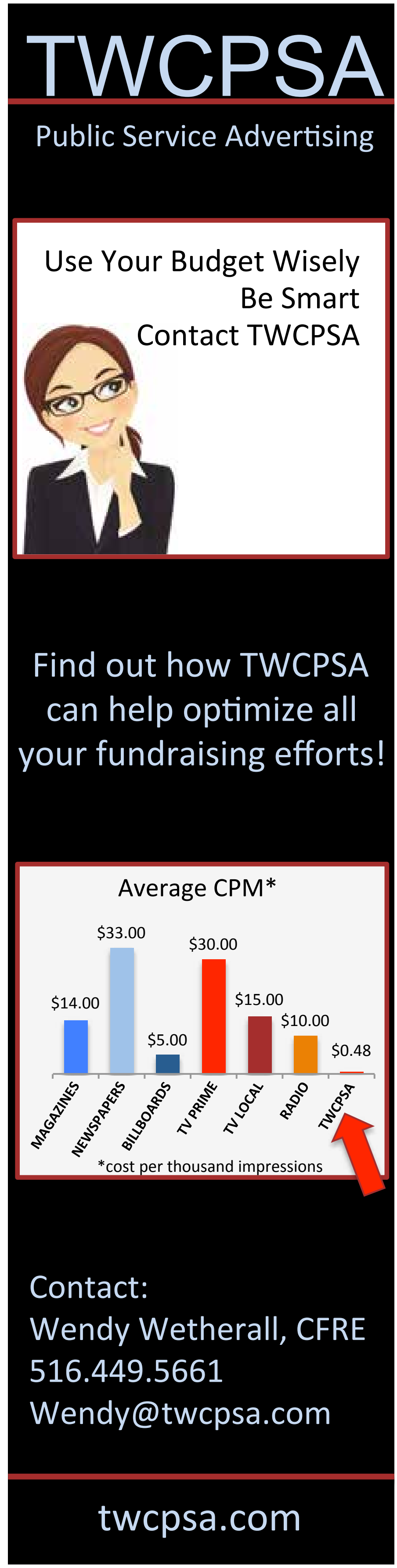

A Media Theory of Movement Power

by David Karpf

When we talk about "the media," we tend to envision the old media institutions that are giving way to new journalistic approaches and technologies. The same goes for activism: we look at today's movements and find them lacking in comparison to the movements from the past, forgetting that movements evolve along with the media frameworks of their time. "When we lionize the tactics of social movements from a bygone era, we blind ourselves to the opportunities and potential presented by current media technologies," writes Karpf. "Properly harnessed, these technologies allow large organizations to engage in analytic activism. Improperly harnessed, they can send civil society organizations down a crooked path that leads to prioritizing issues, campaigns, and tactics that are more *clickable* over those that are more *important*."

Editors' note: *Movement organizations are dealing with an increasingly varied media and technological landscape, and that requires our use of a different set of tools and strategies. This article, which is drawn (with some minor alterations) from David Karpf's new book,* Analytic Activism: Digital Listening and the New Political Strategy *(Oxford University Press, 2016), provides a useful disruption of antiquated assumptions about the interfaces between movement and medium. We thank the author and Oxford University Press for their kind permission.*

WE OFTEN MAKE TWO MISTAKES with regard to the interaction of media institutions and political activism. First, we still frequently treat "the media" as a unitary, stable, and undifferentiated system. This was a defensible assumption in 1993, when William Gamson and Gadi Wolfsfeld wrote their authoritative treatment of the subject, "Movements and Media as Interacting Systems." Gamson and Wolfsfeld demonstrated that "social movements need the media far more than the media need them."[1] They did so by tracing the interests of social movements and of industrial media organizations that typified the broadcast news era. But in the decades that have elapsed since that classic work was published, the media system has undergone a continuous series of upheavals.

We can no longer simply state that some protest actions are inherently more media-friendly or newsworthy than others. We now have to specify *which media* and *which news*. Protest tactics are made media-friendly when they align with dominant media technologies. They become newsworthy when they fit the norms, incentives, and routines of the major news organizations of the day. When we talk about the "media system," we still largely have in mind the broadcast media institutions that dominated twentieth-century American politics—the nightly news and the daily paper in particular. Today, those broadcast institutions remain relevant, but they are also facing new competitive pressures, adopting new journalistic routines, and making use of new media technologies. As Andrew Chadwick suggests, we have replaced the old media cycle with a new "political information cycle."[2] Stories unfold differently in the political information cycle. Social media buzz helps to determine the mainstream news agenda. Partisan news sites highlight different stories to appeal to their niche audiences.[3] If movements and media are interacting systems, then the dramatic changes to the media system must produce ripple effects that change the opportunity structure for social movements.

Second, we treat the media as though it were a *mirror*, held up to society and reflecting back the most important or prominent issues of the day. The dominant theories of policy change in political science, in fact, have long tended to ignore the role and interests of media institutions.[4] These theories draw empirical data from newspaper coverage, equating it with evidence of public opinion and public events. Media attention serves as a stand-in for public opinion in this tradition: if a topic makes the front page of the local paper or receives four minutes of coverage on the nightly news, we treat it as evidence of public interest and public will. As Susan Herbst demonstrates in *Reading Public Opinion*, both political activists and legislators treat the daily news agenda as evidence of public opinion.[5]

But a long research tradition maintains that media has *never* been merely a reflective technology. Kurt and Gladys Lang first offered this insight in their seminal 1953 study of the MacArthur Day parades: *media is a technology of refraction, not reflection*.[6] Introduce television cameras into an event, and you will manufacture a public spectacle. People will behave differently, performing roles for the cameras. Place newspaper reporters or bloggers at that event, and you will reveal different elements of the same spectacle. Media coverage is not a neutral arbiter or reflection of objective reality. It documents a performance that it is helping to cocreate. As Gamson and Wolfsfeld put it, "A demonstration with no media coverage at all is a nonevent, unlikely to have any positive influence either on mobilizing followers or influencing the target. No news is bad news."[7] Successful protest events are strategically designed to attract coverage from the dominant media of the day. And as the media system changes, so too must our understanding of successful protest events.

To think clearly about the opportunities that the changing media system presents to activist organizations, we must historically bracket successful movement tactics. Different media, dominant at different points in history, incentivize different forms of public spectacle. The release of a new policy report will be much more appealing to policy bloggers than to television journalists. Press conferences are an artifact of the broadcast era; bloggers see little value in a press release. The broadcast television era imparted great leverage to advocacy tactics that could make the six o'clock news. The current digital era, with its niche news programming, twenty-four-hour cable stations, hashtag publics, and social sharing, creates leverage for a different set of tactics. The relative power of individual protest tactics—petitions and sit-ins, marches and boycotts—changes apace with the shifting media system. Whether we label these changes to the media system as indicative of changing "media regimes,"[8] "information regimes,"[9] "hybrid media systems,"[10] or "civic information paradigms,"[11] the central point is that media technologies and media institutions play a role in determining the strategic value of various protest tactics. All movement power is, in part, premised on understanding and leveraging the interests of these changing media entities. Movement power is, in this sense, also media power.

Activism is adapting to the digital age (as are we all). Our expectations of activists, however, remain decidedly anchored in the preceding century. In particular, the era of grand U.S. social movements (roughly the 1960s and early 1970s) often receives hagiographic treatment from scholars and practitioners alike. Those movements were powerful, their tactics successful. Present-day movements are frequently compared with movements of this era and found wanting. In making this comparison, we usually ignore how those earlier movements were strategically tailored to the emerging broadcast media environment of the day.

Let me animate this point with a celebrated example: the Bloody Sunday march in Selma, Alabama. Taeku Lee discusses the tremendous success of this action in his 2002 book, *Mobilizing Public Opinion*:

> The movement strategy of provoking police brutality with nonviolent direct action fit well in Selma. Sheriff Jim Clark's bigotry and short temper were notorious. . . . The activists marched uneventfully [on Bloody Sunday] through downtown Selma but barely crossed the murky Alabama River on the Edmund Pettus Bridge before they were met by a detachment of law enforcement officers. About fifty Alabama state troopers and several dozen of Sheriff Clark's posse waited on horseback, fitted with gas masks, billy clubs, and blue hard hats. . . . Newsmen on hand captured the surreal chain of events with film and camera. By sundown, scenes from Selma were broadcast in living rooms throughout the nation. One television station, ABC, interrupted their evening movie, *Judgment at Nuremberg*, to air a film report on the assault. *The raw footage ignited a firestorm of public outrage* [emphasis added].[12]

Lee is describing a key moment in one of the most celebrated, successful social movements of the twentieth century. It was not the sheer number of protesters (approximately six hundred) that made this action so powerful. Nor was it the poetry or the righteousness of their cause. Central to the protesters' strategy was a clear reading of the affordances provided by the broadcast-era media environment. If Sheriff Jim Clark had left those protesters alone, the march would have ended uneventfully. The protesters would have had tired limbs and not much else to show for it. If the cameras had not been present, Clark's brutality would have gone unheralded, another chapter in the long history of violence against African Americans in the American South. But raw footage of police brutality was piped into living rooms across the nation. To borrow a phrase from Todd Gitlin, "The whole world was watching."[13] And since this was 1965, a time when we had only three stations, there was nothing else on television.

Against tremendous odds, civil rights movement activists proudly and stridently forged a better society. Their personal courage was coupled with great strategic acumen. There are good reasons why present-day activists and scholars seek insight from the social movements of that era. But in the search for insight, scholars, public intellectuals, and practitioners alike tend to overlook how the tactics of that era were crafted to match the media system. If the Bloody Sunday march had occurred in 2015, it would have included hashtags and retweets, mash-ups and Vine clips. But it also would have reached a smaller, niche audience through the nightly news, and it would have been immediately reinterpreted, reframed, and denounced by partisan elites. The whole world would not have been subjected to the same images, and the resulting public mobilization would have unfolded along a different path.

Another example: In 1969, during the early years of the environmental movement, two galvanizing moments came when *Time* magazine ran a story about the Cuyahoga River catching fire and when an oil spill off the coast of Santa Barbara received national news coverage. This was not the first time that a major oil spill had happened, and it was the *twelfth* time the Cuyahoga had caught fire. But because of the limited viewing options of the broadcast media environment, these images were seen in living rooms throughout the nation. Rivers catching fire make for great television footage. The early leaders of the environmental movement seized upon the public attention generated by these broadcast tragedies and used it to galvanize media-friendly actions like the first Earth Day. As Ronald Shaiko put it, "One might ask, philosophically, If Greenpeace activists hold a protest rally in the woods and the media are not there to cover it, do they really make a sound?"[14] The birth of the environmental movement and its most iconic tactical successes were rooted in the affordances of the media system of that time. The problem, however, is that this glamorized remembrance of past social movements inappropriately shades our perceptions of modern-day social movements. Consider, for instance, Nicholas Lemann's indictment of 2010 environmentalists' failure to pass climate legislation through the U.S. Congress:

> Today's big environmental groups recruit through direct mail and the media, filling their rosters with millions of people who are happy to click "Like" on clean air. What the groups lack, however, is the [1970] Earth Day organizers' ability to generate thousands of events that people actually attend—the kind of activity that creates pressure on legislators.[15]

By Lemann's reckoning, the environmental movement of 2010 was a failure because it did not generate the same "thousands of events that people actually attend" that the environmental movement of the broadcast era had generated. Now, in the simplest sense, Lemann is factually incorrect: Beginning in October 2006, seven students from Middlebury College worked with their professor, Bill McKibben, to launch the Step It Up day of action on climate. After six months of organizing, facilitated mostly through the Internet, the Step It Up day of action occurred on April 15, 2007. It included 1,410 events across the country.[16] Step It Up later changed its name to 350.org, a leading climate advocacy organization that regularly plans massive global days of action that feature four thousand to five thousand simultaneous events. The youth-led Energy Action Coalition has also repeatedly planned a series of citizen lobby days that have broken records as the largest in U.S. history, bringing fifteen thousand young people into face-to-face contact with their congressional representatives. Present-day movements still plan plenty of "events that people actually attend." But that attendance is no longer picked up and refracted through a broadcast-dominant media system. Without the amplifying power of the broadcast-era industrial media, the same tactics no longer produce the pressure that they once did.[17]

The difference between Step It Up and the original Earth Day was not in the quantity of simultaneous teach-ins. It was not in the power of their rhetoric or the resonance of their media frames. The difference was in how those mass protest events were refracted and amplified through the larger media apparatus (and, one might add, in the sclerotic state of U.S. congressional politics).

The original Earth Day, like the Bloody Sunday march in Selma, was strategically tailored to take advantage of a media regime that no longer exists. The mere existence of the teach-ins was *news*. The Earth Day teach-ins attracted broadcast media attention. And the public political agenda was defined through that media attention. New media refracts at different angles. Recruitment for Step It Up/350.org actions occurs through e-mail lists, Facebook shares, and blog posts. The fact of the 2010 day of action was hashtagged and retweeted. These digital actions defined *a* political agenda for *a* public. But they did not leave the same imprint on the broader public consciousness. The lesson gleaned from successful social movements' past cannot be to mimic exactly what they did. The leaders of the present must strategically adapt to this digital refraction, just as social movement leaders of the past adapted to the broadcast refraction.

The current hybrid media environment provides opportunities for activist movements and activist moments that would have gone missing in the older industrial broadcast media environment. As James Rucker, founder of ColorOfChange.org and cofounder of Citizen Engagement Lab, argues: "The media landscape twenty years ago would have prevented the stories driving the Movement for Black Lives today from breaking through. The voices we're now hearing, reading, and seeing are all enabled by an open Internet that has largely avoided corporate or government filter. And they are shifting public dialogue, impacting culture, and building momentum to change policy."[18] When we lionize the tactics of social movements from a bygone era, we blind ourselves to the opportunities and potential presented by current media technologies.[19]

Indeed, this appears to be a key ingredient in the success of present-day political movements. The Movement for Black Lives (a.k.a. #BlackLivesMatter) has directed national attention to the crisis of police violence against African Americans. It has done so by adopting a distinctly hybrid media strategy, including the use of hashtags that connected the dots between a series of individual tragedies and place-based protests, which themselves became the topic of media coverage.[20] These activists are not choosing between broadcast media and social media. They are using the tools at their disposal—including social media accounts—to create leverage over their direct targets (public officials) and secondary targets (including mainstream media organizations). Broadcast media outlets sent reporters to Ferguson, Missouri, to cover protests surrounding the death of teenager Michael Brown because Twitter conversation signaled its newsworthiness.[21] The presence of those same reporters then helped to cocreate the unfolding political spectacle.[22] Both broadcast television cameras and cell phone cameras are technologies of refraction. Social movements of the 1960s developed their tactics for an industrial broadcast media environment. Social movements of the 2010s are modifying their tactics for a hybrid media environment.

There is no single "correct" strategy for leveraging digital media into movement power. There is, however, a set of practices that, when properly instituted, helps activist organizations adapt to the rhythms of the digital age. I have only just touched here on the strengths, weaknesses, possibilities, and limitations of those new practices. In particular, we need to focus on the role that new digital listening tools have begun to play in fashioning new tactics and strategies that help large-scale political organizations create leverage in the hybrid media system. *Analytics* encompass a cluster of technologies that allow organizations to monitor online sentiment, test and refine communications, and quantify opinion and engagement. These are *back-end* technologies, viewed by professional campaigners through internal dashboards and fashioned into strategic objects that are discussed at weekly staff meetings.

Properly harnessed, these technologies allow large organizations to engage in analytic activism. Improperly harnessed, they can send civil society organizations down a crooked path that leads to prioritizing issues, campaigns, and tactics that are more *clickable* over those that are more *important*. Analytic activism supports new innovations in *tactical optimization*, *computational management*, and *passive democratic feedback*. It enables organizations to learn and listen in different ways and to capture the energy refracted through the hybrid media system.

Notes

1. William A. Gamson and Gadi Wolfsfeld, "Movements and Media as Interacting Systems," *Annals of the American Academy of Political and Social Science* 528, no. 1 (July 1993): 114–25.

2. Andrew Chadwick, *The Hybrid Media System: Politics and Power* (New York: Oxford University Press, 2013).

3. Kathleen Hall Jamieson and Joseph N. Capella, *Echo Chamber: Rush Limbaugh and the Conservative Media Establishment* (New York: Oxford University Press, 2010); and Kevin Arceneaux and Martin Johnson, *Changing Minds or Changing Channels? Partisan News in an Age of Choice* (Chicago: University of Chicago Press, 2013).

4. Arceneaux and Johnson, *Changing Minds or Changing Channels?*; and Frank R. Baumgartner and Bryan D. Jones, *Agendas and Instability in American Politics* (Chicago: University of Chicago Press, 1993).

5. Susan Herbst, *Reading Public Opinion: How Political Actors View the Democratic Process* (Chicago: University of Chicago Press, 1998). Indeed, as Susan Herbst has repeatedly demonstrated, media coverage often serves this role for researchers

precisely because "public opinion" is so hard to define.

6. Kurt Lang and Gladys Engel Lang, "The Unique Perspective of Television and Its Effect: A Pilot Study," *American Sociological Review* 18, no. 1 (February 1953): 3–12.

7. Gamson and Wolfsfeld, "Movements and Media as Interacting Systems."

8. Bruce A. Williams and Michael X. Delli Carpini, *After Broadcast News: Media Regimes, Democracy, and the New Information Environment* (New York: Cambridge University Press, 2011).

9. Bruce Bimber, *Information and American Democracy: Technology in the Evolution of Political Power*, Communication, Society and Politics series (New York: Cambridge University Press, 2003).

10. Andrew Chadwick, *The Hybrid Media System*.

11. Chris Wells, *The Civic Organization and the Digital Citizen: Communicating Engagement in a Networked Age* (New York: Oxford University Press, 2015).

12. Taeku Lee, *Mobilizing Public Opinion: Black Insurgency and Racial Attitudes in the Civil Rights Era* (Chicago: University of Chicago Press, 2002).

13. Todd Gitlin, *The Whole World Is Watching: Mass Media in the Making and Unmaking of the New Left* (Berkeley: University of California Press, 1980).

14. Ronald G. Shaiko, "Greenpeace U.S.A.: Something Old, New, Borrowed," *Annals of the American Academy of Political and Social Science* 528, no. 1 (July 1993): 88–100.

15. Nicholas Lemann, "When the Earth Moved," *New Yorker*, April 15, 2013, www.newyorker.com/magazine/2013/04/15/when-the-earth-moved.

16. Dana R. Fisher and Marije Boekkooi, "Mobilizing Friends and Strangers: Understanding the role of the Internet in the Step It Up day of action," *Information, Communication & Society* 13, no. 2 (March 2010): 193–208.

17. Incidentally, I was in Washington, DC, for the initial Step It Up day of action. Having heard a constant drumbeat about the event through listservs, discussion boards, blogs, and other niche media, I arrived at my parents' home that weekend and told them why I was in town. My mother was a welfare rights organizer in the 1970s, and my father voted for Nader. Neither of them had heard about the event. In the post-broadcast media environment, you can efficiently target your message to the niche audience you seek to mobilize. But lost in the process is the beneficial inefficiency of spillover information, wherein untargeted individuals become generically aware that a social movement is under way.

18. James Rucker, "Preface: Black Lives Do Matter, and Black Voices Do, Too," in *The Digital Culture Shift: From Scale to Power*" (Center for Media Justice, ColorofChange.org, and Data & Society, 2015), 7.

19. Dan Mercea and Marco T. Bastos, "Being a Serial Transnational Activist," *Journal of Computer-Mediated Communication* 21, no. 2 (March 2016): 140–55; and Hadas Eyal, "Digital Fit as a Leg-Up for Nongovernmental Organizations' Media and Political Success," *Political Communication* 33, no. 1 (2015): 118–35. Dan Mercea and Marco Bastos have likewise traced the role of "serial activists" in transnational social movements—people who repeatedly use social media to help publicize, support, and orchestrate protest events. And Hadas Eyal has demonstrated that, among Israeli NGOs, "digital fit" is a key determinant of traditional media coverage. Though I focus mostly on American case examples here, there is strong evidence for similar changes on the global scale.

20. Deen Freelon, Charlton D. McIlwain, and Meredith D. Clark, "Beyond the Hashtags: #Ferguson, #Blacklivesmatter, and the online struggle for offline justice," (Washington, DC: Center for Media & Social Impact, American University School of Communication, February 2016).

21. Zeynep Tufekci, "What Happens to #Ferguson Affects Ferguson: Net Neutrality, Algorithmic Filtering and Ferguson," Medium, August 14, 2014, medium.com/message/ferguson-is-also-a-net-neutrality-issue-6d2f3db51eb0.

22. Byron Tau, "How the media discovered Ferguson," *Politico*, August 17, 2014, www.politico.com/story/2014/08/how-the-media-discovered-ferguson-110072.

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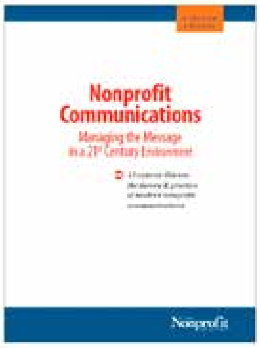

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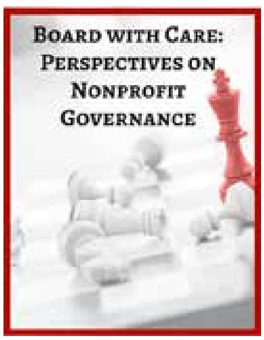

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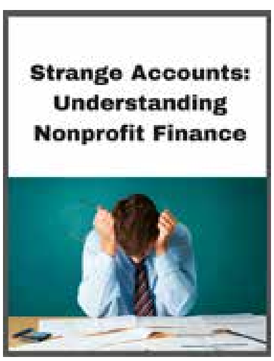

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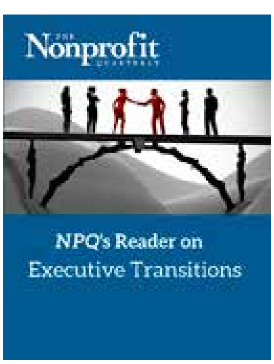

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Investing in Policy and Advocacy: A Foundation Shares Lessons Learned

by M. Gabriela Alcalde and Maggie Jones

The challenging policy and advocacy work taken on by the Foundation for a Healthy Kentucky was further complicated by dramatic changes in the political climate. But by drafting out key strategies and challenges, the foundation was able to identify five fundamental recommendations for how best to pursue policy change and how funders can make policy more responsive to the communities they serve.

Editors' note: *This article was first published by* Health Affairs *as a blog, on June 6, 2017. It is reprinted with permission from the authors and* Health Affairs, *with minor alterations.*[1]

Working on advocacy and policy is challenging. Not only is it complex, fluid, and increasingly politicized, it is also challenging to measure progress and communicate success.

Some Background

Understanding this, in 2012, the Foundation for a Healthy Kentucky, a statewide foundation located in Louisville, launched Promoting Responsive Health Policy (PRHP), a six-year, multifaceted initiative to address four broad health policy areas: increasing access to integrated healthcare; increasing the proportion of Kentuckians living in smoke-free jurisdictions; improving children's health; and strengthening local public health.[2]

Building on past investments, the foundation engaged a variety of grantees and contractors as partners: legal, youth, and consumer advocates; researchers; and communications and media organizations. The Center for Community Health and Evaluation (CCHE), located in Seattle, Washington, and affiliated with Kaiser Permanente, was selected to serve as the external evaluation partner because of its experience evaluating policy work and its developmental approach to evaluation.[3]

Halfway through PRHP, a change in state leadership prompted dramatic changes in the political climate and in policy positions coming from the governor. These changes meant that PRHP's policy goals, especially around the Affordable Care Act (ACA) and efforts toward passing a comprehensive statewide smoke-free law, were at odds with the new governor's goals.[4] These changes had profound impact on the foundation and its grantees, requiring all players to reassess their strategies and make substantive adjustments.

The foundation's approach, combined with the dynamic policy environment, provides a unique opportunity to examine and share lessons learned (addressed more fully in the final report on the PRHP evaluation).[5]

Strategies Used

Recognizing the complexity of the policy issues and taking a broad approach to policy change, the foundation approached PRHP using four key strategies:

1. **Requiring use of the following characteristics of effective, high-quality grantmaking.** *Trust:* The foundation's partnership approach to grantmaking enabled it to provide the needed flexibility for grantees to be responsive to political changes. This approach depended on trust and long-term relationships with and among grantees.

   Flexibility: An adaptive and multipronged approach allowed the foundation and its grantees to be agile in a rapidly changing policy environment.

   Diverse strategies: Having a diverse cadre of partners made a variety of tools available to the foundation, and that was particularly useful when tactics had to be adapted to the changing political landscape.

   Collaboration: As a result of the foundation's efforts to promote collaboration among partners, grantees reported increased connections with other partners.

Capacity building: Investing in organizations through multiyear grants, trainings, and technical assistance (in addition to sharing findings from foundation-funded research projects) deepened and strengthened the advocacy infrastructure in Kentucky.

2. **Acting as a convener, which was consistently identified as one of the most effective ways the foundation informed policy.** Evaluators found that "stakeholders described the valuable and unique role the Foundation plays in informing health policy in Kentucky as a non-partisan, independent organization."[6] The foundation brought local and national speakers to inform local health policy discussions and facilitate difficult conversations, guided by research and best practices, in a safe, neutral space.
3. **Investing in data and research, which was the foundation's key contribution to health policy.** Grantees and key stakeholders identified the annual Kentucky Health Issues Poll and the multiyear study on the impact of the ACA, which was conducted by the State Health Access Data Assistance Center (SHADAC), as integral and valuable in grounding advocacy efforts in facts.[7] As noted by evaluators, "investments in convenings and data were identified as examples of how the Foundation could leverage its resources to be responsive to emerging policy issues and to bolster the capacity of advocates, particularly grantees."[8]
4. **Using communication and messaging for effective policy and advocacy work.** The foundation increased its own communications capacity to support grantees and highlight grantees' work. The foundation also offered media training and assistance with messaging around complex health policy issues, and its communication grantees translated policy issues for the mainstream media and diverse stakeholders without health policy expertise.

Challenges

While the foundation was, in fact, able to apply what it had learned from prior advocacy initiatives, working in a time of a rapidly changing policy landscape presented some challenges, including the following:

- **Lack of clarity on policy positions and the foundation role.** Changes in state government leadership placed the foundation at odds with prevailing state policy directions, which uncovered a lack of clarity on specific policy positions among members of the foundation's staff and governance committees. This was compounded by an ongoing deliberation regarding the foundation's advocacy role. While the foundation made a decision to be an operating foundation as well as a grantmaking foundation, it was less clear how public the foundation would be on increasingly politicized policy issues.
- **Maintaining alignment with grantees.** Organizations took different positions as to how oppositional they would be to the new state administration. This divergence created tensions between and among the foundation and its grantees, and in response, the foundation developed mechanisms to maintain connections and alignment with key partners. As an example, the foundation created and led a working group of grantees and other partners to identify opportunities and strategies for coordinating and collaborating efforts to sustain the health policy wins from the past few years (such as Kentucky's Medicaid expansion, the state-based health insurance exchange, and the tobacco-free policy on state government property).
- **Breadth versus depth.** ACA implementation created unique policy opportunities for PRHP to contribute to Kentucky's success in outreach and enrollment. This focus, however, tilted foundation resources and staff capacity to one of its four policy priorities, thereby limiting the investments made in the other priorities. If the foundation had had a narrower policy focus, it might have had an even greater impact on state health policy.
- **Differing definitions of success for the initiative.** PRHP used a "policy spectrum" framework, which allowed for a broad understanding of policy and incorporated a wide array of strategies and tactics.[9] While this was embraced by grantees and foundation staff, there was a "strong focus from the Foundation's board on judging impact primarily through policy enactment," the final PRHP evaluation report said.[10] This divergence in how policy (and policy success) was defined became more pronounced as the initiative progressed.

Lessons Learned

The successes and challenges experienced throughout PRHP provided the foundation with lessons on how best to pursue policy change through investments by philanthropy and how funders can make policy more responsive to the needs of the communities they serve. Recommendations from the evaluation included the following:

1. **Clearly identify policy priorities and understand potential tradeoffs between a broad set of policy priorities and more focused policy goals.**
2. **Articulate the funder's role in the initiative, including the level of engagement in direct policy work**

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and how policy positions will be developed. Depending on the legal structure of the foundation, funders will need to be clear on their ability to lobby and the extent to which they can engage in lobbying.

3. **Align the focus and structure of grants with the necessary expertise and strategies [such as flexibility] needed to respond to the dynamic policy environment.** For example, for a health policy initiative such as PRHP, both the foundation staff and the grantees should have expertise in health policy. And it is also important to contract with experienced researchers who can provide data and research findings to the foundation, grantees, and interested members of the general public.
4. **Build awareness of the broad spectrum of strategies needed to develop, enact, and implement policy.**
5. **Consider long-term investments to build infrastructure in key partner organizations.**[11]

Notes

1. M. Gabriela Alcalde and Maggie Jones, "Investing In Policy And Advocacy: A Foundation Shares Lessons Learned," *Health Affairs* Blog, June 6, 2017, healthaffairs.org/blog/2017/06/06/investing-in-policy-and-advocacy-a-foundation-shares-lessons-learned/.

2. "Promoting Responsive Health Policy (PRHP)," Foundation for a Healthy Kentucky, www.healthy-ky.org/about-us/current-initiatives/promoting-responsive-health-policy.

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