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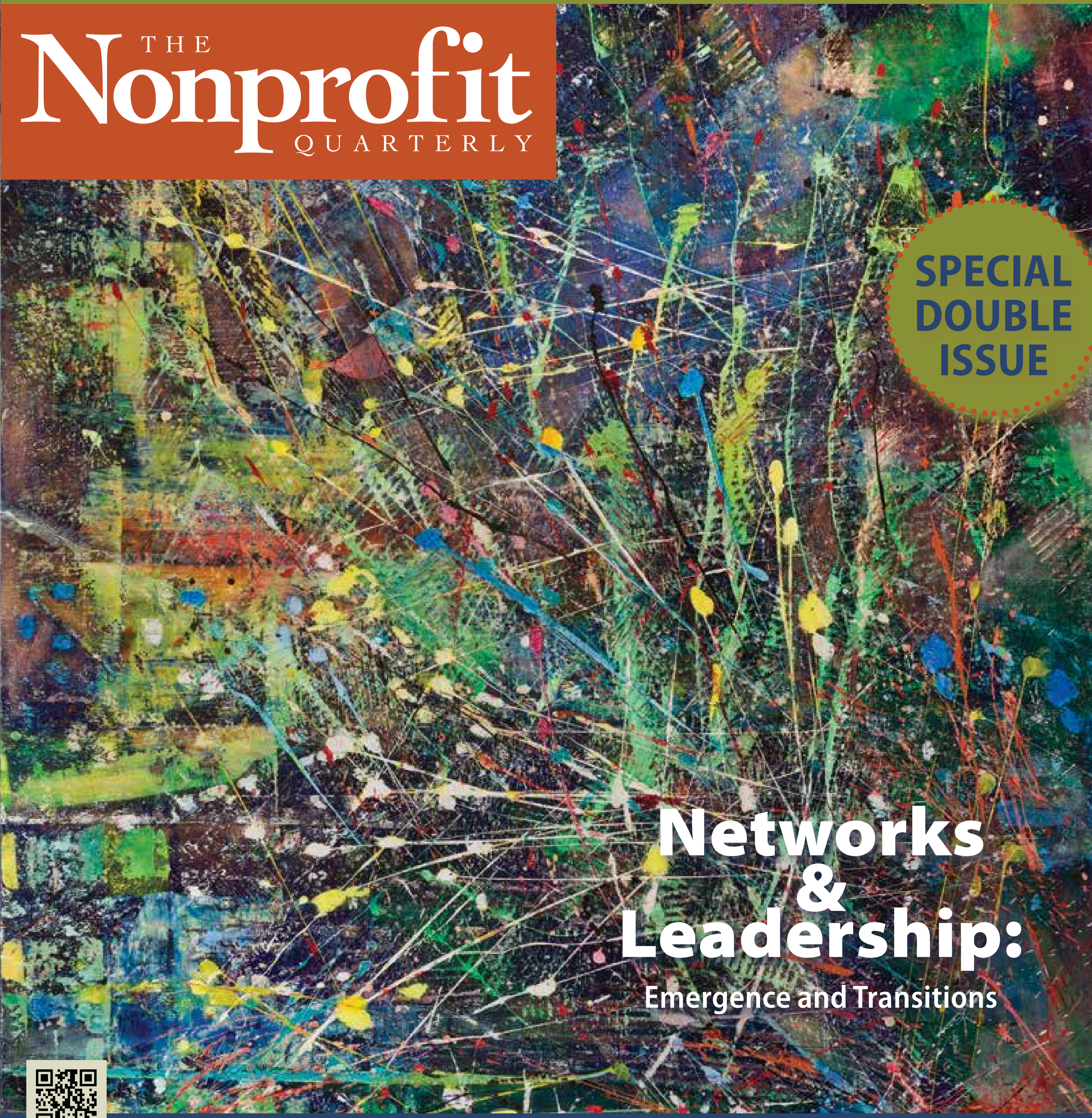


SPECIAL DOUBLE ISSUE

Networks & Leadership:

Emergence and Transitions

Leach and Mazur *on* Movement Networks

Waddell, McLachlan, and Dentoni *on* Networks Tackling Wicked Problems

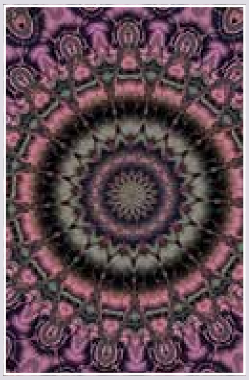
Adams, Herman, and Wolfred *on* Exit Agreements for Nonprofit CEOs

Volume 20, Issue 3/4

THE Nonprofit QUARTERLY

Fall/Winter 2013

Features



Page 6

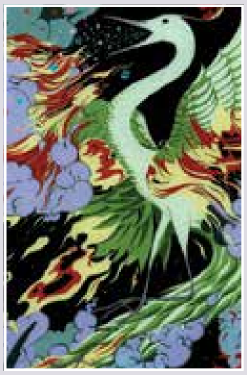
Page 16

Page 34

COVER DESIGN BY KATE CANFIELD
COVER ART: "THE KEY PARTICLES" BY NESTOR TORO/WWW.NESTORTORO.COM

Departments

Page 42



Page 56

THE Nonprofit QUARTERLY

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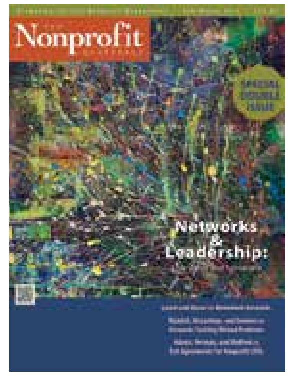
Nonprofit Information Networking Association
Ruth McCambridge, Executive Director

Welcome



Dear readers,
We would like to welcome you to our special double issue on networks and leadership. The two topics fit very well together, as you will note in reading through the articles, because one's individual stance, self-awareness, and deployment are integral to one's effectiveness in a network setting. To paraphrase a number of papers we read on the subject in preparation for this edition, if you are in the core or trusted hub of a network but you do not reflect its values, you will probably not be there for very long.

This means that one is constantly being tested anew, as new challenges emerge and new network members are attracted.

We do not as a habit thank our guides on a particular edition of the magazine, but in the case of this issue there are a number of people and entities we would like to thank for the degree of coherence they helped us to achieve. (We ask you, however, not to blame them for our errors.)

First, we must thank the Barr Foundation, which funded *NPQ* for the past year to cover networks in the civil sector. Barr has done some important work in surfacing and talking about the role of networks among its grantees in Boston. Its work under departing executive Patricia Barr has been bold and forward thinking, and informed by its partners working in diverse active communities all over the area.

We would also like to thank the Management Assistance Group (MAG), of Washington, DC, for its deep and practical research on the uses of networks in movement building. MAG consults with and researches the topic with groups that are involved in national movement networks.

Finally, we thank David Karpf, author of *The MoveOn Effect: The Unexpected Transformation of American Political Advocacy*, for his guidance in understanding the emergence of new, game-changing types of networks in our political environment.

In the end, *NPQ* sees the increasing understanding of and respect for networks as an organizing form as part and parcel of a larger shift that will forever change how we get things done in the social sector—improving our potential for real impact through diversity, resilience, and adaptability.

The Nonprofit Ethicist

by Woods Bowman

If a board president and an executive director are closely related, the board's most important job—to hire and fire an ED—is compromised; if your brand-new organization has a potential financial conflict of interest with a founder, you face the risk of losing your tax-exempt status or even of going broke; and, it is probably not a good idea for an organization to accept an invitation to apply for a credit card at a board chair's bank.

Dear Nonprofit Ethicist,

I was recently fired from the finance committee of a San Diego nonprofit (by its board president; I am not on the board of directors.) The board president is the interim executive director's mother. Although "technically" she leaves the room when personnel matters are discussed, she has "mentioned" to board members that her daughter will quit if the board goes through with an ED search rather than naming her daughter to the permanent ED position.

By firing me, she is holding back negative information about her daughter's management capabilities from the full board. (In my committee work, I uncovered many, many examples of the interim ED's financial mistakes.) The nonprofit is an affiliate of a large national nonprofit. I believe that the board president received bad advice from the national office when she asked for counsel on the potential conflict of interest when her daughter was first up for the job; I think someone with authority told her it would be fine to continue as board president so long as she left the room during personnel discussions. Obviously, she is exerting influence in other unhealthy and/or unethical ways.

Here's my question: You and I both know it's wrong (right?), but how do I "educate" the misguided board and the national advisor about what is appropriate? I think they may need some remedial ethics training.

Out-in-the-Cold

Dear Out-in-the-Cold,

You're right, it's wrong. Tell the board that ethical rules in organizations are not to be followed for their own sake—unlike the Ten Commandments. They are essential to a sustainable organization that attracts the best people to work for it. The "chemistry" between board chair and executive director is a critical component of a healthy nonprofit. They must be candid with each other and mutually supportive. However, each must be unafraid to be critical of the other, which is sometimes too easy and at other times too hard in a parent-child relationship.

The most important job of a board is to hire and fire an executive director. If the executive director is the board chair's daughter, the board cannot fire the daughter without deeply embarrassing the mother, whether the mother is in the room or not when the fateful decision is made. So, with all due respect to national headquarters, it is bad business and a spit in the eye of common sense for the board chair to be related to an executive director (or interim executive director). I would go further and broaden this prohibition to include any senior staff member. Either the board chair should step down or the interim executive should leave right now. Assuming this does not happen, the board should wait until she threatens to quit if a search is launched for a permanent executive director, and then say, "Good, and goodbye."

Dear Nonprofit Ethicist,

I'm helping a team of rural community leaders start a school for post-secondary career and technical education certifications. Eventually, the founders would like to offer associate's and bachelor's degrees as a member of the Work Colleges Consortium. For now, though, the biggest challenge is starting from the ground up and making sure we can responsibly use assets that are being made available. How does the fledgling board deal with the following potential conflicts of interest?

The man with the original idea was on the founding board of a similarly structured successful institution in the 1980s. He owns a hundred-thousand-square-foot warehouse as well as welding and machining equipment, which he would like us to use in our educational programs. In addition, as he is passionate about the cause and has experience implementing education systems, he is the obvious first pick for board president for this remote rural community. He is a master electrician and would not have time to be employed by the trade school beyond maybe teaching a class or two, but he is also interested in teaching.

His enthusiasm for volunteer service paired with teaching skills is a precious commodity to the founders, who want to involve as many people like him as they can. And, while the founders would prefer to lease the factory in incremental growth phases rather than buy it, after some investigation there is no comparably suitable space within fifty miles to be found, unless the organization were to purchase land and embark on new construction, which is ridiculously more expensive than modifying a leased area to suit.

So there is much to consider: on the one hand, there may be conflict if the board feels that a move to another facility may be prudent in the future. And, is a person involved in everyday program delivery the best fit to serve as president? At this time active community volunteers have other commitments, and after six months of looking for alternatives, the trade school founder does seem the best to lead the fight during this initial establishment stage.

Are these such major conflict-of-interest problems that the IRS would likely deny the school's tax-exempt status?

Anxious

Dear Anxious,

The IRS may not deny you tax-exempt status (I suspect it won't), but you could quickly go broke if you bought the building with borrowed money and it remained half empty. Leasing space incrementally with an option to buy is a better way to go.

The situation with the founder is made to order for conflict of interest (COI) problems. The board should adopt a COI policy right away. For guidance, see Appendix A to the instructions for Form 1023, Application for Recognition of Exemption Under Section 501(c)(3) of the Internal Revenue Code.

Assuming you receive 501(c)(3) recognition, your founder could face Intermediate Sanctions (fines disguised as taxes) if he engages in less-than-arm's-length transactions with your organization—whether or not he is on the board. He could have more to worry about than you.

Dear Nonprofit Ethicist,

An organization I am familiar with has a board chair who, in her day job, is a banker. This chair invited the ED to apply for a corporate credit card at her bank. Assuming the chair's bank has competitive rates, is this unethical?

Just Asking

Dear Just Asking,

An organization will find money management easier if it uses a corporate credit card issued by the same bank where it has a checking account. If it pays the bill in full every month, rates will make no difference. (Don't forget about annual fees.)

A bigger issue arises if the board chair works for the bank where the organization has its checking account. The chair could use her position to push the organization into borrowing for capital expansion instead of launching a capital campaign. With a long-term debt, borrowing rates matter big-time. Alternatively, if the board chair works for a rival bank, she may be setting her sights on using a credit card account as a hook to snag the corporate deposit account.

By the way, in a credit card deal, don't forget to establish a policy regarding side benefits for card users, such as airline miles. All side benefits should accrue to the organization, not individual users.

Woods Bowman is professor emeritus of public service management at DePaul University, in Chicago, Illinois.

To comment on this article, write to us at feedback@npqmag.org. Order reprints from http://store.nonprofitquarterly.org, using code 200301.

Ask the Ethicist about Your Conundrum

Write to the Ethicist about your organization's ethical quandary at feedback@npqmag.org.

A Network Way of Working:
A Compilation of Considerations about Effectiveness in Networks

by the editors

Many, if not most of us, are engaged in working with networks, whether purposefully or not. But either way, we should endeavor to make good use of them. This article presents some of the thinking around the uses and benefits of networks, and reminds us that we are facing a brave new world, with new dynamics and a lot more promise for change.

"In groups we can do together what we cannot achieve alone. With networks and new computer-based tools now ordinary people can become a group even without the benefit of a corporation or organization. They can make decisions, own and sell assets, accomplish tasks by exploiting the technology available. They no longer need to rely on a politician to make decisions. They can exercise meaningful power themselves about national, state and local—indeed global—issues. Senior citizens and teenagers use networked handheld computers to police the conditions of urban land use. The Google search engine offers a "Google Groups" service to make it easier for people to create and maintain groups and to do everything from "treating carpal tunnel syndrome [to] disputing a cell phone bill." The mobile phone "smart mob" allows groups to self-organize a political protest or campaign, such as the one that elected the president of South Korea. Young people are meeting in video games and using the virtual world to organize real world charitable relief for victims of natural disasters. When the Chihuahua owners of San Diego, California, get together via Meetup.com, they discover not only a shared animal affinity, but also their ability to change the

"WRAP" BY KEVIN DWYER/WWW.WOOBURNTAICHI.CO.UK

conditions of local parks, affect local leash laws, and police the park for themselves. Meetups have no offices, secretaries, water coolers, or other appurtenances of formal organizations yet they have as much effect. Parents come together to decide on policy in their children's school or a group of scientists collaborate to overthrow an age-old publishing model and distribute their research collectively online."

—Beth Simone Noveck, "A Democracy of Groups"[1]

[I]f you take networks seriously, you will be working in a brave new world, with new dynamics and a lot more promise for change.

"Wherever we look, we see a landscape of movement and complexity, of forms that come and go, of structures that are not from organizational charts or job descriptions, but from impulses arriving out of deep natural processes of growth and of self-renewal. In our desire to control our organizations, we have detached ourselves from the forces that create order in the universe. All these years we have confused control with order. So what if we reframed the search? What if we stop looking for control and begin the search for order, which we can see everywhere around us in living dynamic systems?

It is time, I believe, to become a community of inquirers, serious explorers seeking to discover the essence of order—order we will find even in the heart of chaos. It is time to relinquish the limits we have placed on our organizations, time to release our defenses and fear. Time to take up new lenses and explore beyond our known boundaries. It is time to become full participants in this universe of emergent order."

—Margaret J. Wheatley, "Chaos and Complexity: What Can Science Teach?"[2]

"Wikis and other social media are engendering networked ways of behaving—ways of working wikily—that are characterized by principles of openness, transparency, decentralized decision making, and distributed action. These new approaches to connecting people and organizing work are now allowing us to do old things in new ways, and to try completely new things that weren't possible before."

—The David and Lucile Packard Foundation, "Network Effectiveness Theory of Change"[3]

If you want to have an effect on poverty, hunger, human trafficking, immigration, labor rights, the torture of political prisoners, the economic development of your region, education, healthcare, or any one of a number of issues we discuss and work on in this sector, it is likely you will be working in networks.

While networks have always existed in our work in the civil sector, we are all on a learning curve about their use. Our perception of them and our approach to working with them are changing with the facilitation of technology and the Internet. The potential of leveraged learning, reach, and impact through ever-expanding networks of networks calls us to engage—but if you take networks seriously, you will be working in a brave new world, with new dynamics and a lot more promise for change.

In this framing article, *NPQ* will try, in short form, to introduce you to some of the current thinking around the uses and benefits of networks, without hitting you with a lot of maps and discussions of qualifiers like "density." To do so, we have compiled material from some of the thought leaders in this field. Please, though, read this with the understanding that we know you are already working in networks at many different levels; our goal with this article is to reveal some of the thinking around their strategic uses in achieving much bigger impact and influence than you have likely in the past enjoyed. (We do wish to acknowledge that we talk less here about networks of service or production than of those of social change. And, there are some fascinating models developing in the economy that we will address in our next edition of *NPQ*.)

Intentionality

"Both organisations and individuals can participate in networks. But the participants in networks are characterized by their diversity, including geographical diversity, as well as cultural, lingual, and at times also ideological diversity."

"The way actors participate in networks is very diverse, ranging from voting in elections to participating in campaigns. Participation in networks is sporadic; at times very intensive, at times non-existent."

"A network may cease to exist once it reaches its goals, or the goals may be so broad and far-reaching that there is no reason for it ever to stop existing. Participation in a network will last as long as the members remain committed."[4]

Curtis Ogden describes some of the values we have to hold in order to make good use of networks:

- **Adaptability instead of control.** Thinking in networks means leading with an interest in adaptability over time. Given contextual complexity, it is impossible for any actor or "leader" to know exactly what must be done to address a particular issue, much less keep what should be a more decentralized and self-organizing group moving in lockstep. Pushing "response-ability" out to the edges is what helps networks survive and thrive.
- **Emergence instead of predictability.** As with any complex living system, when people come together as a group, we cannot always know what it is they will create. The whole is greater than the sum of the parts. Vying for the predictable means shortchanging ourselves of new possibilities, one of the great promises of networks.
- **Resilience and redundancy instead of rock stardom.** You see it on sports teams all the time. When the star player goes down, so goes the team. Resilient networks are built upon redundancy of function and a richness of interconnections, so that if one node goes away, the network can adjust and continue its work.
- **Contributions before credentials.** You've probably heard the story about the janitor who anonymously submitted his idea for a new shoe design during a company-wide contest, and won. "Expertise" and seniority can serve as a bottleneck and buzzkill in many organizations where ego gets in the way of excellence. If we are looking for new and better thinking, it should not matter from whence it comes. This is part of the value of crowdsourcing.
- **Diversity and divergence.** New thinking comes from the meeting of different fields, experience, and perspectives. Preaching to the choir gets us the same old (and tired) hymn. Furthermore, innovation is not a result of dictating or choosing from what is, but from expanding options and moving from convergent (and what often passes for strategic) thinking to design thinking.[5]

And the Barr Foundation recommends that you:

- Think about what you can do to increase your consciousness in using networks;
- Discover the hidden networks already in your operating environment and be more intentional about using them;
- Develop far-flung communities of practice—hives that create, adapt, and spread; and
- Be enthusiastic about the flowering of numerous experiments.[6]

What Networks Are

Very loosely described, networks consist of entities (nodes) in relationship with one another, and the flows (ties) that exist between them. These ties can be thought of as conduits or channels. The network is made up, then, not only of connected entities but of the stuff that is transferred between and among them, creating a "circulation of" and evolution of meaning.[7] Networks often have hubs or cores that organize work. Sometimes there is one hub (even if it is made up of multiple members) and a more centralized approach to decision making, and sometimes there are multiple hubs, and the network essentially self-organizes, often through the sharing of information and strategy. In networks, the importance of loose ties is recognized. Network edges or peripheries consist of those who are involved, but less so.

Very loosely described, networks consist of entities (nodes) in relationship with one another, and the flows (ties) that exist between them.

These important actors in the network are the bridges to other networks that may, in fact, prove critically useful at some point to inform or lend weight to your network's work.

Networks generally create value for individual members as well as for the network as a whole. They are reciprocal and tend to involve multiple value propositions for participants. They can be extraordinarily inclusive and rich in their diversity. In "A Network Analysis of Climate Change: Nonprofit Organizations in Metropolitan Boston," Ben Steinberg writes that "the ability to learn new information becomes easier with access to nontraditional experts within the network who can synthesize technical content into understandable material."[8] Networks may be experienced as:

- Temporary or continuous;
- Spontaneous or planned;
- Requiring a heavy or light investment of us—and often both over time;
- More centralized or multi-nodal; and/or
- Relatively closed or open in terms of membership.

Networks are often built or cohere to take on complex problems over time. They are a form that offers a great deal of potential leverage and that can evolve and adapt quickly to changing times—passing a portion of that adaptability along to its members while being continuously informed by them.

Networks generally create value for individual members as well as for the network as a whole. They are reciprocal and tend to involve multiple value propositions for participants.

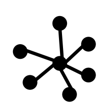
Network Structures

We promised ourselves that we would not use network maps in this article, but we do want to address issues of structure, because networks are very often not traditionally hierarchical but rather based upon the notion of opting in and out, relative to the amount of influence and impact you wish to have.

Structural Shapes[9]

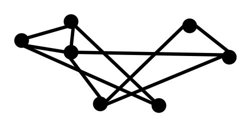
Network structures make revealing pictures.

When many nodes connect to a single node, a **Hub-and-Spokes** or **Star** structure is created. Each of the spoke nodes has one link, while the central node is linked to all other nodes.



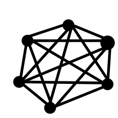
Hub-and -Spokes
(Eureka)

When many nodes connect to each other in various configurations, a **Many Channels** structure is created. Each node may have several links through which it can reach other nodes.



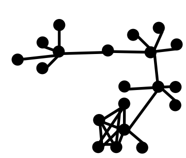
Many Channels
(Lawrence Community Works)

When a number of nodes are connected to each other, a **Dense Cluster** is created. Each node is connected directly to all of the other nodes.



Dense Cluster
(VT Smart Growth Collaborative)

When hubs connect to one another, either directly or through spokes, a **Branching** or **Multi-Tiered** structure is created. Nodes may have fairly long paths, through central nodes, to reach each other.



Branching
(Boston Parents Organizing Network)

Purposeful Action Networks

> *New forms of participation are emerging that are not dependent on identity, contiguity, or conversation. Peter Steiner's famous* New Yorker *cartoon captioned "On the Internet, no one knows you are a dog," might now be entitled "On the Internet, no one knows you are a pack of dogs."*
>
> —Beth Simone Noveck, "A Democracy of Groups"[10]

Sometimes, even the loosest of networks do not know they are headed toward an action until they get there, and they may not know that they are part of a larger network of concern. How does a diverse network of networks without centralized control pull it together to take cohesive action or make change? This can happen seemingly very quickly—in the blink of an eye—but there may be another understanding of that watershed moment.

Another form of the effect of networks as a totality on individual nodes is contained in the concept of "threshold," or what is sometimes called the "tipping point."[11] This idea refers to the extent to which a given phenomenon is spread throughout a network. Once a certain level has been reached, all of the nodes join in the behavior or phenomenon. In this model, the probability of any individual node's acting is a function of the number of other nodes in the network that have acted in a given way or possess the given quality. It is a step function, rather than a linear one. Thus, the action is not necessarily dependent upon one's immediate partner(s) but rather on the relative number of nodes throughout the network that have adopted the given behavior or attribute. This is not only a key idea in "crowd behavior," where the adoption of the behavior is visible to all, but also in other kinds of diffusion models. Following our insistence that network models apply to macro- as well as micro-phenomena, the adoption of behaviors by other organizations as an influence on the focal organization is a key component to the theory of the "new institutionalism."

Characteristics of Action Networks

- They are diverse and inclusive of multiple organizations and people who have a stake in creating a change.
- They foster trust and accountability by weaving connections through personal relationships.
- They use shared platforms to communicate and track progress.
- They connect resources to catalyze and spread innovation.
- They form a dense core of connections among people and organizations that have a shared purpose, and actively cultivate new connections to extend reach and influence and to foster innovation.[12]

Sometimes, even the loosest of networks do not know they are headed toward an action until they get there, and they may not know that they are part of a larger network of concern.

Social Change Networks

Networks do not have to progress to taking action together, but those that do have characteristics that are described well in "Organizations, Coalitions and Movements," by Mario Diani and Ivano Bison. In the article, Diani and Bison describe the importance of the resilient diversity of networks to movement building or the pursuit of social change:

> [T]he presence of dense informal interorganizational networks differentiates social movement processes from the innumerable instances in which collective action takes place and is coordinated mostly within the boundaries of specific organizations. A social movement process is in place to the extent that both individual and organized actors, while keeping their autonomy and independence, engage in sustained exchanges of resources in pursuit of common goals. The coordination of specific initiatives, the regulation of individual actors' conduct, and the definition of strategies are all dependent on permanent negotiations between the individuals and the organizations involved in collective action. No single organized actor, no matter how powerful, can claim to represent a movement as a whole. An important consequence of the role of network dynamics is that more opportunities arise for highly

committed or skilled individuals to play an independent role in the political process, than would be the case when action is concentrated within formal organizations.[13]

Networks allow us to achieve some of the benefits of scale with few of the downsides . . .

A paper by Ricardo Wilson-Grau and Martha Nuñez, on the uses of networks in taking on social change on an international scale, describes the distinct purpose that can be fulfilled by an international social action network:

> [A] network offers unique political and organisational potential. Social change networks can influence economic, political and cultural structures and relations in ways that are impossible for individual actors. In these networks, the members are autonomous organisations—usually NGOs or community based organisations—and sometimes individuals. Furthermore, when the network is international, its aims and activities reflect the heterogeneous contexts represented by its members.[14]

An international social change network typically performs a combination of two or more of the following functions:

- Filtering, processing and *managing knowledge* for the members;
- *Promoting dialogue, exchange, and learning* among members;
- *Shaping the agenda* by amplifying little-known or little-understood ideas for the public;
- *Convening* organizations or people;
- *Facilitating action* by members and addressing global problems through knowledge of their local, national, and regional contexts;
- *Building community* by promoting and sustaining the values and standards of the group of individuals or organizations within it;
- *Mobilizing and rationalizing the use of resources* for members to carry out their activities; and/or
- *Strengthening international consciousness*, commitment, and solidarity.[15]

Benefits of Networks

While there is no choice about whether or not to engage in networks, one's use of them can be more, or less, effective. There is no doubt that they require time and strategic thinking. So what are the paybacks if you are using the organization's time to help networks develop?

In "Nonprofit Networking: The New Way to Grow," Jane Wei-Skillern's research-based opinions on the benefits of networks are described as including "mutual learning; enhanced legitimacy and status for the members; economic power; and an enhanced ability to manage uncertainty." And, she suggests that nonprofits may be more suited to the network form, because the issues they are trying to solve are "large, complex problems that can't be addressed by any single entity. Furthermore, nonprofits seek to create social value, not just organizational value; have dispersed governance structures . . . and rely heavily on trust and relationships to accomplish their work."[16]

Additionally, Wei-Skillern believes that working within networks might help them to focus on their cause in a more entrepreneurial way than if they were working as a growing individual organization. Such growth, she believes, focuses leaders on management challenges at the organizational level, when they should be thinking more about "how best to mobilize resources both within and outside organizational boundaries to achieve their social aims."[17]

Networks allow us to achieve some of the benefits of scale with few of the downsides, and to craft more comprehensive approaches to social problems than we can manage as single organizations. They provide the ability to link local approaches to national and international efforts, or to create "value chains" across dissimilar organizations that complement one another's work.

In their handbook *Net Gains*, Madeleine Taylor and Peter Plastrik describe network effects that distinguish networks from organizations:

1. **Rapid growth and diffusion.** A network grows rapidly as new members provide access to additional connections, thus enabling the network to diffuse information, ideas, and other resources more and more widely through its links.
2. **"Small-world" reach.** A network creates remarkably short "pathways" between individuals separated by geographic or social

distance, bringing people together efficiently and in unexpected combinations.

3. **Resilience.** A network withstands stresses, such as the dissolution of one or more links, because its nodes quickly reorganize around disruptions or bottlenecks without a significant decline in functionality.
4. **Adaptive capacity.** A network assembles capacities and disassembles them with relative ease, responding nimbly to new opportunities and challenges.[18]

Thought-Provoking Hypothesis from the Packard Foundation

"Healthy networks measure their impact, in particular by establishing the links between decentralized network action and outcomes."[19]

Observing with Many Eyes—Understanding What the "It" Is that the Network Addresses

Jay Rosen, a media observer, wrote a column a few years ago titled "Covering Wicked Problems," in which he describes how journalists might better cover problems like climate change:

> Suppose we had such a beat. How would you do it? How might it work? . . . It would be a network, not a person. My friend Dan Gillmor, the first newspaper journalist to have a blog, said something extremely important in 1999, when he was reporting on Silicon Valley for the *San Jose Mercury News*. "My readers know more than I do." So simple and profound. Any beat where the important knowledge is widely distributed should be imagined from the beginning as a network.
>
> The wicked problems beat would have to be a network because the people who know about coping with such problems are unevenly distributed around the world. Imagine a beat that lives on the Net and is managed by an individual journalist but "owned" by the thousands who contribute to it. Journalists from news organizations all over the world can tap into it and develop stories out of it, but the beat itself resides in the network. In the way I imagine this working, news organizations that are members of the beat might "refer" problems discovered on other beats to the wicked problems network and say . . . "look into this, will you?" The beat would in turn refer story ideas and investigations back to the member newsrooms . . .[20]

This method of understanding a thing has many benefits, in that it allows the "it" to be viewed and defined from multiple perspectives in different contexts, and on a continuous basis as the "it" changes in response to environmental and developmental factors. This makes it well suited to the times and to the diversity of our sector. It is also an old saw of organizing that people take ownership of things that they help to define, so that there is a link between definition and action.

Mobilizing through Networks

The creation of a social response to a national or even global concern can "self-organize" very quickly now with the revelation of a problem hitting an existing interest network. The multiplier effect of networks informing networks happens quickly, and in many cases actions begin to take form at the nodal level. One node might take on a legislative push while another node organizes a boycott of some sort. The actions are loosely connected but coordinated by a purpose and the knowledge of what is occurring elsewhere.

This multi-nodal model is different from an industrial view of networks, which has often envisioned them as having a single hub with multiple spokes. Valdis Krebs and June Holley, in their paper "Building Smart Communities through Network Weaving," suggested that this sort of network was "only a temporary step in community growth. It should not be used for long because it concentrates both power and vulnerability in one node."[21] The beauty of a multi-nodal network is that it leaves the network less vulnerable to single source failure and it also expands the "edges" of the network. Those edges are important, because the people there likely belong to and can bridge to other networks. As a network grows, there will be some nodes with close ties, which help

The creation of a social response to a national or even global concern can "self-organize" very quickly now with the revelation of a problem hitting an existing interest network.

to organize activity of the whole; but the growth will include a lot of looser ties, which facilitate the flow of information from otherwise distant parts of a network. Charles Kadushin writes that "social systems lacking in weak ties will be fragmented and incoherent. New ideas will spread slowly, scientific endeavors will be handicapped, and subgroups that are separated by race, ethnicity, geography or other characteristics will have difficulty reaching a modus vivendi."[22] But, again, the whole network functions on reciprocality. So, according to Kadushin:

> Cores possess whatever attributes are most valued by the network. While this seems like a simple tautology it is not and may be the result of extremely complex processes. The network is about relationships and flows, not about the attributes of the nodes. This proposition says that in core/periphery structures the valuation of the attributes is related to the structure. The proposition does not state which comes first, however one must ask, do the nodes that have the most of what is valued come to be the core, or do the nodes that already have the most of what is valued impose their values on others who have less and confine them to the periphery?[23]

The creation of a network of longer-term action often requires more intimacy, because you must depend upon one another in a sustained strategy . . .

The creation of a network of longer-term action often requires more intimacy, because you must depend upon one another in a sustained strategy, but both types of networks exist in a world where boundaries are shifting and becoming more permeable. Some of this may be due to the fact that greater numbers of people are participating in greater numbers of networks; and to some extent within that context, focus and loyalty to a particular common cause may become the boundary that matters.

Making things more interesting, hybridity exists within networks quite naturally. Individuals and organizations may contribute in small or large ways; nonprofits and for-profits, co-ops and parties and government agencies, may participate in getting something done in common with one other, ensuring that their organizational purpose is met within the larger effort. But all is not equal in network land—some have the resources to get a bird's-eye view of emergent patterns through the surveillance of others. This occurs not only in the government sector but also in business, and, probably to some extent, among independent hackers. But the large majority of us must depend upon the sometimes chaotic world of creating common cause and new order through shared experience, strength, and hope. In "Chaos and Complexity: What Can Science Teach?," Margaret J. Wheatley stated:

> At the end of the 1970s, Ilya Prigogene won the Nobel Prize for exploring what happens to living organic systems when confronted with high levels of stress and turbulence. He found that they reached a point in which they let go of their present structure. They fell apart, they disintegrated. But they had two choices. They could die or reorganize themselves in a self-organizing process and truly transform their ability, their capacity to function well in their changing environment.
>
> This self-organizing process feeds on information that is new, disturbing and different. We are confronted with information we cannot fit into the present structure, and our first response to that kind of information (whether we are molecules or CEOs) is to discount it. We push it away. But [if] the information becomes so large and meaningful that the system cannot hold it, then the system will fall apart. But it will fall apart with the opportunity to reconfigure itself around this new information in a way that is more adaptive and healthier. It can suddenly explode, grow and change.
>
> Erich Jantsch, a systems scientist, said that "self-organization lets us feel a quality of the world which gives birth to ever new forms against a background of constant change."[24]

• • •

Later in this issue, thanks to the Management Assistance Group (MAG), you will see a few leadership case studies that discuss what is necessary at a personal level to be one of many leaders in a network, especially when heading an organization. You will also read about how organizations change when they become part of a networked effort. This may mean that our organizing principles are changing a bit, or at least that the contradiction between consolidation under the few and order of the many is playing out full blast among us. At the core of that is the struggle for and against control as the arbiter of order.

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Creating Culture:
Promising Practices of Successful Movement Networks

by Mark Leach, DBA, and Laurie Mazur

When the Management Assistance Group (MAG) first launched an investigation into what makes an effective movement network, they hoped to uncover a set of best practices (or at least some widely shared approaches), as well as insight into the structures and systems that enable networks to thrive. What they discovered was less formulaic but a lot more interesting. Rather than focusing on problem solving, or on leaders, or on structure, successful movement networks create a shared culture and mindset among their leaders and do two things very well: build trust and embrace change.

Editors' note: *The Management Assistance Group (MAG) strengthens visionary social justice organizations, leaders, and networks to create a more just world. To those ends, MAG develops innovative approaches to capacity building; conducts research on critical organizational issues faced by clients; and shares insights with the social justice sector and the nonprofit organizational development field.*

Two years ago, President Barack Obama announced a regulatory change that guarantees labor protections for an overlooked group of workers: home caregivers. At his side, beaming with triumph, were members of the Caring Across Generations campaign.

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Caring Across Generations (CAG) is a diverse coalition that includes caregivers, senior citizens, people with disabilities, and immigrant advocacy organizations. The group came together to address interconnected crises: a shortage of home caregivers to support the growing numbers of elderly and disabled Americans; a lack of basic job protections—such as minimum wage and overtime laws—for those caregivers; and the lack of affordable long-term care services for individuals and families.

This unlikely alliance has borne fruit. In addition to winning its short-term regulatory goal, CAG is addressing longer-term, structural problems. It has made visible the plight of workers in the "informal" sector, and it has united groups that

"GLADIOLAS SACCATUS" BY HEATHER GULLIVER/WWW.HGULLIVER.COM


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With fluid boundaries of structure and membership, movement networks (and the organizations that comprise them) require new approaches to management and leadership . . .

have sometimes been at odds to understand and act upon their common interests.

Importantly, CAG demonstrates the power and promise of networked approaches to social change. Cross-issue "movement networks," in particular, can create a force larger than the sum of their parts. They can deploy a diverse array of assets and strategies, enabling advocates to amass political power, scale up impact, and win—both in the policy arena and in the battle for hearts and minds.[1]

Yet while movement networks offer extraordinary leverage, they also present outsized challenges. With fluid boundaries of structure and membership, movement networks (and the organizations that comprise them) require new approaches to management and leadership— approaches that are different from those employed by traditional nonprofit organizations and short-term, issue-based coalitions.

Like the social issues they address, movement networks are complex. They must balance the autonomy of individual members with the need for collective action and accountability. They must address the needs of both existing and emerging members while straddling political disagreements and differences in power, worldview, and approaches to the work. They must maintain transparency and engagement in decision-making processes while rapidly responding to changing conditions. And they must do all this with an eye to long-term movement impact that transforms relationships of power.

How can movement networks seize the possibilities—and elude the pitfalls—of cross-issue collaboration? Here at the Management Assistance Group, which provides consulting services to nonprofit social-change agents, the question has loomed large in our daily work. To shed some light on the answer, we launched a multipronged inquiry in 2009.

An initial set of interviews with activists and funders helped us to define and describe movement networks; those findings were captured by MAG managing director Robin Katcher in "Unstill Waters: The Fluid Role of Networks in Social Movements," which appeared in these pages in 2010.[2]

Next, we explored the qualities that distinguish successful leaders of movement networks. We identified three highly effective leaders: Eveline Shen, of Forward Together; Gustavo Torres, of CASA de Maryland; and Sarita Gupta, of Jobs with Justice. (Gupta also helped organize the Caring Across Generations campaign, which achieved the regulatory victory described above.) Through more than thirty interviews with the leaders and their colleagues, we developed detailed portraits of these three movement network leaders.

Finally, we launched the Network Leadership Innovation Lab, a multiyear program of dialogue, analysis, and active learning. The Lab convenes social change leaders and taps the best thinkers and practitioners to advance our shared knowledge at the intersection of leadership development, organization and network strengthening, and movement building. At Lab convenings, movement network leaders wrestle together with the greatest challenges and rewards of their work.

What We Are Learning

Initially, we hoped to offer some best practices for people and organizations in movement networks—if not "The Seven Habits of Highly Effective Network Leaders," then at least some widely shared approaches. And we thought that perhaps we could offer some insight into the structures and practices that enable networks to resolve common problems. What we found was less formulaic but a lot more interesting. We learned that:

It's not all about problem solving. As we will explain, movement networks confront a range of unique tensions and challenges (see figure 1). But these tensions are rarely resolved; instead, coping with and balancing seemingly intractable tension becomes second nature for leaders and staff in movement networks.

It's not all about the leaders. Our focus on leaders changed over time, as we realized that leadership is broadly shared in movement networks (and in the organizations that constitute the networks). Networks and their constituent organizations develop practices and cultures that go far beyond the capacities of a few exceptionally talented leaders. At some point, managing complexity and tensions becomes everyone's job. This is not to say that leaders are unimportant; rather, network leadership looks very different from traditional models of "heroic" leadership—for example, it doesn't necessarily come from the top.

It's not all about the structure. Focus on structure is a red herring in movement networks, whose structures change and adapt with startling frequency. In fact, highly stable structures appear to be impediments to network growth and to the intersectoral alliances at the heart of building movement power.

So, what *is* it all about? From our inquiry so far, we can draw a few preliminary generalizations. First, effective movement networks create a shared culture and mindset among their members, and leaders play an important role in modeling that mindset. Second, while each network culture is unique, all of the effective networks we have studied do two things very well: build trust and embrace change (see figure 2, p. 21). As we will see, a bedrock foundation of trust and an openness to change can help movement networks navigate (if not resolve) the many challenges inherent in movement building.

In this article, we will share some of the insights gleaned from our inquiry into movement networks. We will delineate the tensions and challenges that networks confront, and offer some observations on how effective network leaders cope with them. We will also show how those leaders foster a culture and mindset that is conducive to success.

Focus on structure is a red herring in movement networks, whose structures change and adapt with startling frequency.

Figure 1: **Ongoing Tensions in Movement Networks**

Tensions	How Effective Leaders Approach Them
Dealing constructively with conflict in the network Accommodating/smoothing ⟷ Surfacing healthy disagreement	• Identifying and naming conflicts • Facilitating difficult conversations and interventions • Modeling assertiveness without escalating tension
Balancing organizational and network goals and priorities, including fundraising Organizational interests ⟷ Network/movement interests	• Maintaining deep commitment to movement building • Enlarging definition of organization's constituencies to pursue larger issues • Collaborative fundraising, negotiating with funders to reduce competition for funds • Setting the terms of relationships with funders • Ensuring network is not funded at expense of members • Seeing long-term implications of supporting network for movement and own organization
Building and sharing leadership within the network Leaders' control, autonomy ⟷ Involvement, buy-in, leadership capacity building of others	• Sharing power, cultivating leadership at every level • Non-attachment to ego
Consolidating and distributing power Leveraging power the bigger groups have amassed ⟷ Ensuring leadership, engagement, and growth of smaller, grassroots, POC, and other marginalized groups	• Bridging between grassroots and power brokers • Leveraging power of larger groups/movements in support of grassroots
Balancing short- and long-term goals for the network Forging transactional alliances/pursuing short-term wins ⟷ Building long-term relationships that can advance major transformations	• Articulating the vision • Keeping eyes on the prize • Combining long-term vision with short-term benchmarks and concrete "wins"

[T]he mind-boggling complexity and dynamism within which these networks and organizations function may mean that we are always evolving useful and promising practices without definitively settling anywhere.

But first, a caveat: we recognize that it is far too early in the field's understanding of movement networks to start proclaiming "best practices" or drawing final conclusions. Indeed, the mind-boggling complexity and dynamism within which these networks and organizations function may mean that we are always evolving useful and promising practices without definitively settling anywhere. Accordingly, we seek to share what we learn as we go along; invite others into the conversation; and hold what we think we're learning very lightly.

This approach may be unsettling for capacity builders to whom leaders and organizations look for answers. Indeed it has been unsettling for us at MAG. But we shouldn't be surprised that capacity builders—like the social change agents with whom we work—must learn to adapt to uncertainty and constant change.

A Growing Body of Thought

Our observations about networks harmonize with a growing body of thought about complex systems. For example, Margaret J. Wheatley's early work with chaos theory challenged the traditional view that organizations behave in predictable, machinelike ways. Instead, Wheatley called for recognition that organizations are living, dynamic organisms in constant flux.[3]

From the natural sciences comes an understanding of complex adaptive systems (CAS).[4] This model, which describes the life cycles of intertwined natural and social systems, has been used to analyze everything from forests to financial markets. CAS thinkers offer insights on building resilience into complex systems; their motto is "embrace change." In the organizational development realm, Dave Snowden and Mary Boone's work draws on CAS, as well as cognitive science, psychology, and anthropology, to help organizations navigate complexity and change.[5]

Our findings also resonate with a body of work on complexity of mind, which sheds light on how adults evolve their ability to process abstraction, and Jennifer Garvey Berger's use of that theory to develop more agile leadership for changing times.[6] Ronald Heifetz's work on adaptive leadership in novel and challenging situations applies as well.[7]

And there is overlap between our findings and new thinking on nonprofit networks and leadership, notably a pair of recent reports published by Grantmakers for Effective Organizations (GEO).[8] The GEO reports observe that effective networks require a distinctive mindset and "a stance toward leadership that prioritizes openness, transparency, making connections, and sharing control."[9] Similarly, research by the Building Movement Project concluded that successful shared leadership depends more on foundational work and practices than on any particular structure.[10]

Finally, it's worth noting that much of the new thinking about coping with complexity bears a striking resemblance to some very *old* thinking. For example, Zen Buddhism emphasizes impermanence and the interconnectedness of all things—an apt description of the movement network context. Other tenets of ancient traditions—letting go, nonattachment to ego, and compassion—frequently appear explicitly or implicitly in our case interviews as useful approaches for navigating the unstill waters of movement networks.

Challenges for Leaders in Movement Networks

In addition to the challenges that confront all nonprofit organizations, movement networks face certain inherent tensions and polarities. Network leaders play an important role in modeling a response to those tensions. Critically, successful leaders help their networks achieve two foundational tasks:

Building trust. This is the most fundamental, irreducible task for movement network leaders and members. Trust is the glue that holds networks together, binding leaders, organizations, constituency groups, issues, and sectors. Not surprisingly, each of the network leaders we have studied has an extraordinary ability to cultivate trust among colleagues and allies.

"She inherently builds a bedrock level of trust," says a colleague of Gupta's, executive director of Jobs with Justice. Gupta builds trust through long-term reciprocal relationships: "Fair exchange is not a hobby for her," adds the colleague. "It's very genuine and not just about getting what she needs. It's about her being in relationship with others. She reciprocates; she'll be there for you."[11]

Some movement networks develop trust over time; others grow from a base of solid relationships. Eveline Shen and her allies at Forward Together followed the latter trajectory. "I had been part of many coalitions that had fallen apart," Shen explains. "I wanted to figure out how to build something that would have strong enough glue that could utilize the inevitable disagreements that people are going to have when they work together [to build] collective understanding and strength."

In any case, maintaining a solid base of trusting relationships can pose significant challenges as a network grows. For network leaders, there is a painful irony: the more successful they are at building relationships and connecting with others, the greater the number of relationships they will have to manage, and the less time they will have for each.

Embracing change. Movement networks and the issues they address are ever changing, so a capacity to thrive in the face of change and uncertainty is key. As one member of the Jobs with Justice network explains, "Comfort with uncertainty means accepting all the discomfort of it and acknowledging that it's real, and then just being with the response to it. So that's part of it—really figuring out how you can shape an organizational culture around that."

Movement-oriented organizations can grow and change with head-spinning rapidity. At Forward Together, one staffer observed, "This is a staff that has doubled and more in size in the last two years. This is a staff for which most people's job descriptions have changed at least once in the last two years. This is an organization that five years ago was locally focused, then had a reproductive justice network, and now has changed its name and is a multiracial, national movement-building organization."

Successful movement networks have many ways of coping with change, but one common thread is a willingness to try new things, risk failure, and learn from one's mistakes. As a colleague said of Shen, "She is not afraid of being wrong. . . . She is not afraid of telling people, 'This is what we tried and it didn't work, so let's try something else.'"

Networks that have achieved these foundational tasks are well positioned to deal with the following five ongoing tensions in movement network building:

Dealing constructively with conflict in the network. This is akin to dealing with conflict within a single organization, but on a vastly different scale. Movement networks are inherently conflict laden, and their members are bound more loosely than co-workers within an organization. No one has the formal authority to hire, fire, or enforce compliance using the power of his or her position. To prevent conflicts from spinning out of control, network leaders must find the right balance between accommodating differences or smoothing over tensions on the one hand, and surfacing healthy disagreements on the other.

Successful network leaders are able to address important issues without escalating tensions. As a colleague said of Torres, "[He] is able to voice his positions and his opinion in a way that doesn't needlessly antagonize those who disagree with him." Gustavo has demonstrated an ability to constructively address even the most inflammatory tensions around race and class. As another colleague observes, "He won't say, 'Why do you, white person, feel like you should be dominating this discussion on immigrant

For network leaders, there is a painful irony: the more successful they are at building relationships and connecting with others, the greater the number of relationships they will have to manage, and the less time they will have for each.

Figure 2: **Foundational Tasks**

Tasks	How Effective Leaders Manage Them
Build trust	• Building, investing in relationships • Modeling personal integrity • Valuing what each network member brings to the table • Ensuring transparency and accountability • Clear, straightforward, accessible communications • Beginning with a trusted group
Embrace change	• Willingness to try new things and risk failure • Ability to learn from mistakes • Continual rethinking, reshaping of network structures • Openness to learning • Remaining calm and unflappable in crises

rights?' But he'll say, 'Wow, I'm really shocked that I'm the only Latino sitting at this table in the campaign for immigrant rights.'"

In EMERJ, one of the networks Shen helped to create, dealing with conflict was woven into the culture from the start. "From the minute we walked in the door to our first EMERJ convening," says one participant, "there was (a) an assumption that everyone had an organizational agenda; (b) no judgment about that agenda; (c) an expectation that there would be conflict; and, therefore, (d) we had to have something in place to handle conflict so that we could move on, so that we didn't set ourselves up for a situation where if we disagreed about something deeply, people would leave EMERJ." Another participant recalls, "I literally learned a new approach—that you could address conflict head on without damaging the person, the organization, or the entity that you disagree with."

Successful network leaders must constantly weigh their own control and autonomy against the larger goal of building leadership in the network.

Balancing organizational and network goals and priorities. Network leaders must protect and advance the interests of their own organizations, as well as those of the network as a whole. In some networks, this tension is negligible, because the interests of the network and its component groups are so closely aligned. More typically, tensions surface over issues such as visibility, credit for achievements, nuances in political positions, willingness to utilize different strategies and tactics, and the needs and concerns of various constituencies.

Perhaps the most corrosive tensions arise over the ever-present issue of money. Successful movement networks neutralize this tension by finding ways to reduce competition for funds. Some engage in collaborative fundraising, consolidating many groups into a single "bargaining unit" that funders can't ignore. Others take pains to ensure that the network is not funded at the expense of its members. For example, when Jobs with Justice and other groups launched the UNITY alliance, they made it clear to funders that money for UNITY should come from larger foundations with more resources, rather than from smaller foundations that provided essential funding to UNITY's component groups.

Building and sharing leadership within the network. No one person leads a network; by definition, leadership in movement networks is widely distributed. The networks we studied have countless leaders working at all levels—from neighborhood block captains to the CEOs of national organizations. Successful network leaders must constantly weigh their own control and autonomy against the larger goal of building leadership in the network. The leaders we profiled are often willing to sacrifice the former for the latter, and they are all exceptionally adept at cultivating the leadership of others.

A colleague of Torres's recalls, "When I was beginning to work with him, I was a little bit afraid of public speaking, and he threw me in front of two thousand members. I was like, 'You really are insane. You want me to speak? I have not rehearsed a speech.' He was like, 'You have it in you. It's in your heart.' Then he threw me the microphone, and therefore I had no choice. What did I do? I spoke, and I spoke from my heart. That's when I discovered that I could do this. I would not have found out if Gustavo didn't throw me that microphone."

Consolidating and distributing power. A similar dynamic plays out on a larger scale, as network leaders weigh the benefits of consolidating the influence of larger organizations against the need to empower smaller grassroots and marginalized groups. The most effective movement networks manage to do both, by remaining accountable to their grassroots base and connecting that base to the levers of power.

Jobs with Justice, for example, has helped create networks that include the nation's largest labor unions, as well as some of the most marginalized, non-union workers. Two of those networks—the Excluded Workers Congress and the Caring Across Generations campaign—leveraged the influence of the labor movement to win the new protections for home caregivers described above.

And CASA de Maryland combines services and advocacy in a way that builds the political power of its base. Providing direct services—such as job training and legal assistance—gives CASA a profound, real-time understanding of the issues affecting its constituents, which in turn shapes its advocacy and policy work. "When there are policy discussions," says Torres, "we can bring the perspective and the experiences that happened two days ago, as opposed to something that's in a report." CASA also connects the people it serves to broader struggles for social justice. As one CASA staffer puts it, "As soon as we hear a story from an individual, we help them see the big picture. It's our job to say, 'Unfortunately, there are thousands of people in your situation.' It's at that level, really, where an individual goes from 'I have a problem' to 'we have a problem.'"

Balancing short- and long-term goals for the network. Most organizations work to balance short- and long-term goals, but the task is exponentially more difficult in networks, which require buy-in from a much larger and more diverse set of actors. Moreover, this balancing act can determine whether a movement network emerges at all, as leaders choose whether to forge temporary, transactional coalitions conducive to short-term wins, or to invest in long-term relationships that can also advance major transformations. Successful network leaders are adept at integrating short- and long-term goals. They articulate and embrace an inspiring long-term vision while pursuing achievable wins that keep network members motivated.

The leaders we profiled are all described as visionaries by their peers. As one colleague said of Shen, "I can count on one hand the number of true thought leaders in this movement, and if I'm starting with my thumb, she's the thumb." Of Gupta, a colleague observed, "She provides the visionary glue" that holds the network together. That quality can see a network through many difficult times. Speaking of Torres, a colleague said, "I feel like he always calls us to the higher purpose. It's very easy in networks to get into process tangles and organizational turf issues, and I think he is always guided by the North Star of freedom for our people. I feel like it unsticks us time and time again, that crystal clarity. Everything else seems like a small issue when he brings us back there."

Second Nature: Creating Culture in Movement Networks

In effective networks, mastering foundational tasks and coping with tensions becomes second nature for everyone—not just leaders. Still, leaders play an important role in shaping the network's culture by:

Modeling effective attitudes and practices. While traditional models of heroic leadership are not useful in highly networked settings, the attitudes and practices of leaders can set a powerful example. For example, if leaders want to cultivate trust, they must be trustworthy. If they want to build the leadership of others, they must be willing to hand over the reins (or the microphone). And if they want the network to be agile and adaptable, they must be willing to take risks and learn from mistakes.

Setting up flexible structures. Successful movement network leaders do not become unduly attached to specific structures. In fact, many hail from a new generation that is questioning and continually remaking organizational structures in the service of the movement rather than in the service of building enduring organizational forms. Often, these leaders find that it is more helpful to institutionalize processes rather than structures.

Getting the right staff and growing their leadership. Effective movement network leaders make a point of hiring and retaining staff who are open to change in their roles and responsibilities and comfortable dealing with ambiguity and complexity. As Shen describes her approach, "I think what it takes to do this work successfully is that you contribute what you can, but you create ongoing opportunities for people to lead, and you do what you can to lift all boats—to shine the light on as many leaders as possible, as many people as possible."

Creating opportunities for self- and collective reflection. In order to observe and adapt to changes in the network and its environment, effective leaders create space for reflection—such as sabbaticals, retreats, and regular staff meetings.

Being relentlessly explicit about values, principles, and practices. Movement networks are not built; they are lived. The work of

Successful movement network leaders do not become unduly attached to specific structures. In fact, many hail from a new generation that is questioning and continually remaking organizational structures in the service of the movement rather than in the service of building enduring organizational forms.

“Embracing change” means openness to new ways of thinking, understanding, and doing the work. The challenge is to embed mutual learning into the culture and mindset of movement networks.

establishing the network’s culture is ongoing. Effective network leaders continually create—and revise—formal and informal systems to reinforce the network culture. Reinforcing network culture from within their own organizations can mean ensuring accountability—for example, by moving staff out of the organization if they are unable to meet the demands of a networked environment. Reinforcing the culture of the movement network itself can mean skillfully but explicitly pointing out when oneself or another network member is not living up to agreed principles and values.

Encouraging self-care. Working for social change is rewarding but difficult. Successful network leaders make it look easy, but their equilibrium often rests on a foundation of internal work, discipline, and self-care. By modeling those behaviors for staff and colleagues, and enabling others to care for themselves, movement network leaders can prevent burnout and help their colleagues stay in it for the long haul.

Challenges, and Areas of Future Focus

To date, our inquiry has given us considerable insight into culture and leadership in effective movement networks. But many questions remain. In our work with clients, and in convenings of the Network Leadership Innovation Lab, we have identified several topics for future exploration:

Structural funding constraints. Even the most effective movement networks struggle with funding norms and requirements that are not yet attuned to these new ways of working. This is by far the most frequently mentioned challenge for movement-oriented organizations and networks.

MAG is working to jumpstart new thinking about network funding in two ways. First, participants in our Network Leadership Innovation Lab have launched an action-learning project on the financial independence and sustainability of social justice organizations, which is exploring how social justice organizations can resource themselves in a way that allows them to more effectively and independently pursue their missions.

Second, the Lab has been hosting and participating in dialogues with grantmakers interested in supporting movements and networks. These include two MAG-facilitated gatherings—one in October 2011 and another in September 2012—that drew more than forty funders as well as presentations at the Grantmakers for Effective Organizations “Supporting Movements” conference in November 2013. Through these dialogues, we are developing resources and exploring complex adaptive philanthropy.”

Sustaining one’s self in the work. While the importance of self-care is widely acknowledged, this remains an aspirational goal for many of the network leaders we know. Topics for future exploration include knowing when to ask for help and building reflection and self-care into organizational culture.

Endings. Movement networks move through phases and life cycles; alliances are formed and dissolved. Yet many network leaders find it difficult to end long-term alliances in ways that do not damage their organization or key relationships.

Strange bedfellows. Engaging with unlikely allies can be enormously productive, but trust and communication across cultural and ideological boundaries can pose significant challenges.

Catalyzing learning. “Embracing change” means openness to new ways of thinking, understanding, and doing the work. The challenge is to embed mutual learning into the culture and mindset of movement networks.

In the coming months, MAG will engage these topics through the Network Leadership Innova-tion Lab, and with a much larger group of conversants through our online platform. We invite you to join the conversation at network leadership.org and on Facebook at facebook .com/ManagementAssistanceGroup, and follow us on Twitter @mgmtassistance.

• • •

When members of the Caring Across Generations campaign stood beside President Obama as he approved sweeping new protections for home caregivers, they demonstrated the power and the promise of movement networks. To realize that promise, we must embrace new models of leadership, build organizations that think and work differently, and create spaces for leaders to innovate and evolve. The challenges are great, but the rewards are greater still. By transcending

MAG gratefully acknowledges the following Network Leadership Innovation Lab participants and advisors, as well as staff, consultants, and others who directly helped in the preparation of this article. (See http://networkleadership.org for a full listing of the Lab participants and advisors who have advanced our collective learning in countless other ways.)

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- Jane Wei-Skillern, University of California, Berkeley and Stanford University

organizational and issue boundaries, movement networks can build the power we need to make deep and lasting social change.

Notes

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Learning & Transformative Networks to Address Wicked Problems: A Golden Invitation

by Steve Waddell, Milla McLachlan, and Domenico Dentoni

Networks offer many benefits when it comes to tackling "wicked problems," in contrast to traditional (hierarchical) organizational approaches. The shift in power relationships inherent in networks leads to shared accountability, creating an innovative environment in which new practices can be developed to address specific needs and problems. GOLDEN, a Global Action Network, has emerged to support development of a food and agriculture "industry" ecosystem strategy.

Editors' note: *This article was first published in "Managing Wicked Problems in Agribusiness: The Role of Multi-Stakeholder Engagement in Value Creation, Part Two," special issue,* International Food and Agribusiness Management Review *16A (2013): 23–31, www.ifama.org.*

This essay raises the following broad questions: (1) What role can learning networks play in addressing wicked problems? (2) How can leaders of organizations in the food and agricultural sector facilitate and accelerate the development of such networks? (3) What is the value proposition for existing multi-stakeholder initiatives to participate in learning networks such as GOLDEN?

Networks offer many benefits for tackling wicked problems, in contrast to traditional hierarchal organizational approaches. Perhaps foremost, they can be formed as a "co-owned" space by stakeholders in the system—in this case, the food and agriculture system. This includes agri-businesses and supply chain actors, governments, non-governmental organizations, civil society representatives, and universities. By being "co-owned," there is an important shift in power relationships and mutual accountability that creates an innovative environment.

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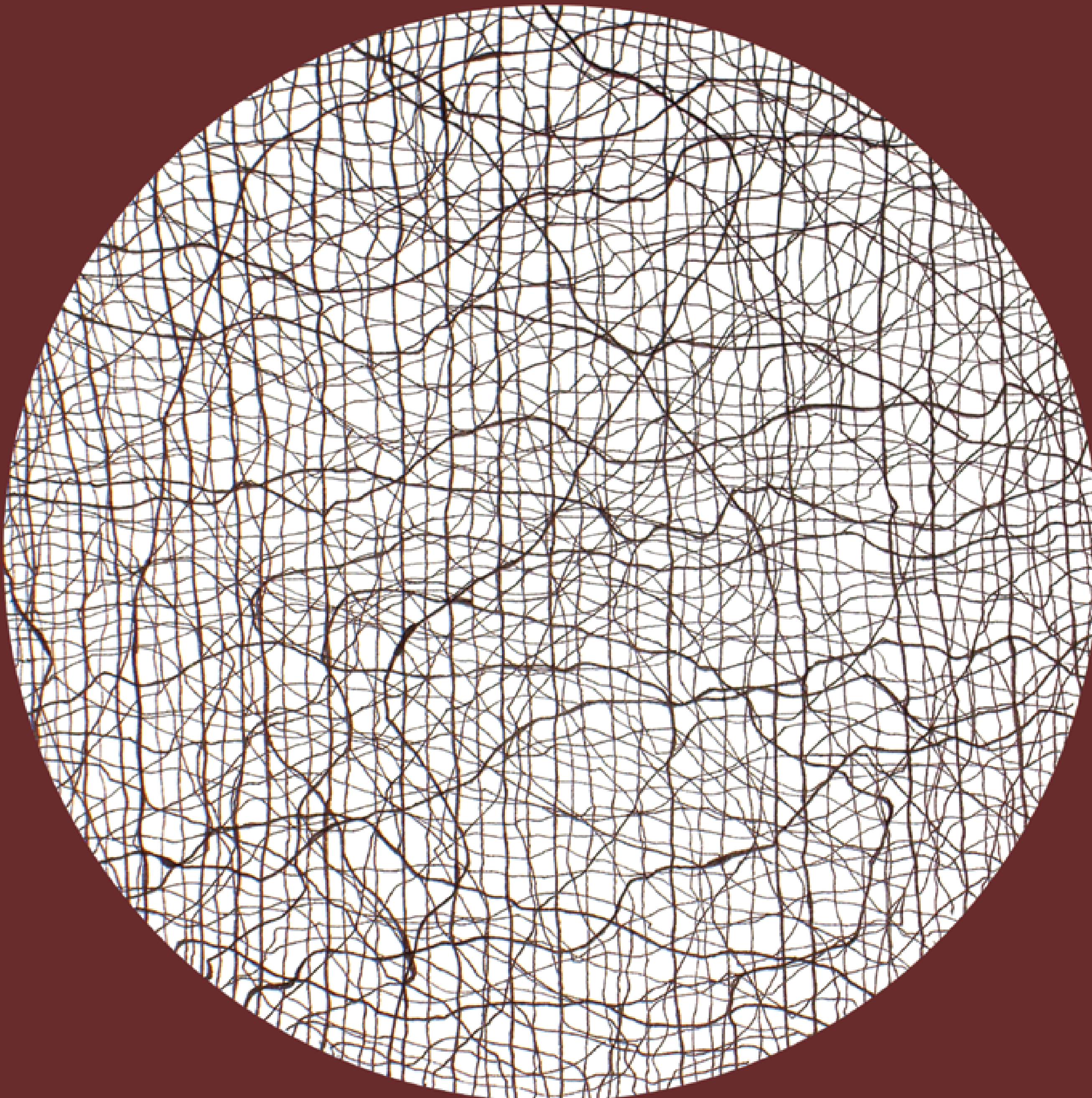
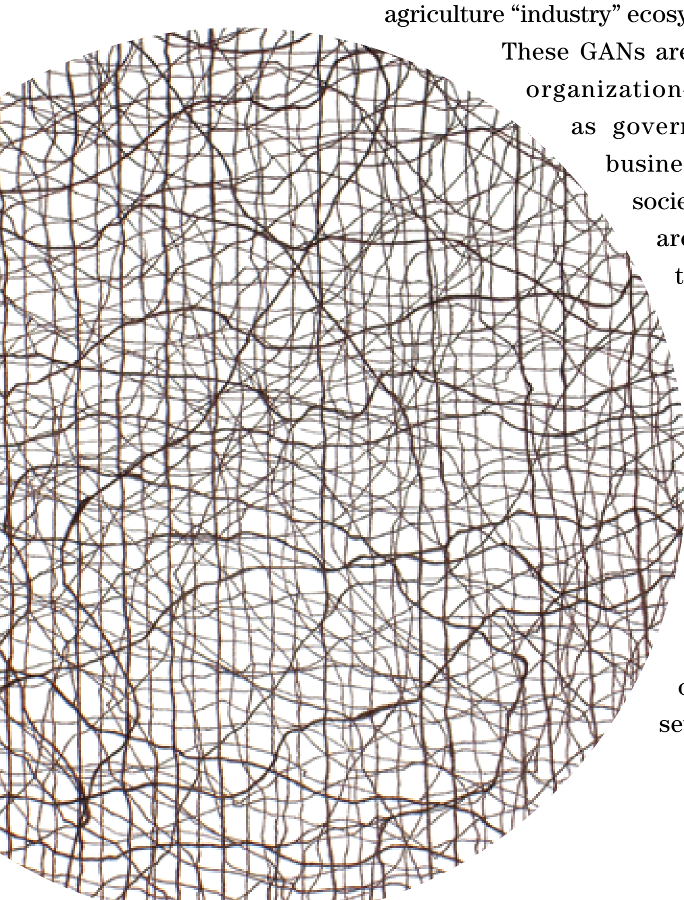


This environment can act as a "skunk works," in change agent parlance: a space where the normal rules that support and limit action can be suspended and new ones developed, based on the specific needs of addressing the wicked problem.[1] After all, wicked problems are often the result of entanglements of structures, rules, and power relationships.[2] Rather than participants simply being accountable to their organizations, these networks create a space for making the organizations accountable for the system's health—and that involves addressing wicked problems.

Rather than participants simply being accountable to their organizations, these networks create a space for making the organizations accountable for the system's health—and that involves addressing wicked problems.

One example of this type of network are Global Action Networks (GANs).[3] GANs are learning and transformative networks that build the will, organize the necessary competencies and resources, and implement activities to address their particular wicked problem. Examples are: Transparency International and the wicked problem of corruption; the Principles for Responsible Investment and the wicked problem of integrating sustainability concerns into the logic of global finance; and the Sustainable Food Lab.[4] A new emerging example is GOLDEN, a global network of academics partnering with business and others to accelerate the transformation of business to sustainable enterprise. It aspires to support development of a food and agriculture "industry" ecosystem strategy.



These GANs are a new type of organization—as different as government is from business and as civil society organizations are from both of those. They are about weaving together new ways that build accountability and action for a system's health among its stakeholders. The concept of "GANs" has seven definitional characteristics, identified with great concern for parsimony, and "necessary and sufficient" to address wicked problems through their large system-change aspirations. They build on the three characteristics of multi-stakeholder engagements (MSEs):[5]

1. *Combination of formal and informal relationships.* GANs are inter-organizational networks with three layers of organizing: layer one is the "organization" as nodes with traditional hierarchical staffing; layer two is "partnerships" as a modest number of organizations working on a particular task; and layer three is all of the partnerships that together form the network.
2. *"Multi-stakeholder."* GANs are defined as "diversity embracing," a term that emphasizes a proactive stance that includes multi-sectoral (business-government-civil society), multicultural, gender, and other forms of diversity.
3. *"Community Action Research" programs.* A defining quality of GANs involves "entrepreneurial action learners"—that is, people who develop new knowledge and capacity through action.

Other GAN definitional characteristics are: 4) "Multilevel," that is, local, regional, and global; 5) "Public goods providers," that is, aiming to create value for society; 6) "Systemic change agents," that is, working on transformation, reform, and scaling up; and 7) "Voluntary leaders," that is, participants making commitments to push the boundaries of enhancing environmental, social, and economic outcomes.

MSEs here focus on the organization as the key unit of analysis; the GAN approach instead emphasizes a "systems" perspective. This is liberating in several ways. First, it builds accountability for a system's health and the public good rather than for that of an organization or even a particular stakeholder group. Second, it greatly enhances the space for experimentation by freeing people from the assumption that "an organization's interests" are key to a system's success (the way "organizations" are defined and work is often part of the source of wicked problems). Also notable is that GANs are comprised of organizations that are committed to transformation (rather than incremental change or reform) as described in a GAN's vision; this includes many large companies, although popular caricatures would suggest otherwise. Finally, the essential element of GANs is process, not structure. Rather than thinking in terms of "permanent" or "formal," thinking in terms of renewal and emergence is important. Rather than design based on structural theory, focus on the work and how it gets done effectively, and build from there. This is the experimental spirit.

Learning with the Southern Africa Food Lab

The Southern Africa Food Lab (SAFL), created in 2009, can be considered a fledgling regional GAN. Academic research on food security and in-depth interviews with role players from the private, public, and civil society sectors in the South African food system confirmed that transformation was urgently needed to address the interrelated problems of social and environmental sustainability, given persistent hunger and declining resources. There was energy among stakeholders to try a different approach to understanding and addressing the multiple interrelated challenges in the system. Since its inception, the Lab has focused on giving voice to different perspectives on food system challenges, creating "safe spaces" for leaders from different parts of the system to learn together, and working with other organizations to pursue specific innovations in the system. A major focus of current activities is to work with smallholder farmers and agribusiness leaders to better understand the opportunities and challenges of integrating smallholders into the supply chain.

It is clear that the complexity of the food security challenges in southern Africa requires innovative approaches such as those employed by SAFL. However, SAFL has encountered several obstacles in making the case for its systemic, participative, and emergent approach. Its brief experience so far has raised challenging questions about how to ensure the ongoing relevance of the Lab's activities for stakeholders in the system, not only the business sector but also marginalized producers and consumers. Funding for process-oriented work of this kind presents particular challenges, given the concrete outcomes required in most accountability systems among donor agencies that require concrete deliverables.

Could a collaboration with an initiative like GOLDEN strengthen SAFL's capacity to learn from its own activities? Can the prototyping and piloting of innovations (e.g., emerging from the current work on smallholders and the supply chain) be designed to provide robust evidence of what works? Based on the findings and experiences from the current case-study work, including learning journeys and public dialogues, one could foresee a set of carefully designed "experiments" being developed with participating firms, large-scale farmers, and smallholders to test different approaches to resolving bottlenecks or exploiting opportunities that have emerged. GOLDEN could also support the development of an ongoing learning system across experiments that would be responsible for ensuring documentation, assessment, and embedded learning practice. It would bring to bear such methodologies as communities of practice, mapping, learning histories, and outcome mapping in a supportive and nonintrusive manner. This activity would support people involved in the interventions who are too busy to also do the learning system development.

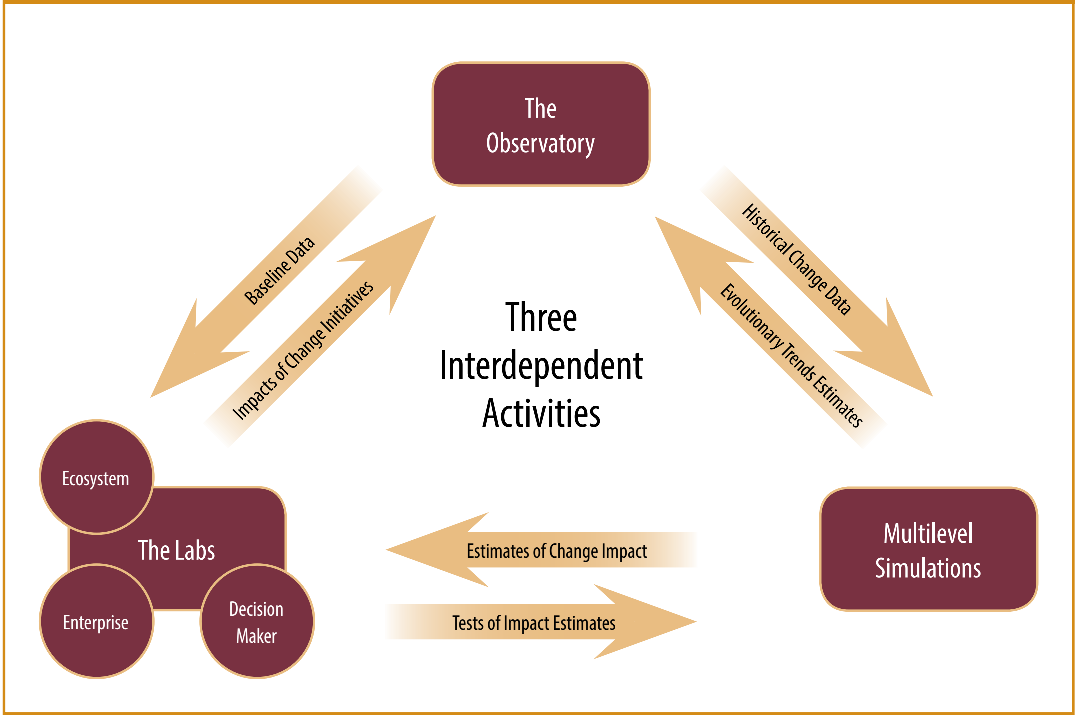
Since its inception, the Lab has focused on giving voice to different perspectives on food system challenges, creating "safe spaces" for leaders from different parts of the system to learn together . . .

At a more general level, the question is whether GOLDEN can serve to bring together leaders from multi-stakeholder initiatives in the agro-food system (such as Ecoagriculture Partners, Seas of Change, and the Bottom of the Pyramid) to systematically learn how to optimize the contribution of such initiatives to the needed transformation in the global food system. GOLDEN could connect all of these in the learning process with the following objectives:

- Speeding learning through broadening comparisons with a similar experimental approach that can produce comparable results;
- Connecting initiatives to realize coherence between them to gain scale with particular companies and address shared issues, broadening the number of sites for experiments, etc.; and

GOLDEN proposes a platform with specific activities to answer the question, "How can business evolve to a sustainable enterprise?"

Figure 1: **GOLDEN's Three Interdependent Activities**



- Sharing and further developing large systems-change strategies and processes that each of the initiatives is otherwise developing independently.

The GOLDEN Invitation to the Ag-Food Community

GOLDEN proposes a platform with specific activities to answer the question, "How can business evolve to a sustainable enterprise?" (See figure 1.) This question reflects core qualities of "wicked problems" identified in *International Food and Agribusiness Management Review*'s first special issue on the topic, "Managing Wicked Problems in Agribusiness: The Role of Multi-Stakeholder Engagement in Value Creation, Part One" (2012):

- The specifics of the desired solution (sustainable enterprise) are defined through the inquiry rather than known in advance;
- Cause-effect relationships behind un/sustainable enterprise are difficult to define;
- Action is "controversial";
- Collective action is required among diverse stakeholders; and
- Responses involve complex systems change strategies.

Internal Dimensions

GOLDEN is an open, emerging global network of academic researchers partnering with business and other stakeholders. People wishing to participate in GOLDEN have many models, frameworks, and approaches (just as a wicked problem requires). It is an "engaged, big science" initiative. Along with traditional methodologies, its inquiry emphasizes action research/learning/inquiry[6] and engaged scholarship[7] methodologies. "Big science" is a technical term associated with the life sciences, such as the CERN superconductor and the Human Genome Project. It describes endeavors distinguished by scale in several dimensions: geographic (global), levels of analysis (comprehensive), academic disciplines (multi- and interdisciplinary), time frame (ten to twenty years), human resources (eventually, thousands of individuals), and financial resources (eventually, $100 million-plus). It is formed in the belief that audaciousness is required to respond to the pressing sustainability question.

GOLDEN provides an infrastructure that stewards three types of activities, together forming a mutually supportive and interdependent whole:

1. **The Observatory** is a repository of data about historic action where the unit of analysis is corporate strategic sustainability initiatives.
2. **The Labs** are future-focused activities where the over-arching methodology is "experiments" at the individual systems, organizational systems, and (industry) ecosystems levels.
3. A **multilevel simulation generator** is being developed as a system dynamic model that integrates data from the first two activities to provide guidance for strategy and policy options that can address the complexity associated with sustainability.

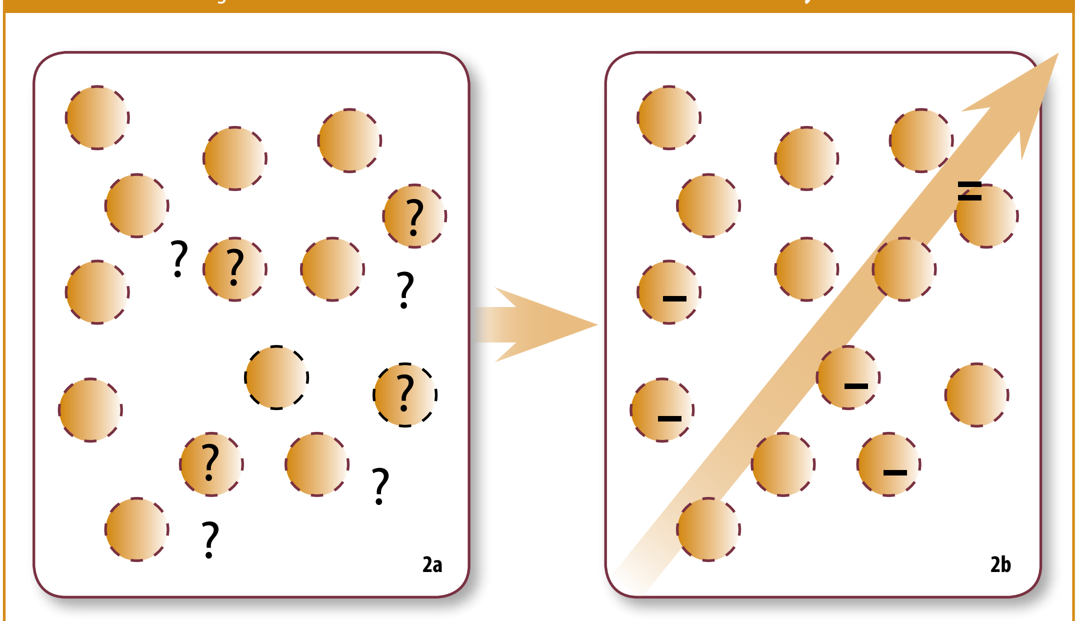
GOLDEN's strategy is to work with current sustainability-oriented initiatives, with the concept that collectively they form an emerging *global large-change system* around industries such as food-agriculture-nutrition. The work goes beyond traditional learning approaches (predominantly, "best cases"), which usually involve a historic analysis of an activity that is greatly complicated by inadequate documentation and biased after-the-fact reports, all of which are "retrofitted" to core questions behind the best practice case study. Rather, GOLDEN emphasizes *experiments*, which are generally accepted as the most rigorous scientific method. This is done by reframing an initiative's activity as learning-and-change experiments *within an evolving system of initiatives*. This provides the ability to apply different "treatments" (change interventions) at different sites, having a control site, and thus creating an experimental learning system.

GOLDEN combines three microfoundations of dynamic capabilities that are critical to addressing wicked problems. Dynamic capabilities are "the ability to determine whether the . . . [system] . . . is performing the right activities, and then effectuate necessary change." The "microfoundations" are "elements" ("discrete process/ methodologies/structures") "that undergird clusters of dynamic capabilities."[8]

The first microfoundation is the *coherence dynamic* (see figure 2). SAFL, for example, is one of many initiatives tackling sustainability in the global ag-food system. By collaborating with GOLDEN, it could greatly enhance its impact by more powerfully linking to other similar initiatives and parts of the system to gain scale, create synergies, and speed learning through network transference and reduction of repeating others' mistakes, reducing non-productive competition in these "pre-competitive collaborative" situations. This is illustrated graphically in figure 2a, where SAFL is, at its current stage of development, one of the circles. Figure 2b, in which SAFL becomes a network of circles, illustrates how this

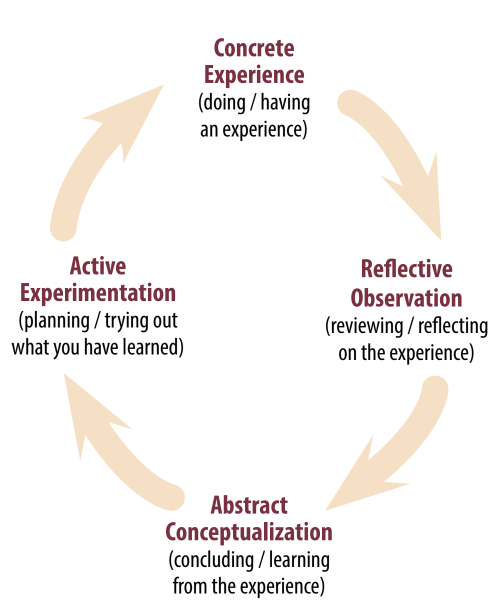
GOLDEN's strategy is to work with current sustainability-oriented initiatives, with the concept that collectively they form an emerging *global large-change system*. . . .

Figure 2: **The First GOLDEN Microfoundation: The Coherence Dynamic**



Success depends on keeping participants tipping into the future, always focused on how they can do things differently to address the sustainability imperative.

Figure 3: **The Second GOLDEN Microfoundation: The Past Learning Dynamic**



could be different—where there is coherence of effort. SAFL can develop into a fully realized GAN with other ongoing initiatives (other circles in figure 2b) by aligning, reducing conflicts, and improving "fit" between various activities in a particular industry ecosystem or issue domain.[9]

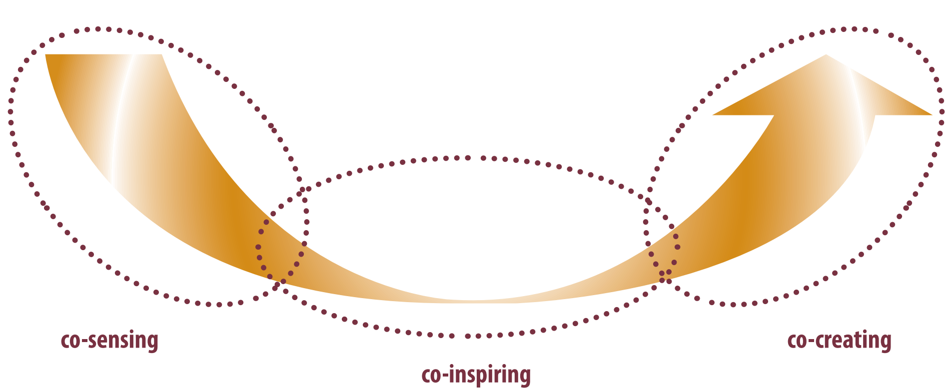
The second microfoundation is the *past learning dynamic*, illustrated by the well-known Kolb Learning Cycle.[10] Figure 3 provides a well-articulated way to support a disciplined learning process as action takes place. Of course, this cycle applies to a whole initiative, but it also is replicated many times during an initiative in an action research manner to support adjustments to action plans.

The third microfoundation is the *future-oriented learning dynamic*, illustrated with the U-process figure as developed by C. Otto Scharmer.[11] Success depends on keeping participants tipping into the future, always focused on how they can do things differently to address the sustainability imperative. Simply asking, "How are we doing" within the current rules of the game is not enough—we must support envisioning how things can be better with different assumptions and relationships. SAFL has approached this in a sophisticated way, applying the U-process. But doing it once is not enough—it has to be embedded as a core logic. SAFL recognizes this, and its strategy for doing so can helpfully inform others.

• • •

These microfoundations can be supported by a variety of methodologies. For example, social and value network analyses are obvious with the coherence dynamic. Structural changes should be observable if GOLDEN is successful (although the causal relationship is another question). Learning histories are an example of a methodology supportive of the past learning dynamic. And visioning methodologies like scenario development are part of the future-learning microfoundation tool kit.

Figure 4: **The Third GOLDEN Microfoundation: The Future-Oriented Learning Dynamic**



A GOLDEN Food-Agriculture-Nutrition (FAN) Lab is emerging, with people who are both responsive to this vision and interested in participating in its development. Initiatives are welcome to join in. The requirements are simply clarity about what you want to get out of participation, a willingness to help make it happen, and a commitment to developing a sustainable food and agriculture system.

For more information, go to www.goldenforsustainability.org.

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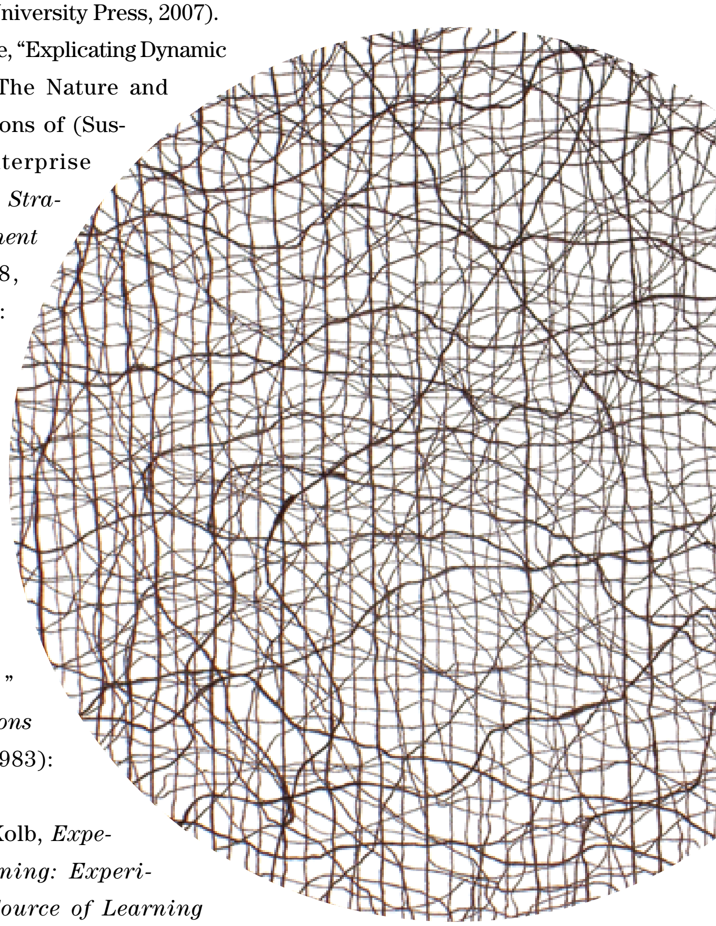

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Keys *to* Effective Network Leadership

by the editors

Effective movement network leaders build long-term cross-organizational, cross-issue relationships, contribute to a broader social movement, and embrace fluid structure and membership boundaries, among other practices. This article presents three network leaders and the qualities that distinguish their leadership.

THE *NONPROFIT QUARTERLY* HAS PREVIOUSLY published a number of articles about the requirements of leadership in networks and movements. These requirements are described by Bill Traynor in his 2009 article "Vertigo and the Intentional Inhabitant: Leadership in a Connected World." In it he writes that networks are always "teetering on the edge of balance," and that within that context:

> . . . [A] leader is not a mad scientist on the outside pulling levers and pushing buttons, but rather a mad inhabitant, an intentional inhabitant, who deploys himself as a key variable to influence the environment from the inside. This is a critical cognitive and functional shift in leadership. A leader has to genuinely participate in the environment to deploy himself appropriately. The challenges of this way of being are profound, and these challenges start with fundamental reflection on who you are as a person and how you move through the world: how you exhibit fear, react to change, deal with letting go of power and ego; how you listen and observe, and the keenness of your instincts for both conceptualizing and synthesizing; and how you hold on to or let go of strongly held

"KEYS" BY KARA HIGGINS/WWW.KARAJHIGGINS.COM

convictions about what is right and what will work. All these things are rooted in the essence of who we are as people.[1]

"In thinking,
keep to the simple.
In conflict,
be fair and generous.
In governing,
don't try to control.
In work,
do what you enjoy."

Nine years earlier, we had printed an article by Peter Hardie, "The Zen of Leadership: Understanding," in which he likens leadership in complex organizations to sailing:

> If you can sync yourself with the motion of the seas and the heeling of the boat, sailing offers understanding. Sailing pits the action of the wind against the forces of the water, pulling the craft toward a destination. The sailor tunes her sails, fixes the position of the boat relative to the water, and moves. The behavior of the entire system (wind, water, boat) is fluid; the sailor knows that she rides a mercurial pattern; one that defies control. Sailing for a target is a constant process, not a one-time decision. The wind shifts, so must the sails be shifted. The sailor feels the wind on her face and neck. She reads the words of the wind on the surface of the water. A coherent experience resolves itself from these myriad, shifting elements.

And then Hardie the quotes the Tao Te Ching:

> In thinking,
> keep to the simple.
> In conflict,
> be fair and generous.
> In governing,
> don't try to control.
> In work,
> do what you enjoy.[2]

These articles were separated by almost a decade and not informed by each other, yet they contain remarkably similar reflections. So it is perhaps no surprise that when we look over three recent case studies of leaders in some of today's effective movement networks, we see many of the same themes.

Intentional Networks

I feel like he always calls us to the higher purpose. It's very easy in networks to get into process tangles and organizational turf issues, and I think he is always guided by the North Star of freedom for our people. I feel like it unsticks us time and time again, that crystal clarity. Everything else seems like a small issue when he brings us back there.

—Interviewee describing CASA de Maryland's executive director, Gustavo Torres[3]

Networks are dynamic and complex. They engage many different personality types, often with diverse cultural touch points and priorities. There will be, in those groups, people who know one another very well and people and groups who are more peripherally involved. The political externalities of the movement are also likely to be in flux. What are the characteristics of an acknowledged leader in such an environment?

The Management Assistance Group (MAG) has done three case studies that we like because they meld what the leaders say about themselves with what others observe in them. In MAG's feature for this issue of *NPQ*, "Creating Culture: Promising Practices of Successful Movement Networks," MAG senior consultant Mark Leach and co-author Laurie Mazur, explain:

> Initially, we hoped to offer some best practices for people and organizations in movement networks—if not "The Seven Habits of Highly Effective Network Leaders," then at least some widely shared approaches. And we thought that perhaps we could offer some insight into the structures and practices that enable networks to resolve common problems. What we found was less formulaic but a lot more interesting.

Each of the three leaders is involved in a "movement network," the goal of which is to "build movements that are larger than the sum of their parts; to amass political power; and to win on a broad range of progressive issues—not only in policy and legislation, but also in the battle for hearts and minds."[4]

What characterizes these types of intentional networks is that they:

- Build long-term relationships among activists across organizational and issue divides, often with the support of a lead convening organization;
- Intentionally contribute to a broader social movement;
- Use and coordinate multiple strategies;
- Focus on long-term gains while also advancing immediate opportunities; and
- Have relatively fluid boundaries of structure and membership.

Eveline Shen

Forward Together is the new name of the organization Eveline Shen directs; it was formerly called Asian Communities for Reproductive Justice. Shen has helped launch networks that connect reproductive justice organizations and activists from across the country, and those groups link them with others working in a broad range of movements.

When she first took on the network it was somewhat dispirited, and to help re-energize it Shen worked with Norma Wong, developer of the Applied Zen Program of the Institute of Zen Studies, to develop a mind-body practice called Forward Stance, which became a central part of the organization's culture. Forward Stance engages the body as well as the mind; it encourages attention to how one is standing, sitting, and "being" in one's body. The goal is to bring one's whole self to the work of social transformation. Forward Stance, Shen says, is "a practice that cultivates fierce individuals, effective organizations, and powerful movements for social change."[5] A colleague describes the effect: "[Shen's] vision around transformative practices, around showing up to a room differently, and how do we get people to move from a defensive to a proactive stance—she really embraces that herself, and I think that it makes it easier for other people to follow her lead, because you feel like it's authentic."[6] And that "authenticity" is linked to the development of trust, which is over and over again cited as a requirement of network leadership:

> I think she's one of the most effective leaders I've ever come across in any setting, whether it's the nonprofit sector or the for-profit

Forward Stance engages the body as well as the mind; it encourages attention to how one is standing, sitting, and "being" in one's body. The goal is to bring one's whole self to the work of social transformation.

sector. I think that's in large part because she moves from a place of principle and really tries to be the same person in each place. . . . She's not a chameleon. She is who she is. She is very clear who she is and what she stands for, and that carries through everywhere. She is fully human, and that's what makes her leadership so compelling.[7]

"There's a tension between building organizations and building movement . . . that leaders sit with. Awareness of that tension is really important. . . ."

Trust, of course, cannot be earned just once. Networks constantly welcome new participants, and movement networks are challenged with new and old political issues. Within all of this, the leader will likely be forever scrutinized for any betrayal of trust. This, then, requires leaders to be transparent, and not just open to feedback but welcoming of it as a necessary part of ensuring the integrity of the network's work.

Sarita Gupta

Sarita Gupta leads Jobs with Justice (JwJ), and from that vantage point has gained experience as a network leader at the local, national, and movement levels. JwJ is itself a network, comprising forty-six local coalitions, and each of these builds a coalition that includes labor, community groups, communities of faith, youth, and workers who are not yet collectively organized. Together, they work on economic and worker justice issues that impact their community. These coalitions inform JwJ's work at the national level, while JwJ's DC-based staff spearheads national campaigns that amplify the local coalitions' impact. In this complex environment it is critical that Gupta make herself fully and actively accountable. As a case-study interviewee describes it:

> Some of the skills required are a willingness to get feedback and a willingness to really put yourself and your work forward for a certain kind of examination. It's a willingness to be ignorant—to not know and to really be in inquiry with others. And all of that seems tied to accountability—one of the things that often leaders who have positional authority do not get . . . The higher up you move, the less people are willing to talk to you about how they're experiencing you or the impact of your work.[8]

Without that accountability, the organization would experience blocks and paralysis. An interviewee describes Gupta's approach to leadership as one in which she "has incredible accountability and creates structures to be accountable and preserve nimbleness."[9]

Gupta acknowledges that this becomes especially important wherever people could perceive the possibility of a conflict of interest between the leader's single organization and the network. Another interviewee describes the process like this:

> There's a tension between building organizations and building movement . . . that leaders sit with. Awareness of that tension is really important; the ability to be fairly transparent about that tension with one's own organization, with one's own board, with one's own members—to actually build an organizational culture that can hold that tension as opposed to the pride of empire, which we have seen in the past. . . . It's the ability to have a sense of an organization's particular contribution and to really hold that with real authority and certainty and at the same time recognize that that is a tiny piece of all that's needed, and [having] that deeply inside the organizational culture feels really critical—and really challenging.[10]

And the way around that? Again, transparency is important. Potential conflicts cannot remain unexplored:

> One of the reasons [Gupta] has so much respect and credibility is that . . . people know that she is personally invested in trying to understand what do you need, what do you bring to the table, what do you need to be supported at the table, what are your institutional concerns, what are your individual concerns? I think this allows her to have a broad bird's-eye picture that's a more global view of how all of the pieces will work together.
>
> The reason she is a successful bridge across really different kinds of organizations, in terms of cultures, size, scale, and resources, is because she actually really does respect and value everything that all different kinds of organizations bring. She really

believes in a social movement ecosystem, and that there are roles for lots of different kinds of organizations, and value to their contributions.[11]

Gustavo Torres

The National Partnership for New Americans (NPNA) is a national multiethnic, multiracial partnership that "advances the integration and active citizenship of immigrants to achieve a vibrant, just, and welcoming democracy for all." Gustavo Torres served as NPNA's first co-chair, and remains on its board of directors. According to an NPNA partner, "His role was crucial because that was the beginning of the partnership—establishing a structure, fundraising, establishing it as an entity."[12]

The task of establishing trust in such an endeavor required boldness—integrity without divisiveness—and this often entails exploring uncharted and sometimes tense territory.

> One of the many things that I really value about Gustavo is that he is able to voice his positions and his opinion in a way that doesn't needlessly antagonize those who disagree with him. Even if you're at a different spectrum or just in a different place about any given decision that you don't feel personally attacked or offended—and so often we do see that in various networks or around various tables or conferences. I think that's a very unique skill because it allows you to be effective and it keeps the wave of communication open even after there are disagreements.
>
> I feel like Gustavo is really unafraid to go into tough territory, meaning if there's a disagreement he's willing to name it and stay in there through conflict as necessary, and struggle through things.[13]

Ironically, Torres acknowledged that dealing with conflict can be a problem for him in a smaller arena; he handles it with a "forward stance" in the larger realm of the network. A colleague describes Torres's approach to conflict:

> And when there has been conflict, we come to the table and we work it out. That is a sign of a good leader—that he doesn't allow you to fall apart. When he has to step back, he steps back. But when he has to tell you how it is, trust me, he does not think twice about it. People respect that.
>
> He's gone out of his way to try to figure out, particularly in Prince George's County, how to work with and cultivate the African-American political establishment . . . [H]e has formed the coalition between a hefty chunk of the black community and the Latino community. Very, very important and not a given. That didn't have to happen. It easily could've turned into a major conflict between two groups who were both striving to climb up the ladder.[14]

The task of establishing trust in such an endeavor required boldness—integrity without divisiveness—and this often entails exploring uncharted and sometimes tense territory.

As a point of integrity, Torres sees the primacy of voice and leadership among those being represented as critical.

> In terms of the leadership development, Gustavo has been one of the consistent voices in the national movement demanding representation and presence of impacted immigrants. He's like one of those guys who is always in the room saying the thing that makes everyone else uncomfortable on this issue—and very seriously and directly, as he should.[15]

And as far as those providing funding for that development, Torres has said:

> I believe that when I come to the funders with our vision and mission, they already know where we're coming from . . . so I don't give them a lot of room to give additional ideas, honestly. In part, that is the reason we have such a great relationship with the funders. They know what we stand for. They know that we're coming with a clear agenda—an agenda to be empowering our community with our community.[16]

Going back to Bill Traynor's article, we find these points of network management:

- **F** (*form follows function*): We want to build only the level of structure and formality that we need to do the job—no more and no less. If we overbuild, it will require more resources to support and be that much harder to deconstruct.

"In connected environments, leaders know that networks are always teetering on the edge of balance, requiring many small adjustments to achieve a measure of dynamic stasis."

- **O** (*open architecture is best*): We try to build forms (i.e., committees, teams, and processes) that are flexible, informal, provisional, have provisional leadership, and are always open to new people. These forms are more in sync with a network environment.
- **L** (*let it go*): If it isn't working or if there is no demand, you have to let it go and let it go quickly. That goes for an idea you might have and for which you can't get interest or for a program you have run for five years that no longer sells.
- **K** (*keep it simple*): We need to keep simple things simple so that we have the time and energy for the complicated stuff. Anything that can be routine should be. A five-minute problem shouldn't take fifteen minutes.
- **S** (*solve the problem*): In a flexible environment, we need to move through stuck places a hundred times a day. Everyone needs to make "solving the problem" the most important rule of engagement with one another.[17]

And, if we put all of this together, we begin to understand what working within an intentional network requires of its leaders. As Traynor writes, "In connected environments, leaders know that networks are always teetering on the edge of balance, requiring many small adjustments to achieve a measure of dynamic stasis. I have found that a network leader has to be in constant motion, paying attention to the habits and the small stimuli needed to incessantly reconstitute balance and motion. One must learn to feel the current of change, look for and recognize resonance, and deploy oneself not as prod, but as a pivot for the many moments of change that are called for every day."[18]

Notes

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Exit Agreements for Nonprofit CEOs: *A Guide for Boards and Executives*

by Tom Adams, Melanie Herman, JD, and Tim Wolfred, PsyD

The departure of a founder or longtime CEO more often than not is an emotionally loaded event. Add to that the mix of financial, legal, and reputational risks and rewards accompanying the occasion, and you can be facing a mire. An exit agreement can be a tool for bringing clarity and structure to the proceedings, but there are some important issues to consider prior to finalizing your contract. This article offers a framework to help boards and executives through the transition.

When the founder or longtime executive of a nonprofit leaves an organization, the board often grapples with how to say goodbye and thank you. This question is loaded with complexities—feelings and relationships come into play, as do financial, legal, and reputational risks and rewards. There is a range of motivations for considering an exit agreement, some quite compelling. The executive, for instance, may seek a financial acknowledgment that he or she has skillfully led the organization over a long tenure—and maybe for a salary well below market rate. Still, actions that might have strong support within the board and meet the needs and expectations of the executive might not play well with the IRS, a state attorney general, or in the court of public opinion.

This article is intended to offer readers a context and a set of choices in considering whether an exit agreement is needed and, if so, what might be included. Because this is a relatively new area of exploration for the sector, each situation brings unique features, and broad generalizations aren't possible. What we offer

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"IT'S TIME" BY KEVIN SLOAN/WWW.KEVINSLOAN.COM

An unshakeable tenet of successful executive transitions is the following simple fact: to have a good beginning with a new executive, it is important to have a good ending with the departing executive.

here is a framework for:

- Distinguishing between different types of agreements, and when and how they are best used (e.g., an employment agreement, a separation agreement, or an exit agreement);
- Sharing case experience about the presenting situations where an exit agreement may be appropriate and the key considerations in exploring and shaping such an agreement;
- Understanding the legal and risk management questions that require attention in considering an exit agreement; and
- Providing an introduction to additional resources that may be helpful in considering this topic.

Whatever elements you end up putting in your exit agreement, we must stress the importance of seeking legal review of any draft exit agreement by an attorney who is licensed in the state where your nonprofit is located and also well versed in nonprofit law and IRS regulations. As you will see below, it is no simple task to construct an agreement that meets the noble goals of the agreement, protects both parties, and conforms to the myriad laws and regulations governing its terms. Professional advice is recommended.

Perspectives on Exit Agreements

Our writing team comes at this article from two perspectives. Two of us are leaders in developing an approach to successful executive transitions for the sector, and one of us is a thought leader in the field of nonprofit risk management, helping boards and executives better understand the consequences of risk taking and the legal and other risks that arise from governance, strategy setting, and operations. An unshakeable tenet of successful executive transitions is the following simple fact: to have a good beginning with a new executive, it is important to have a good ending with the departing executive. Too many transitions become strained because of lack of attention to what comprises a good ending for an executive— particularly a founder or long-tenured leader.

Clients regularly ask us for help in drafting exit agreements with departing executives. (For purposes of this article, we will use "founder," "CEO," and "long-tenured executive" interchangeably, to mean an executive who has had a major role in shaping an organization, either in its founding and long tenure or through leadership during a long tenure.) An exit agreement, as discussed in this article, differs in several respects from a separation agreement and release. (For information on the latter type of contract, see the following page.) How many departing executives receive an exit agreement, and what the terms are generally are unknown. The terms of these agreements are considered confidential, and unless a party to the agreement intentionally or inadvertently violates the confidentiality provisions in a typical agreement, they are not available for inspection. In our experience, only a small percentage of CEO departures are governed by the terms of an exit agreement. The use of exit agreements occurs most often under circumstances that we will describe below. Most are drafted by an attorney working with an executive, a few board leaders, and perhaps an accountant who specializes in nonprofit compensation and law. In some cases, the CEO and the nonprofit retain separate legal counsel during the negotiation of an exit agreement.

Presenting Circumstances

The following are the presenting situations where, in our experience, exit agreements are most common:

1. *A long-tenured executive or founder has accepted a below-market salary for many years. Or, he or she has received minimal or no retirement benefits from the organization and is playing catch-up to prepare for retirement.* Sometimes the conversations about these dilemmas start one or two years before the hoped-for retirement; more rarely, three or more years in advance. The point at which this situation is addressed dramatically impacts options, as we will discuss below. The more years there are before exit, the more options there are to address past inequities.
2. *The board wants to motivate a valued executive to stay for a defined period of time.* For instance, an organization may want its

Separation Agreements: Different Purpose and Rules

An *exit agreement*, as explored in this article, differs in several key respects from what is called a *separation agreement and release*. The latter refers to a contract whose principal purpose is to limit the legal exposure of the employer to claims alleging wrongful termination, breach of an implied or written employment contract, and other claims from employees departing under less than ideal circumstances. A separation agreement and release is a legally enforceable contract that commits the organization to compensate the departing employee in exchange for a promise by the employee not to bring legal action against the employer. Typical separation agreements contain additional provisions beyond the promise not to sue. For example, a separation agreement may contain a non-disparagement clause and a requirement that the departing employee keep certain information confidential or return the organization's property.

Exit agreements (as discussed in this article) and separation agreements are consistently similar in several respects. First, if properly drafted, they are legally enforceable contracts containing obligations applicable to both the departing executive and the nonprofit. Second, both types of contracts include consideration: a sum payable to the departing employee offered in exchange for the commitments made by the executive in the contract. Lastly, neither form of contract should be executed by the nonprofit without first obtaining legal review.

The areas where these agreements are often decidedly different include:

- **Motivation.** The principal motivation to negotiate a separation agreement and release is the desire to reduce the likelihood of a legal claim against the nonprofit, whereas the motivation to negotiate an exit agreement is to reward a founding or long-term executive and ensure a fair and appropriate ending to a long-term employment relationship. Legal counsel to nonprofits often recommend that a separation agreement and release be used any time the risk of a wrongful termination claim is more than minimal, assuming the nonprofit has the financial wherewithal to provide the consideration required for the contract to be enforceable.

- **Required contract terms.** An exit agreement is likely to be enforceable as long as it contains the necessary component parts of any legally enforceable contract: an offer, acceptance, and consideration. In contrast, a separation agreement and release must contain additional sections to render it enforceable in a court of law, and additional requirements apply when the departing executive is over the age of forty. These latter requirements arise from the Age Discrimination in Employment Act of 1967 (ADEA) (www.eeoc.gov/laws/types/age.cfm), as amended by the Older Workers Benefit Protection Act of 1990 (OWBPA) (www.eeoc.gov/eeoc/history/35th/thelaw/owbpa.html). Those laws require that when the separation of an employee over the age of forty is governed by a release, certain procedures must be followed to ensure that the employee wasn't coerced into signing the release. The ADEA, as amended by OWBPA, sets out specific minimum standards that must be met for a waiver to be considered *knowing and voluntary*, and, therefore, valid. Among other requirements, a valid ADEA waiver: (1) must be in writing and be understandable; (2) must specifically refer to ADEA rights or claims; (3) may not waive rights or claims that may arise in the future; (4) must be in exchange for valuable consideration; (5) must advise the individual in writing to consult an attorney before signing the waiver; and (6) must provide the individual with at least twenty-one days to consider the agreement and at least seven days to revoke the agreement after signing it.

An exit agreement can address both historical catch-up and the terms of any service beyond the start date of the new executive.

executive to remain in place to complete a capital campaign or to be part of winning a major multiyear government contract. The organization may use an exit agreement with certain defined benefits as an incentive for the executive to stay longer than planned or to clarify the commitments of the executive and board as to how long the executive will serve.

3. *The board makes an agreement with a departing executive that combines catch-up and fee-for-service after leaving his or her position.* In some instances, the succession plan and transition to a new executive involves an internal successor. An extended overlap period or consulting contract for defined services is deemed mutually desirable by the departing and arriving executives and the board. An exit agreement can address both historical catch-up and the terms of any service beyond the start date of the new executive.
4. *Sometimes an executive has been appropriately compensated, including salary and retirement. However, the board and/or the CEO want clarity and comfort with respect to the CEO's legacy, the CEO's continued involvement in any organizational activities, and/or the CEO's availability to help on an as-needed basis.* In this case, such a document might be a simple one- or two-page letter of agreement about things important to the CEO and the board.
5. *Even when none of the above circumstances applies, an honorific for a long and successful tenure seems in order in the view of the board and/or the executive.* The executive has received a decent salary, has adequate retirement savings in place, and will not be providing post-retirement services beyond orienting the new executive. But, as part of the process for bringing a healthy closure to the CEO's productive tenure, a monetary gift seems to be an appropriate and customary element.

There are many other ways to say thank you to an executive who has served an organization well. You may conclude that an exit agreement is not appropriate. (For other ideas on how to say goodbye and thank you, see the sidebar on p. 50.)

Exit Agreements: The Four Types

There are typically four reasons boards and executives explore the possibility of an exit agreement. These reasons correspond to the "type" or focus of an agreement. This section takes the four general types of presenting scenarios for exit agreements and explores each in more depth through case examples. The cases are fictional and represent a random compilation of multiple situations.

1. **Catch-up.** A monetary package acknowledging the executive's salary has been significantly below market for a long period and/or the organization's retirement contributions have been low or nonexistent:

   James was the founding executive of a human services organization, and built it from two staff and a $50,000 budget to a 130-employee, $5-million-net-worth leading service provider in his community. He served as executive for thirty-two years, and wanted to retire and move closer to his grandchildren when he reached age sixty-six. At age sixty, James recognized he had a problem. He had kept his salary below market for his position and region intentionally in order to hire more program staff. The organization had begun paying into his retirement account only five years earlier at a rate of 4 percent of salary per year. Even though his wife had a more generous retirement benefit, James faced the reality that he would need to work until age seventy-six to meet his personal retirement savings goals. Reluctantly, James raised this concern with the board chair, who agreed to convene the executive committee to consider what might be done.

2. **Incentive to stay longer.** As an incentive to encourage the departing executive to remain as executive for a defined time for purposes important to the organization's welfare:

   Irene was the founder of an environmental organization, and served as its CEO for twenty years. She informed the board *of her intent to retire in six months' time. During this time, the organization was in the middle of negotiating a multiyear grant with a large institutional funder. When the board chair learned from the staff that the funder's confidence in Irene's leadership ability was fundamental to the successful completion of grant negotiations, he moved quickly to begin discussions with the executive committee about an arrangement whereby Irene would stay on past her intended departure date.*

3. **Post-retirement services.** Essentially, a contract for services to be provided after the leader moves out of the executive role:

   Maybelle was the twenty-five-year founder of a child care center that served low-income families in an inner-city neighborhood. She had been tireless and highly successful in pursuing funding from foundations and from upscale donors who were attracted to her vision and tenacity for improving conditions for children and families in her center's environs. Donors spoke of her "special gift" for moving them to want to partner with her in her work. As she was preparing to retire, she told her board she wanted to stay involved with the child care center. It was agreed that she would move into a role as "ambassador" for the program with a core focus on major donor acquisition and retention. The board agreed to pay her a retainer of $3,000 per month for her services.

4. **Honorific.** A memorial, in writing, recognizing or honoring a departing founder:

   Arturo was for thirty years executive director of a multiservice community center that had received numerous awards for its innovative programming for the neighborhood's immigrant populations. After he gave his board eighteen months' notice of his impending retirement, he and the board engaged in extensive planning to prepare for the handoff to his successor. A goodbye dinner that had city leaders and appreciative neighborhood residents in attendance fulsomely celebrated Arturo's achievements.

   But a month after his departure, Arturo approached the center's board chair to say he was seriously disappointed that the board had not given him a monetary gift in acknowledgment of his tireless service to the neighborhood. He said such gifts were traditional, and had been given to departing executives he knew. The chair then sought advice from the search consultant they had used as to what was proper and customary.

Key Considerations in Drafting Exit Agreements

As intimated in the prior description of the four common reasons for negotiating an exit agreement, there is no doubt that many boards and executives find value in these agreements as elements important to successful CEO transitions. There are, however, some considerations worth addressing to increase the benefit and positive aspects of an exit agreement while diminishing the potential negatives. In this section, we will explore some of the important issues that should be considered prior to finalizing an exit agreement. After presenting each issue, we offer a series of key questions and tips for reflection.

- **Financial capacity.** The decision to provide exit compensation for a long-term executive typically arises from a board's desire to do something good and right. Many departing CEOs hope to be able to continue to serve the organizations they founded or nurtured even after their departures as full-time employees, so exit agreements are optimistic by nature. Among other things, they assume that the organization will continue along its current financial trajectory or even improve. In reality, the capacity of both parties to live up to the commitments in an exit agreement may change over time. The organization must have the reserves or ability to raise designated funds for this purpose so as not to impede future capacity to carry out its mission.

  For example, the commitment to make periodic lump sum payments to a departing executive may be in jeopardy if the nonprofit suffers a decline in unrestricted funding. Or,

The decision to provide exit compensation for a long-term executive typically arises from a board's desire to do something good and right.

Make certain that the full board is aware of the details of the exit agreement, including the financial terms and research/basis for determining that the payout will not be considered excessive compensation by the IRS.

the assistance the executive was contracted to provide the organization under the new CEO turns out not to be needed.

To appropriately consider issues related to financial capacity as it relates to the exit agreement, ask:

What is the likelihood that a change in capacity could impair the nonprofit's ability to provide the compensation, benefits, or other resources/support promised in the agreement?

What steps can we take now in drafting the agreement to account for any changes in capacity (e.g., provide a single lump sum now rather than payments over an extended period, or include an "escape clause" that will enable the nonprofit to terminate the agreement in the event of a financial catastrophe)?

Does the agreement provide for any opportunity to renegotiate its terms should either side be unable to live up to the commitments contained therein?

- **Private inurement risk.** Tax-exempt organizations must operate in a manner consistent with their charitable purpose. "Private inurement" refers to the impermissible transfer of assets from a charitable organization to insiders or disqualified persons who have significant influence over the organization. One example of impermissible private inurement is the payment of more than reasonable compensation to a CEO of a nonprofit. If payments to a CEO are beyond what the market calls for, CEO compensation may be deemed to be excessive compensation, thereby putting the nonprofit at risk of IRS-imposed fines and penalties on the organization and the individual board members who approved the payment of excessive compensation. The penalties tend to be levied first and foremost on the recipient of the excessive compensation (e.g., the CEO). In extreme cases, the IRS may revoke the tax-exempt status of the organization that has violated tax law by transferring the assets of an organization operating in the public interest to a private individual. The risk of IRS action over impermissible private inurement only applies to 501(c)(3) and 501(c)(4) organizations under the Internal Revenue Code.

Consider the tips below to weigh the potential that payment(s) to a departing executive could trigger fines or penalties under IRS rules related to excessive compensation:

Give careful consideration to the basis for determining the amount of the payment. Use the "measure twice, cut once" rule of thumb before approving the payment.

Ensure that the board is independent, or that an independent committee is authorized by the board; the group will deliberate and vote on the decision about whether and how much to pay an outgoing executive. To prevent bias and preserve independence, the individuals on the board or committee should not be related to the CEO, nor should they have significant personal relationships with the CEO.

Carefully document the steps taken to determine the amount of exit compensation to be given, and evaluate its reasonableness, including the use of surveys, salary studies, or other compensation data that was obtained and relied on. If your nonprofit hasn't recently purchased a salary study or undertaken a compensation review, consider doing so before finalizing an exit agreement. This action affirms the reasonableness of the exit compensation by supporting it with comparable market data.

Make certain that the full board is aware of the details of the exit agreement, including the financial terms and research/basis for determining that the payout will not be considered excessive compensation by the IRS. Document the board's action taken to approve the final exit agreement.

- **Stakeholder dismay.** News reports of "golden parachutes" paid to outgoing corporate CEOs are rarely if ever met with thunderous applause from anyone other than the executive's immediate family. Although after careful deliberation a nonprofit board may decide that providing a one-time lump sum or series of payments to the outgoing CEO is the fair and appropriate thing to do, the stakeholders of the nonprofit may see it differently.

  To manage the potential that internal stakeholders (staff and volunteers) or external stakeholders (clients, funders, regulatory bodies, or the public) may be concerned when they learn of the payment to a departing CEO or the terms of an exit agreement:

  Negotiate the terms of the agreement with an expectation that the executive's compensation will be known to stakeholder groups. The latest IRS Form 990 requires all types of nonprofit executive compensation to be reported. Form 990s are available for public inspection.

  Draft talking points about the board's process and rationale for offering the benefits in the agreement in order to have them on hand in the event they are needed.

- **Contractual considerations.** The risk of a breach of contract claim arises any time an organization enters into a contract with another party. Breach of contract claims brought against a nonprofit are typically excluded under nonprofit liability insurance policies, which means that the nonprofit will not have insurance to cover the cost of defending such a claim.

  To minimize the risk that a former CEO will bring a claim for breach of an exit agreement:

  Use clear and unequivocal language in the exit agreement. The deliverables should be easy to understand by both parties as well as any dispassionate, third-party reviewer.

  Make certain that the promises made in the agreement are ones that the nonprofit is confident it can fulfill.

  Don't include an alternative dispute resolution (ADR) option in the contract unless you have a clear understanding about what is involved, including the cost. Although ADR methods (e.g., arbitration and mediation) are generally seen as less expensive than litigation, the cost of using these methods can be substantial.

  Include an "escape clause" that specifies under what circumstances the agreement, or components of it (such as the obligation to pay a consulting fee), will be void. For example, the nonprofit may have grounds to stop paying a consulting fee to a former CEO if the departing CEO fails to take direction from the successor or is unwilling or unavailable to live up to the terms in the contract.

  Always obtain legal review of a draft exit agreement before executing the agreement or asking the departing CEO to sign. Both parties, not just the nonprofit, should have legal counsel review the agreement.

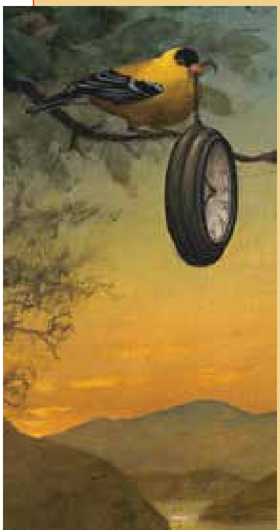
- **Disclosure to incoming CEO.** The terms of an exit agreement with a departing CEO are likely to be negotiated before the new CEO begins his or her service at the nonprofit. Nonetheless, the new CEO will likely become aware of all contracts, including any contracts with the departing executive. Therefore, one of the risks is that the new CEO will expect a similar set of benefits and compensation when he or she departs the nonprofit. We encourage boards to disclose the terms of an exit agreement to an incoming CEO.

  To manage the potential of false expectations:

  Disclose the terms of the agreement with the departing executive with the new CEO and explain the rationale behind the exit agreement, such as the role of the departing leader as the founder of the organization. Stress the unique nature of the agreement.

  Avoid a replay of the scenario that necessitated an exit agreement by addressing the

News reports of "golden parachutes" paid to outgoing corporate CEOs are rarely if ever met with thunderous applause from anyone other than the executive's immediate family.



Ideas for Saying Thank You and Goodbye

Planning a farewell for a revered leader is personal. Each departing executive has preferred ways of giving and receiving recognition, praise, and goodbyes, as do the board members and staff who will organize the goodbye events. The planning requires sensitivity, skill, and, often, patience. And if the executive happens to be the founder—or founder-like in tenure and transformational impact—the stakes can be especially high.

Organizations that have successfully paid tribute to their departing executives tend to work from the following principles:

- Consult the executive in the planning and define a comfort zone that is win-win for the executive and the organization.
- Involve in the planning people from the board and staff who communicate well with the executive and understand the conditions for success from the executive's perspective.
- Brainstorm creative ways to make the farewell memorable, fun, and meaningful for all parties—the executive, his or her family, the board, staff, and other celebrants.

A typical goodbye or thank you involves one or more events. Here are some examples:

- Organization A held three events for its outgoing executive: a small dinner with past board chairs with whom the executive had worked over two decades; a staff event organized by the management team; and a community-wide party where funders, government officials, clients, and their families could all come and say thank you.
- Organization B, a community development organization, had both a staff-only event for its longtime leader and a Saturday picnic to which the whole community was invited. The large public party had been specially requested by the community-focused leader.
- Organization C had a more traditional dinner and reception, with speakers who were meaningful to the executive and participants.

In selecting a gift for a departing executive, boards pay attention to what he or she enjoys and does for fun. Luggage for traveling, a cruise, and season tickets to a sports or arts series are examples of thoughtful gifts.

Departing an organization is a challenging and emotional event. Executives leave behind people they have enjoyed working with for many years. A well-planned farewell and thoughtful gift are often important contributions to a positive separation experience.

compensation conditions in the organization that resulted in, for example, an executive paid below market value and underfunded for retirement.

- **Internal equity.** Another important consideration is whether the proposed agreement with the departing executive is so different and out of character as to raise serious internal equity and morale issues. If the purpose is retirement catch-up, for example, what is the organization able to do to improve employer-paid retirement benefits for all managers and staff?

Examples of Approaches to Exit Agreements

Because exit agreements are confidential, it is difficult to provide many details and examples. The following are examples of exit agreements as reported secondhand from knowledgeable consultants and attorneys. Not every example follows all the guidance above. There is no one, rigid guideline, so there exists a wide range of examples in most communities. The best way to learn more is to request an informational meeting with an attorney or tax accountant who specializes in deferred compensation and/or exit agreements for executives in the nonprofit sector.

Example 1: Catch-Up

A long-serving executive worked without pay for a number of years. Her financial situation changed as she approached retirement age. The board increased her salary within the limits of reasonable compensation, provided the maximum retirement benefit allowable under pension law, and agreed to retain her for five years after retirement as a consultant to advise on specific areas where she had expertise.

Example 2: Incentive to Stay Longer

At the request of the board, a long-serving executive agreed to continue to serve until age seventy-three, four years longer than his original retirement plan. The organization's primary funder had been awarding major contracts through a request-for-proposal (RFP) process every four years. The current RFP process had been delayed twice, thus delaying the executive's departure. In exchange for these additional years of service, the board agreed to continue to pay health insurance costs and make an annual payment for five years past retirement.

Example 3: Post-Retirement Services

After twenty years, the founder of a regional clean water agency dedicated to removing all pollutants from the area's streams and lakes had grown weary of the fundraising and administrative duties that consumed most of her time. But, her passion for pursuing the agency's mission was undiminished. She asked to become a half-time lobbyist for her agency in the state legislature. The board agreed to move her into that position, with the stipulation that she would be supervised by her successor. They set her salary at $40,000 per year.

Example 4: Honorific

Aware that their retiring executive and his wife were avid travelers, as a departing gift the board of directors gave him a $5,000 "voucher" for use with the travel agency of his choice. The board paid for the voucher with funds donated by board members and a few longtime individual donors.

• • •

An exit agreement with a departing nonprofit executive is a tool that can bring clarity to uncertainty about the departing leader's post-CEO role with the nonprofit. In other cases, an exit agreement can be a tool for providing a catch-up financial contribution that recognizes, in part, the achievements and service of an undercompensated leader. Or, it can be a tool for saying thank you. But whatever the purpose or motivation behind the agreement, there are important considerations that must be examined in order to make certain that the final agreement is fair, appropriate, and legally defensible.

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Another important consideration is whether the proposed agreement with the departing executive is so different and out of character as to raise serious internal equity and morale issues.

Flying Monkeys:
Organizational Considerations in an Executive Transition

by Ted Ford Webb

When in the process of hiring a new CEO, organizations often block open communication for any number of (mostly) well-meaning reasons. This is a mistake, as an executive transition is a rare opportunity for taking an honest and open look at the organization. And bringing an organization's complications and challenges into the conversation furnishes the next leader with the truth—allowing the executive a better chance at succeeding in his or her endeavors—and liberates the board from the burden of unspoken but critical issues.

A local arts organization had been a vital part of the community for decades, providing inexpensive space and support for artists, opportunities for children and others to explore art, and a stage for local theater. A new chief executive was to be recruited, and the organization aspired to find someone who would revitalize the organization and its capacity to attract relevant and inspiring art. The major contribution this organization had to offer was space for artists and the community that grew in that space. However, the artists who had been present at the founding of the organization, twenty-five years prior, occupied over 90 percent of it. While a few were very active, the majority of them were semiretired or used their spaces sparingly, but were unwilling to give them up. The unspoken "plan" was for space to be occupied by new artists only as people died or retired fully. The rhetoric of the search was for a new vitality, but the reality was something else. The dynamic executive director who was recruited did not understand this, and she quickly was undone when she proposed a criterion that all resident artists must be accepted into at least three juried shows each year.

When embarking on the search, the board implicitly understood that the precious studio space was going to be defended by the founding artists. They imagined that this new executive director would somehow find a way around this. The opportunity missed by the board was that it could have used the search, and particularly the conversation with top candidates, to explore the difficult question of how to revitalize the organization when the space was so jealously guarded. Assuming that the top candidates were the experts, the board had a chance to grapple

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"LIBERATORS" BY JANINE AUTOLITANO/WWW.SITEKREATOR.COM/JANINE

with how the issue might be solved. Its members missed an important opportunity to come to terms with a new chief executive making the best case for how she and the board might overcome the barrier together.

There is yet a larger and more dramatic point here. The demon or "third rail" of this issue was powerful in part because it was only acknowledged offline and in whispers, although anybody familiar with the organization understood the circumstances.

How do these awkward realities get communicated to a candidate for an executive position? Remember the scene in *The Wizard of Oz* where the all-knowing Oz is revealed to be an uncertain man behind the curtain? So often the instinct of organizations when embarking on a chief executive search is to remain behind that curtain and declare that all is as it should be—when it isn't. Absent a Toto tugging on the curtain, the conversation with chief executive candidates often fails to address the most challenging and important issues in play. Is it any surprise that misunderstanding and conflict and bad executive choices result?

Remember the scene in *The Wizard of Oz* where the all-knowing Oz is revealed to be an uncertain man behind the curtain? So often the instinct of organizations when embarking on a chief executive search is to remain behind that curtain and declare that all is as it should be—when it isn't.

It is in the nature of every organization to struggle with contradictions. Anyone who is equipped to be a chief executive knows that there are myriad complications that are part and parcel of the role: board politics, destructive competition and conflict among silos or ambitious staff members, funding requirements that skew the original mission and strategies of the organization, and staff managing complex programs without proper training or supervision. These and other contradictions are often present and await the new chief executive.

The ideal forum in which to determine how difficult organizational issues will be solved and a promising vision fulfilled is in that space between the chief executive and the board. It is for the board, which governs the organization, to establish that space as one in which the critical issues will be faced head on—where all the sacred cows are brought to account and unacknowledged elephants (the unmentionables) named—because they will, at least in large part, define what is truly possible in the situation. There is no better time to address this than when searching for a new chief executive. A hiring process provides a discreet forum in which to address difficult, defining issues. It is, ideally, a forum in which the board can raise such questions in a constructive manner, challenging candidates to provide advice and insight. These open conversations often liberate the board from the burden of unspoken but critical issues. With this action, the board is establishing a critical standard: the challenges most material to the success of the organization are going to be front and center in the relationship between the board and the chief executive.

One would like to think that this is always the case, but most readers of this article will understand that, unfortunately, it is not. The board, which is the supervisor of the chief executive, often signals, intentionally or by default, that there are certain issues that the chief executive should not confront—even, as in the example of the local arts organization, when those issues are central to the rhetoric of the organization. The result is that the board, as it shapes its relationship with the new chief executive, begins that relationship by being less than fully honest. This starts the cycle. Is it any wonder when board members later complain that their chief executive is not being fully open with them?

Dorothy could not get back to Kansas until she and the man behind the curtain together acknowledged the reality of their circumstances. After that revelation, they were able to solve the problem. Dorothy had spent most of her journey seeking the wrong source, and the man behind the curtain had spent his energy pretending to have the answer. Both would have gotten there sooner, and avoided that unfortunate incident with the flying monkeys, had Oz signaled that he was ready to deal with reality from the start.

Back in Kansas

Hindsight is easy, and the examples in this article (above and in the sidebar, following page) become clearer with the passage of time. In real time, it can be very hard to recognize or give voice to an essential truth, especially when the organization has habits that block open communication—habits like excessive politeness or only third-party communication of concern. This is why for many organizations it may be worth the price to invite someone in to help map the landscape before the hiring process starts. There are relationships and friendships to weigh, and past challenges and successes that need to be remembered and respected. There is the push and pull of different and mostly well-meaning agendas. And even the right choice is not without its uncertainties. This is why I try not to be prescriptive. There is no one way forward. It always depends.

But there are at least two larger truths that always apply that can help a board navigate the endless complications of governance:

Rule 1. There is no substitute for honest dialogue.
Rule 2. No one is above the organization.

A founder, a powerful chief executive, a unified board, a dominant group of long-term board members, a major funder—or combinations of the above—often shape and control an organization. And usually they do so to good purpose: they overcome adversity; they find the resources to keep things going; they lead and inspire by example and hard work. If they are the founders, they had the vision, took the risks, and often worked without pay or security. For all these reasons they should be honored and celebrated—but they are not above the organization. This point is important because this positive and creative intensity can have a downside, as it can also narrow the organization's field of vision. And, the power dynamics are such that it is difficult for those who are outside this circle to promote another perspective and be heard.

My experience is that those who are in this circle of leadership are usually aware of countervailing needs and issues, at least in the back of their minds. But they may need help to introduce those issues into the dialogue with top executive candidates, for it is in the exploring of these difficult or even conflictual spaces that the right next executive may distinguish him- or herself.

In the end, an executive transition is a rare opportunity to take an honest look at the organization. This allows the next leader to be presented with the truth and with that space between the board and the executive properly defined, so that his or her life is not filled with the scourge of flying monkeys.

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More Flying Monkeys . . .

The Founder's Board

A charismatic founder had built a national organization with the support of a generation of luminaries from the government, business, and entertainment spheres. Well past retirement age but still vigorous, the founder continued to support the organization by drawing from his fading network. Access and funding for the organization was almost entirely dependent on his connections and his promotion of the programs. While the mission was still vital and important, the staff and infrastructure necessary to facilitate succession was not in place.

The board was a founder's board—composed of longtime friends and supporters. To a person, the board members were concerned that the organization might not survive the founder's departure, absent a radical redesign of the entire enterprise. But they could not confront him. *They put the founder above the organization.*

Living in the Past

An international development organization, with a board largely composed of those who had previously worked for the organization, had enjoyed the service of a dedicated chief executive for nearly twenty years. The organization had tremendous good will, both within its membership and in the countries where it did its work. The chief executive was deeply committed and hardworking, but his focus was entirely operational. He didn't fundraise, nor did the board. The strategy, such as it was, depended on generation after generation of volunteers to carry the organization. With bake-sale type activities and a modest tuition, and staffed by low-paid, young, energetic former volunteers, the organization lived hand to mouth.

With the chief executive's retirement, the realization was that the organization did not have the professional staff, infrastructure, board discipline, development, and financial resources to sustain itself over the long term. In the face of ever more strict regulations, growing risk-management challenges, and competition, it had to grow and improve productivity to achieve the economies of scale that would assure its financial stability.

The power of this example is that the organization was wonderfully successful by almost any measure. There was a strong and genuine sense of community among the board and staff. *Good work was being done—but it was not sustainable.*

Rediagnosing "Founder's Syndrome": Moving beyond Stereotypes to Improve Nonprofit Performance

by Elizabeth Schmidt

Founders are the very soul of this sector. They are people who envision a change vividly enough to place much at risk on a personal level. They gather people of common cause, attract financing, and risk being laughed out of whatever rooms they are in. But be careful: all of that leadership will likely later be diagnosed as "founder's syndrome."

Editors' note: *This article was originally published on* NPQ's *website in July 2013.*

Francine Founder is a visionary with a concrete and unique approach to solving a problem in her community. She hopes to start a new 501(c)(3) organization to implement her ideas. What can we tell her about the journey upon which she is about to embark?

Like all entrepreneurs, she faces an uphill battle. She will risk time, money, relationships, and reputation to get this idea off the ground. Unlike most entrepreneurs, though, she has no financial upside to balance the risks she will take—a lesson she will learn quite quickly from anyone working in the nonprofit sector. What Francine is less likely to learn, however, is that once she gets the organization off the ground, she will likely be considered the root of all present, past, and future problems in the organization.

This is because it has become fashionable in governance literature to assume that a disease called "founder's syndrome" can explain every challenge that nonprofits face once their founders have done the heavy lifting. This literature diagnoses founder's syndrome in four different situations, which I have dubbed the "four symptoms" of founder's syndrome. This article will begin by examining these so-called symptoms and explaining why they lead to a harmful misdiagnosis. It will then suggest that, instead of pointing fingers, a board should address each of these symptoms, if they exist, from a mission-centric point of view. This approach will lead to a better result for all involved.

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"KIMONO MY HOUSE" BY DAVID JONES/WWW.DAVIDJONESART.CO.UK

Transitions from a founder to a successor may present unique challenges, but it is inappropriate to label these problems as "founder's syndrome" when they are prevalent throughout the business world.

The Symptoms

The literature uses the term "founder's syndrome" inconsistently, but a common thread is that this is a psychological illness, and the blame for this illness falls squarely on the shoulders of the founder. The label seems to be applied if one or more of the following symptoms are present: The first is a sense of *grandiosity*—that the organization is the founder's, and it exists to serve his or her ego (or pocketbook); the second is an *inability to delegate*—poor management on the part of the founder; the third is an *inability to make a smooth transition* from the founder to new leadership; and the fourth is an *unwavering dedication to the original vision* for the organization.

Each of these four symptoms can, of course, be harmful to an organization, but they are hardly confined to founder-led organizations, nor are they universal. Most accounts of the Smithsonian crisis in the mid-2000s paint Lawrence Small, secretary of the institution at that time, as exhibiting the first two symptoms of founder's syndrome: grandiosity and an inability to delegate. He was neither the founder nor such a long-term manager that he could be considered "founder-like," however. In fact, the accounts of this crisis indicate that the imperious style showed up as soon as he took the helm. A nonprofit with a founder at the helm who exhibits these two symptoms is in the same situation as the Smithsonian was, and this pejorative label does not help it address its personnel or governance issues.

The third symptom, a failure to make a graceful exit when others think the founder should leave, also obscures the real problem, which is an organizational failure to create and implement a transition plan. Transition difficulties are hardly restricted to organizations with founders as managers or board chairs, however. Bank of America was caught flat-footed in 2009 when its president announced his retirement, and a 2010 survey by Stanford University found slightly more than half of all companies would be unable to name a successor if they needed to do so immediately.[1] Transitions from a founder to a successor may present unique challenges, but it is inappropriate to label these problems as "founder's syndrome" when they are prevalent throughout the business world.

The final symptom, a founder who clings to the original vision of the organization when others are ready to move on, also hides the real issue and fails to recognize that non-founder-led organizations also face internal discord about the future direction of the organization. This symptom is particularly disturbing, however, because it has the potential to squelch necessary dialogue among the stakeholders of the organization. To say, as soon as a disagreement arises, that the party who conceived of the initial mission suffers from founder's syndrome, severely handicaps that party's standing in the discussion.

The literature about these four symptoms also implies that all founders have psychological problems. Admittedly, it usually gives lip service to the idea that some founders escape this problem, but the rest of the work tends to undermine this message. My favorite quote is from a booklet on the subject,with a title that includes the term "founder's syndrome." The authors promise to avoid the term because it suggests a clinical disorder, a mere two sentences after the following statement:

> The world of executives is filled with founding chief executives whose domination, petulance, stubbornness, shortsightedness, and other flaws are routinely overlooked because, well, most of the time they're right. That doesn't make their exasperating style or puzzling choices defensible.[2]

Among the many ironies in this type of thinking is the widespread belief that denial is a major part of founder's syndrome, much as it is with alcoholism. This belief makes it almost impossible to defend oneself without simultaneously exhibiting a symptom of the disease. As Henry Lewis wrote in an article for *CharityChannel Press* in 2002: "I would be remiss not to say . . . that there can be exceptions, but the exceptions are so rare that anyone assuming that their situation is different is most likely wrong."[3]

Such hyperbole would be less offensive if empirical evidence backed it up, but I have found only one study that has sought empirical evidence of founder's syndrome in the nonprofit sector.[4] The authors of that study asked Colorado nonprofits about their organizations' governance practices and attitudes, and then compared the results between the founder-led and non-founder-led organizations. I believe their results were inconclusive. The survey discovered the following:

- Founder-led organizations tended to have smaller budgets.
- Term limits for board members existed in 31 percent of founder-led organizations and 49 percent of non-founder-led organizations.
- Eighty percent of founder-led organizations held at least quarterly meetings, compared with 87 percent of non-founder-led organizations.
- Three-fourths of the respondents in both groups thought either the executive director or the board chair was the most influential person during a board meeting, but founder-led organizations were more likely to say the executive director was the most influential.
- On the other hand, founder-led organizations were more likely to have reviewed the mission in the past year than were organizations led by non-founders; they were more likely to attract full board participation at meetings; and they were more likely to set and mail the board agenda ahead of time.

Plenty of conclusions could be drawn from these survey results, but one conclusion I find unsupported by these data is the authors' contention that they found "considerable truth to some of the rumors and stories about founder's syndrome."

One does not always need empirical evidence to draw conclusions, of course, and the founder's syndrome literature draws from commonsense notions and anecdotes. At the beginning of an organization, the founder and the organization are, by necessity, so closely aligned that some founders may be psychologically unable to see that they are separable from the organization. Common sense also tells us that the early boards, which are chosen by the founder, could have a tendency to defer too much to the founder, and that the first leader may not be the person who is able to lead when circumstances change. As with all stereotypes, some founder situations will fit the diagnosis. Even in those situations, however, the organization will have multiple stakeholders who have played and will play a part in the organization's successes and failures. Once again, the founder's syndrome diagnosis is so overly broad as to reach the level of stereotype.

The simplification, exaggeration, and blame that result from thinking in stereotypes can be harmful to the individuals and institutions involved. The founder's reputation is sullied, even if he or she has none of the symptoms. If any of those symptoms is present, none of the other stakeholders is asked to share in the blame. And virtually no one questions whether one or more of these symptoms could actually be strengths. The institutions suffer as well, because stereotypes allow them to avoid addressing real problems by placing blame on the founders. And this distrust discourages—and sometimes prevents—founders from implementing ideas that could solve society's most intractable problems.

As with all stereotypes, some founder situations will fit the diagnosis. Even in those situations, however, the organization will have multiple stakeholders who have played and will play a part in the organization's successes and failures.

Nonprofit Governance as the Issue

The common element in each of the symptoms described above is a breakdown in governance. The authors of the founder's syndrome literature recognize this breakdown at some level, but their focus on blame prevents a more nuanced view of governance. In my opinion, their thinking reflects two worrisome trends in modern nonprofit governance: a "one-size-fits-all" mentality, and blindness to the importance of the mission in nonprofit governance. An emphasis on the mission instead of on blame could cure the symptoms we are discussing without adding the harm of a founder's syndrome diagnosis.

Nonprofit governance has received much emphasis in the last few years. Recent surveys of nonprofit practices show that boards are increasingly implementing and making changes to a variety of governance policies, including investment, records retention, conflicts of interest, whistleblowing, gift acceptance, and Form 990 review.[5] Unfortunately, revised policies do not necessarily lead to better governance, as some boards spend so much time on administrative reforms that they forget they must also actually govern the organizations.

Compounding this trend is the emphasis on "best practices," which often translates to a

Most founders are dedicated to the mission and vision of the organization, however. After all, they conceived of the idea and found a way to implement it in an ongoing venture.

"one-size-fits-all" assumption. That assumption underlies the founder's syndrome literature, and it can paralyze an organization when the facts do not fit the assumption. It can be especially damaging if these "best practices" translate to the "ordinarily prudent person standard." In other words, a board that does not look at its founder with suspicion may well be violating a standard of care.

Focus on the Mission

The governance emphasis, in my opinion, should instead be on the mission. The primacy of the mission should, at the least, be a large part of the board's fiduciary duties of care and loyalty. I would also recognize the board's fiduciary duty of obedience to the organization's mission.

With this approach in mind, let's reexamine the four symptoms described in the founder's syndrome literature. First, some founders do place their personal agendas ahead of the mission. The most appalling recent example of this is Jerry Sandusky, who started the charity The Second Mile in order to "protect" at-risk youth, and is now serving a thirty-to-sixty-year sentence for child molestation. The sooner the board or the authorities recognize such a situation and remove the founder—or anyone else who is taking advantage of the organization—the better.

Most founders are dedicated to the mission and vision of the organization, however. After all, they conceived of the idea and found a way to implement it in an ongoing venture. A board that focuses on this mission will realize that one way to further it is to determine how best to use the founder's visionary skills.

If the founder does not, for example, have strong managerial skills (the second symptom we discussed earlier), a mission-centric board will hire people to fill gaps in the founders' skills. It will also institute financial and other controls to protect the organization, because the leader may be concentrating more on the mission than the details. This is counter to the founder's syndrome approach, which would automatically remove the founder, and it leaves open the possibility that the organization can retain the inspiration and vision that energizes the organization.

By all accounts, Greg Mortenson of *Three Cups of Tea* fame made a huge contribution to educating girls in Pakistan and Afghanistan through the organization he founded, Central Asia Institute (CAI). In 2011, however, allegations of financial irregularity at CAI surfaced. Although Mortenson was required to repay one million dollars to CAI, the evidence suggested that he was a poor manager, not a criminal. If that is the case, the board did a disservice to both him and the organization by not determining how best to complement his skills before the scandal erupted. Instead, both Mortenson and CAI suffered nearly irreparable damage—a tragic outcome for a worthwhile cause.

Mission-centered governance will also make a difference if the transition from one leader to another is difficult, as in the third symptom described above. Transitions are never easy, but if all parties recognize that they have the mission in common, the emphasis switches from blaming individuals to reaching a common goal, and thus increases the chances of reaching the goal.

A mission-centered approach will also lead to a better conclusion when controversy arises over the direction of the organization and the mission itself. This final symptom is the most dangerous, in my opinion. Although organizations do need to react to changing realities, and missions should not be static, the founder's opinions will not be heard if the founder's syndrome label is automatically attached when controversy arises.

Silencing the person with the original vision is counterproductive, even if that person's vision is no longer that of the other stakeholders. Nonprofits are not immune to mission creep. In fact, the Smithsonian's unraveling began when the board hired Lawrence Small to make the institution more businesslike. If Mr. Smithson were still alive, my guess is he would have pointed out this divergence from the mission. In today's world, he would probably have been accused of founder's syndrome.

This hostility to founders is not without ironies. Much of my current research concerns social enterprises, those entities with a social or environmental mission as well as a profit motive. Legal scholars are searching for ways to preserve the mission when the profit motive is also in play. Ironically, they tend to assume the founder will protect the mission and worry about what happens when new ownership takes over. Why for-profit social enterprises trust founders to protect the mission but nonprofit social enterprises distrust them is beyond my understanding. It is also ironic that donor intent has been accorded so much legal protection over the last few years, but founder intent is ignored.

The biggest danger of this type of thinking is that the founder's influence will disappear too early, before his or her vision is ingrained in the organization. Although founder's syndrome literature implies that founders usually outstay their effectiveness for the organization, I suspect the opposite may well be true.

Can you imagine what the world would look like if Steve Jobs, who fit every stereotype of founder's syndrome and was in fact fired in 1985 for these qualities, had never returned to Apple? As *Time* magazine noted after he died:

> Jobs was so obviously fundamental to Apple's success that many feared the company's amazing run would end the moment he was no longer calling every shot. Instead, Apple prospered during his illnesses and absences. By 2011, the vast majority of its revenues came from products that hadn't existed when Jobs took his first medical leave. He had accomplished one of his most astounding feats: teaching an entire company to think like Steve Jobs.[6]

We need this in the nonprofit sector, too. We need to keep founders with a true and workable vision in place until they have taught the entire organization to think like they do. In my opinion, we have allowed the pendulum to swing so far in the direction of preventing founders and others from taking advantage of an organization's nonprofit status that we have lost sight of the equally strong need to encourage people to take the risks necessary to solve seemingly intractable problems. We need to stop paying lip service to innovation in the nonprofit sector and start thinking of ways to encourage it.

In the words of Steve Jobs, "Don't be trapped by dogma."[7] Let's allow Francine Founder to risk her time, money, relationships, and reputation on her new venture. But let's also give her the possible upside of receiving credit for her success, instead of the blame for everything that goes wrong. Tossing out the concept of founder's syndrome and focusing instead on the mission should give her that opportunity.

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Notes

1. Heidrick and Struggles and Rock Center for Corporate Governance, Stanford University, *2010 Survey on CEO Succession Planning*, http://rockcenter.law.stanford.edu/wp-content/uploads/2010/06/CEO-Survey-Brochure-Final2.pdf.
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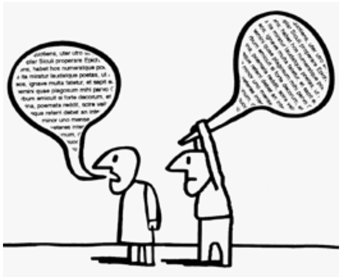

Dr. Conflict

by Mark Light, MBA, PhD

Dr. Conflict allows that outsourcing noncore functions can be an effective time and cost saver—but, he advises, keep such important functions as fundraising and grant reporting in-house. And is your supervisor a narcissistic nutcase? Dr. Conflict says, consider talking to an attorney, do not interact with your supervisor without witnesses nearby, and get your networking into gear: you may need a new job.

Dear Dr. Conflict,

We are considering contracting out for some of our management services (fundraising and grant reporting). What concerns and/or questions should we be raising with respect to the fact that the service provider will also have other nonprofit clients with similar missions? We would appreciate any thoughts or resource links about shared management functions.

Concerned

Dear Concerned,

If what you're after is how to deal with confidentiality, address it directly with your outsourcer. But Dr. Conflict thinks you ought to be thinking more broadly. You could do this by imagining hiring an employee—which, in effect, you are. And when it comes to doing that right, you must "Hire hard, manage easy."[1]

Your first step is to spec the job itself. Outline the tasks, duties, and responsibilities for the job. Next, clarify the necessary knowledge, skills, and abilities to do that job successfully. Finally, nail down the performance expectations that describe "what the job accomplishes and how performance is measured in key areas."[2] This would include maintaining the confidentiality of your account, timeliness of reporting, and other guidelines of conduct.

Only after having defined the job can you recruit a talent pool. The best method is referrals: a "full 77 percent" of industry leaders say it is their first choice.[3] Be careful here, as referrals are only as good as the source; if you solicit from losers, you'll get losers.[4]

Selecting the best candidate comes from structured behavioral panel interviews. *Structured* means using a standardized set of questions that you ask the applicant, to make comparisons easier. *Behavioral* means asking applicants for "specific examples of how they have performed a certain task or handled a problem in the past."[5] *Panel* means having a group of people meet at the same time with each applicant.

To be sure, outsourcing noncore functions can be enormously productive and cost-effective, and many agencies outsource payroll functions without hesitation. But according to a Blackbaud survey, it is relatively rare in fundraising except for back-office activities like data/computer systems, at 13 percent, and accounting, at 8 percent; face-to-face fundraising comes in at just 1 percent.[6]

You get Dr. Conflict's drift here, yes? Face-to-face fundraising takes a deft hand from the executive director and from a board member who often comes along. Keep the important work in-house, where you can give it a personal touch, and outsource the rest.

Dear Dr. Conflict,
For a little over the past two years, I have been working for a nonprofit in a very tenuous and more often than not hostile, small-office work environment. My direct supervisor has been the director of operations for the past eight years or so and since arriving at the organization has systematically fired or "run off" anyone who has opposed her (either in terms of work or personality). The ED is less than two years away from retirement, and her efforts to stymie any conflicts that do arise are hesitant, ineffectual, and in many ways resigned to the erratic wishes of my supervisor.

Yesterday, my supervisor did something that on many occasions she has snapped at me *not to do. When I tried to establish my boundaries by asking* her *not to do it in the future, she took offense. She waited until everyone in the office had left to verbally "go at" me, listing all of the reasons why what I had said was not okay. She began by telling me I had made her really mad, and that she was my boss and I could not talk to her that way. Despite my calmly trying to tell her I was just trying to do my job, develop boundaries that I felt had been lacking, and hadn't meant to offend her, she broke into tears and told me that she was going to have a panic attack. I ended up saying whatever I could to get her to calm down.*

I strongly believe that the only reason I have made it this long is because I have always tried to appease her. At this point (two years in) I am working harder than ever for the organization—wearing more hats, and doing more projects that require me to make my own statements and opinions known. I am at the point where the only "out" I see is either looking for a new job or applying for grad school. My ED and supervisor have told me on multiple occasions how valuable I am to the organization, but this is just schizophrenic. How can I survive?

Desperate

Dear Desperate,
Expert Robert Sutton can offer you some tips for how you might "limit the damage . . . by learning not to give a damn about those jerks."[7] But with an ED two years away from retirement, you're in a world of hurt. You should most certainly arrange your schedule so that you're never without witnesses close by. And if your supervisor goes on the attack when you are alone, protect yourself by walking away.

You should also consider talking to an attorney about whether you have cause for action. And, consider discussing the situation with a professional counselor to see why you are staying put when you say you have other options, including graduate school. Maybe you can also gain insights into the boundary-setting issues you wrote about.

The answer to how you can survive in this den of jerks is that you probably can't. Start your networking engine right now so that you'll be on everyone's "you'd be perfect for this"referral list.[8] In the meantime, stay connected with friends and family; you need them for loving support to counterbalance the toxicity.

Notes

1. Robert L. Mathis, John H. Jackson, and Sean R. Valentine, *Human Resource Management*, 14th ed. (Stamford, CT: Cengage Learning, 2014), 220.
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Dr. Conflict is the pen name of Mark Light, MBA, PhD. In addition to his work with First Light Group (www.firstlightgroup.com), Light is executive in residence at DePaul University School of Public Service, where he teaches strategic management, human resource management, and ethical leadership. JohnWiley & Sons published his most recent book—*Results Now*—in 2011.

Growth Crises and Three Phases of Governance Response

by Wendy Reid, PhD, and Johanne Turbide, PhD

From their study of four organizations in a growth crisis, the authors learned three significant lessons: no single mode of CEO or board dominance is sustainable; board behavior can be contradictory and change over time; and the dynamics of trust and distrust appear to explain how relationships change from one crisis to another in these scenarios.

Editors' note: *This article was adapted from "Board/Staff Relationships in a Growth Crisis: Implications for Nonprofit Governance," originally published online, March 7, 2011, by the* Nonprofit and Voluntary Sector Quarterly *(http://nvs.sagepub.com/content/41/1/82), and subsequently published in* NVSQ*'s print publication in 2012.[1] The authors appreciate Peter Roberts's extensive editing support for this article.*

This article looks at the ways in which board/staff relationships played out in four small cultural organizations—two museums and two performing arts companies—as each passed through three distinct phases of a growth/financial crisis. This research may inform nonprofit boards and managers in a couple of ways:

1. It identifies patterns of board response around a crisis that may help in understanding and negotiating similar situations;
2. It describes how trust and distrust play roles that are individually destructive but when combined are healthy and productive.

Our first contact with the four organizations occurred when we were contracted as consultants by government funding agencies that had been asked by all four for "bail-out" grants. This provided an opportunity to engage with the four organizations in this community-academic research project. The research included a questionnaire; organizational documents (grant applications, audited reports, strategic plans, and task descriptions); forty interviews—some open-ended and some focused—with key players; and participation in thirty-four meetings, all told. This research opportunity was quite exceptional considering that organizations in a sensitive crisis tend toward confidentiality, that we had access to a wide cross section of organizational players, and that the study continued over several years.

There were no government representatives on any of the four boards, and organizational membership in three of the four cases was limited to board members. While this may be common in nonprofits of this size, it constrains external monitoring of the board's governance. For all of the organizations, federal, provincial, and municipal governments were significant providers of operating and infrastructure funding. The organizations were located in small communities in a region without a culture of philanthropy. Private philanthropic support was minimal, and non-governmental income was from corporate sponsorship or from earned income.

The Crises—In Brief

Each of the four organizations had responded to positive external recognition by making financially risky decisions to grow, entailing new or additional physical facilities or evolved programming. When increased expenses were not matched by self-generated revenues, staff did not preview cash-flow crises with the board. Instead, anxious external creditors were the whistleblowers. Audited statements prepared for members' annual general meetings and reports to government funders were only available at year end, providing retrospective financial information well after the crisis had happened. Government funders declined an increase in their support.

Table 1: Characteristics of the Four Organizations Studied (before and at the time of crisis)				
Characteristic	**Organization 1**	**Organization 2**	**Organization 3**	**Organization 4**
Type of artistic activities	Museum #1	Museum #2	Performing arts company #1	Performing arts company #2
Number of employees	12 full-time; 10 part-time	5 full-time; 51 part-time and contract	24 full-time; 34 part-time; 25 contract	16 full-time; 3 part-time; 6 contract
Public and private sources of funding (% of budget)	Government: 63.2% Earned income and sponsorships: 36.8%	Government: 66.7% Earned income and sponsorships: 33.3%	Government: 33.5% Earned income and sponsorships: 66.5%	Government: 19% Earned income and sponsorships: 81%
Description of the board at the beginning of the consultation	Internal/external members: 1/6 Executive committee: no CEO right to vote: no Nomination criteria: personal regional connections and interest in the mandate Corporate membership: board members only	Internal/external members: 2/7 Executive committee: no CEO right to vote: no Nomination criteria: personal regional connections and interest in the mandate Corporate membership: benefit of annual paid membership	Internal/external members: 1/11 Executive committee: yes CEO right to vote: no Nomination criteria: personal regional connections and interest in the mandate Corporate membership: board members only	Internal/external members*: 3/0 Executive committee: no CEO right to vote: yes *(founders = CEO, COO, and artistic director) Nomination criteria: internal staff Corporate membership: board members only
Reason for growth	Expansion of facilities for preservation of collection	Increasing number of projects; growing reputation	Increasing number of projects; enhanced reputation	Success abroad (more touring) and expansion of facilities (building)
Consulting relationship	Began in spring 2003 Continues: yes (informal and occasional)	Began in fall 2004 Continues: yes (informal and occasional)	Began in spring 2006 Continues: yes (advisory committee to board and government funders)	Began in summer 2006 Continues: yes (advisory committee to board and government funders)
Budget (revenue)	$1,011,500	$1,472,000	$2,600,000	$3,986,000
Deficit as % of budget	58% ($597,000) Private loan of $500,000 Negative cash flow	68% ($1,000,000) Realized deferred expenses Negative cash flow	41% ($1,075,000) Negative cash flow	8% ($326,000) Private credit of $1,000,000 Negative cash flow
Immediate crisis	Private creditor called loan	Supplier brought case to court	Banks froze line of credit	Private creditors called loans

The Three Crisis Phases

Four features appeared across all cases: high artistic quality and reputation, limited financial management, the CEO's charismatic management style, and various styles of board engagement. Similarly, three phases of the crisis rolled out in each case: *before the storm*, *the crisis trigger*, and *continued survival*.

Before the storm. The organizations' artistic successes were recognized outside the organization by peers, the public, and funders, providing a halo effect on the board's perception of the CEO. The typical board/staff dynamic was highly trusting and influenced by the CEO's charisma and significant psychological power, with "rubber stamp" governance behavior by the board. Board members were disengaged from active, collaborative, and more informed partnership with staff, but were very proud of their association with the organization. Risk assessment of expansion scenarios was hampered by management's overly optimistic revenue projections, or deferred when financial information was unavailable. Under-resourced or neglected administrative functions limited the information available. In each case, the crisis was triggered by outside stakeholders—private creditors, banks, and suppliers—who were directly sensitive to organizational cash-flow and sustainability issues.

Artistically charismatic executives appear to have used positive press reports to convince boards to undertake projects without having to account financially for their recommendations. Boards passively supported these decisions because there was a lack of information about issues relevant to financial stakeholders. In addition, the organizations had easily obtained operational government funding early in their lives, and they seemed to lack an outside-oriented perspective that the presence of more extensive private fundraising might have brought.

The crisis trigger. This phase was precipitated by legal actions of external creditors who demanded loan repayment or settlement of unpaid bills, or who froze credit. In response to this threat to economic survival, board members snapped into action. They bypassed executive leadership and assumed control, negotiating directly with external stakeholders, seeking temporary extensions with suppliers, additional credit from banks and private lenders, and emergency grants from funders. As board members became preoccupied with financial procedures and efficiency, the CEO's actions and decisions were challenged. The board's former confidence and blind trust in the CEO's competence abruptly changed to distrust. Decisional power shifted from the CEO to the board. Two CEOs were removed, and three board chairs resigned. In the fourth case, the government funder stipulated the addition of external board members to increase monitoring capability. In this phase, governance activity shifted to close oversight, emphasizing an active and engaged board that controlled and distrusted the CEO, reflecting the board's significant lack of collaboration with the CEO.

However, after the immediate shock of the crisis, it seemed unsustainable to continue the intense level of involvement that the board needed to maintain its preeminent position within the organization and to control its relationship with the outside environment. The organizations entered the third phase of crisis.

Continued survival. This phase was characterized by the organizations' adjustment to a more balanced and stable operation within constrained circumstances. In this context, the same or new players as board chair and CEO developed relationships, and trust grew; however, distrust did not completely disappear. Craving efficiency, both the board and the CEO sought to establish a more mature and collaborative relationship. Power appeared to be shared more equitably, with an expectation of checks and balances. Transparency became valued. In all organizations, board membership was diversified to improve fiscal monitoring and analysis and to ensure that all activity adhered to the mission. In two organizations, external advisory committees to the board were formed to provide informed stakeholder perspectives and assist with monitoring. The memory of the crisis continues to cast a shadow of distrust, but it is tempered by collaboration, and all is underscored by more proactive stakeholder relationships.

In our study, the dynamics of trust, distrust, or both featured in the governance relationships in each phase. By observing these organizations over an extended period, especially around a growth crisis, we found out how governance behavior can change over time, that board/staff relationships vary according to phases within an organization, and that board behavior does not just depend on organizational type (as regards size, sector category, and other organizational factors). Two previous research studies observed phases around a crisis, but they only had access to retrospective accounts.[2] In contrast to those studies, we were in close contact and in direct observation throughout the process.

However, the sudden shifts in power between the CEO and the board continued to puzzle us.

Joint Ventures and Trust

We found answers to our questions in the research on joint venture relationships. That research contrasts the role of trusting collaborative relationships with the controlling role of formal contracts. These relationships are defined by either trust or distrust.[3] Situations without a contract that feature a very high degree of trust and no distrust involve a high degree of risk. According to this research, such situations will eventually evolve over time to generate high levels of distrust. "Even trustworthy partners can be relied on to be untrustworthy if the incentives are large enough. . . . Under certain conditions, trust can be harmful, as it encourages actors to suspend judgment of others."[4] "If trust is not accompanied by certain degrees of healthy suspicion or formal controls, an organization risks being cheated or missing out on major opportunities."[5] We found these explanations compelling and perhaps applicable to the changes in behavior observed in our study.

In our first phase, when the CEO enjoyed a high internal and external public profile associated with artistic mission achievements, passive board members trusted staff excessively to make the right decision in a financially risky situation. The CEO's halo and board members' own devotion to the mission seem to have distracted the board from demanding or carefully considering pertinent financial data. They suspended the internal control they had available to them. External creditors clearly sensed that promises to pay or repay were at risk of being broken, and they blew the whistle—precipitating a cash-flow crisis. Governments, perhaps piqued by board passivity or suspecting irresponsible commitments, applied their own controls and refused additional funding; this action further contributed to both the cash-flow crisis and a crisis of confidence for the organization's stakeholders. In the second phase, the board reacted with hyper-engagement by adopting distrustful, controlling behavior, replacing board and executive leadership, and changing governance structures. In the third phase, the board/staff relationship altered yet again because the previous state of hyper-diligence was not sustainable. It became more collaborative, while featuring a balance of trust and control with regular fiscal reporting, analysis, and forecasting.

Expectancy Disconfirmation

The joint venture literature uses "expectancy disconfirmation" theory to explain the circumstances in which performance declines compared with expectations.[6] The partner loses all trust and takes control to rectify the situation: "This urge to act, or feeling that something has to be done, may translate itself into a heightened level of formal coordination and control."[7] When our nonprofit boards perceived the CEO's performance negatively after the whistleblowing, and the true financial state was revealed, their reaction to the threat replicated the behavior described by the joint venture research. Boards intervened at an operational level and bypassed the CEO.

However, the boards' new state of hyper-control and distrust created uncertainty, "causing managers to continually question the motives and competencies of their partners."[8] According to the research, work relationships become inefficient and the partnership deteriorates. Balance is needed to sustain the relationship over the long term.

In our organizations, boards in the second phase found this level of effort and the resulting tension unsustainable. They achieved balance in the third phase by evolving to an improved but still somewhat distrustful relationship, with new leadership, governance structures, and external advisory committees. These changes enabled the organizations to manage their constrained financial situations more knowledgeably and collaboratively, and thus avert further crisis.

Coexistence

Trust and control are both important features of a governance relationship. If armed with a deeper understanding of the dynamics that dominate various phases of a crisis, boards and staff may be better able to partner and to anticipate the pitfalls of passive behavior. Our study provides evidence that both trust and distrust can coexist in a relationship, and together they can promote a productive checks-and-balances style of governance.

Conclusion

From this study of four organizations in a growth crisis, we learned about the changing nature of board/staff relationships that affect governance of nonprofit organizations. The dynamic moved from CEO preeminence and dominance to board-led control, and, subsequently, to collaboration within a paradoxical trust-distrust relationship. Three lessons are important here: First, no single mode of CEO or board predominance was sustainable; internal and external dynamics played together, which generated either long-term latency or sudden and overt change when the crisis occurred. Second, board behavior can be contradictory and can change over time. Third, the dynamics of trust and distrust appear to explain how relationships change from one phase to another in these crisis scenarios. These lessons provide some insight into how boards and managers might consider developing their relationships to better control the disruptive effects of a crisis.

Notes

1. *Nonprofit and Voluntary Sector Quarterly* 41, no. 1 (February 2012): 82–99.

2. Miriam Wood published research from retrospective interview data in 1992 on crises and board/staff relations during post-founding organizational development. She proposed three declining phases of board involvement—super-managing, corporate, and ratifying, with increasing CEO power at each phase—which inevitably devolves into crisis, after which the three phases repeat. Miriam M. Wood, "Is Governing Board Behavior Cyclical?," *Nonprofit Management and Leadership* 3, no. 2 (winter 1992): 139–63, onlinelibrary.wiley.com/doi/10.1002/nml.4130030204/abstract; Jill Mordaunt and Chris Cornforth in 2004 observed four phases surrounding a crisis in their study of interrelational board dynamics, emphasizing board roles and behavior. Their insights are drawn from retrospective comments in a focus group and in-depth interviews producing case descriptions. Their four phases of board behavior are: recognition and denial (a process of acknowledging that there is a crisis); mobilization (consensus for action is developed); action (short-term issues are under control and decisions for medium- and long-term issues are needed); and transition (consolidation occurs). Mordaunt and Cornforth, "The Role of Boards in the Failure and Turnaround of Non-Profit Organizations," *Public Money and Management* 24, no. 4 (2004): 227–34, www.tandfonline.com/doi/abs/10.1111/j.1467-9302.2004.00424.x.

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Unlikely Takeover: A Third Way to Scale Social Enterprise

by Jon Huggett

It may seem counterintuitive for a nonprofit to effect the takeover of a floundering business and turn it into a social enterprise. But, as this article proposes, there are enterprises that could function better as nonprofits. This should offer food for thought for people in all three sectors: if we could dispense with blanket assumptions about the relative competence of one sector over the others, we might see the comparative advantages achieved by placing an endeavor in one sector versus another.

Editors' note: *This article was originally published on* NPQ's *website, on May 1, 2013.*

When we attempt to scale social enterprise, we usually try one of two paths: growing small organizations or spreading ideas across a range of organizations to scale impact. A path less traveled is to leapfrog by converting a large business into a nonprofit social enterprise that can more easily and effectively thrive and grow at a larger scale.

There is no practical reason why such a strategy should not be considered more regularly. Large social enterprises are not new, especially in distributed businesses; consider The Co-operative, in the United Kingdom, or the Mondragon Corporation, in Spain, each with $19 billion U.S. in revenue. In the developing world, microfinance has spawned brawny social enterprises like BRAC of Bangladesh, with its half-billion dollars in revenue.

Here's the story of how Social Ventures Australia led a consortium of nonprofits to create a scale social enterprise out of the wreckage of a bankrupt business, and what lessons can be learned from their efforts.

• • •

When Evan Thornley, a businessman and member of the state parliament of Victoria, Australia, heard that ABC Learning, a for-profit business with $600 million in revenue, was floundering, he saw a "once-in-a-generation opportunity."[1] Could the chain of day care centers serving over seventy thousand children across Australia—a full 15 percent of the market—also deliver early learning under new ownership?

Michael Traill, the head of Social Ventures Australia (SVA), a $10 million nonprofit, saw a chance to leapfrog to scale while improving the quality of what was being offered. SVA nurtures small social enterprises, and acquiring ABC Learning would be the largest takeover yet of a for-profit by a nonprofit. But Traill had an eye for the task; he was no stranger to mergers and acquisitions. Before founding SVA, he had spent fifteen years leading private equity at Macquarie Bank.

The Social Context

In international comparisons, Australian education performs well for the average child but poorly for the disadvantaged one. According to the Programme for International Student Assessment (PISA) statistics from the Organization for Economic Cooperation and Development (OECD), the average fifteen-year-old Australian scores better than the average American, German, or British counterpart in reading, literacy, and mathematics. The only large nations with better scores for the average fifteen-year-old are Canada and Japan. Scores for disadvantaged fifteen-year-old Australians, though, are closer to their disadvantaged peers in the United States and the United Kingdom.[2]

Australia spends less on preschool education than its OECD peers, measured by percentage of GDP. In 2010, with only 51 percent of children enrolled in early childhood education, Australia ranked thirty-fourth out of thirty-eight OECD and partner countries, and well behind the OECD average of 79 percent. Could focused, for-purpose early learning help disadvantaged Australian children catch up to the impressive results achieved by most average Australian high school students?

The Challenge

On November 6, 2008, ABC Learning went into "voluntary administration," which U.S. readers will find more familiar as "Chapter 11." Its assets were for sale. Traill believed that the early learning centers would be more effective, more sustainable, and happier with a nonprofit parent that could focus on social impact,and cut costs, too.

There is a good deal of research that suggests that in some fields nonprofits perform better than for-profits, both in terms of programmatic outcomes and cost containment. In the field of education, Canadian research shows that child care is likely to be better run by a nonprofit than a for-profit, finding "strong patterns of non-profit superiority in producing quality child care services,"[3] and a 2012 study of charter schools from the National Education Policy Center, in the United States, found nonprofits more likely than for-profits to meet federal Adequate Yearly Progress (AYP) benchmarks.[4]

Without access to equity capital, though, nonprofits have a harder time raising cash for investment. Acquiring ABC Learning Centers would require a lot of money, quickly. While SVA is Australia's leading venture philanthropist, it was too small to swallow ABC Learning. It needed partners large enough to raise the capital and leaders decisive enough to run at the pace of an acquisition. Traill pulled together a consortium of four nonprofits to buy the assets of ABC Learning, take them into the nonprofit sector, and refocus the organization around a social purpose.

The Consortium

Goodstart Early Learning is a coalition of SVA and three large Australian nonprofits: The Benevolent Society (with $76 million of revenue); the Brotherhood of St Laurence ($61 million); and Mission Australia ($295 million). The combined revenue of over $400 million and solid balance sheets gave the group the credibility to borrow the funds needed to buy the assets of ABC Learning. Keeping the consortium to just four nonprofits with excellent administrative capacities meant that Goodstart could move quickly.

The team that SVA assembled to create Goodstart learned four lessons that may help other consortia of nonprofits trying to buy for-profits.

Lesson 1: Pick a hard goal to tighten collaboration among nonprofits.

Even among four handpicked nonprofits, collaboration was hard. There was the risk that profit could trump purpose. The finances of any deal would be demanding. To keep the consortium together, the team members strove to agree on exactly what they wanted to do for children. If they shared a purpose, it would help them surmount differences—for example, over money. The team wanted a well-defined goal as a tool for making decisions.

Together, they iteratively developed a foundation document (unpublished) titled "Connecting Head and Heart: A Framework for How Goodstart Childcare Centres Will Drive Improved Early Childhood Educational and Social Inclusion Outcomes in Australia." Its ten pages of facts and figures detailed how Goodstart could help children.

The process of writing the document and agreeing upon purpose brought the four nonprofits together. "It made it easier to have the fierce conversations," Traill commented. "Communication was important because the decision-making process of each member was different." U.S. research into nonprofit mergers stresses the importance of "strong working relationships between executives prior to merger" in delivering good outcomes after the merger.[5]

The Goodstart team set three clear overriding goals according to which it now manages the business:

- Raise the **quality** of early learning;
- Enable all children's access to and **inclusion** in early childhood programs; and
- Ensure financial **stability** to generate a surplus to reinvest.

Lesson 2: Pick the board to "move and shake," not "represent interests."

With the social purpose embedded in shared goals, not the representatives' roles, the team could move just quickly enough to secure the capital. Traill recalled, "Communication was critical, and we connected weekly, if not more often. At one point, deciding the governance structure was hard. We made speed of decision making a gating factor."

Per MAP for Nonprofits and Wilder Research, research into other nonprofit mergers echoes the importance of prior "strong board involvement." For Goodstart to function well, it needed a board that could be an effective decision-making service. It was not enough that stakeholders were represented; the board needed a range of skills to guide Goodstart, both to do good and to do well. Along with expertise in education, it needed the experience of running distributed networks sustainably.

Assembled, the board was bicultural—comfortable in both the for-profit and nonprofit worlds. Traill himself had been a successful leader in both sectors. Robin Crawford, the chair, was a successful banker with years of consistent engagement with nonprofits. Tony Nicholson, head of the Brotherhood of St Laurence, and Toby Hall, head of Mission Australia, had each run a large business. Two of the member nonprofits did not put their own CEOs on the board, but an Early Learning and Care Reference Committee advised the board.

Lesson 3: To secure the deal, use the most robust M&A skills from business.

If mergers and acquisitions are hard in business, they are harder in the third sector. Studies have shown that most business mergers and acquisitions actually destroy value.[6] To deliver value, they must drive costs down, squeeze more from customers, or push the share price up. It is even harder for nonprofits as overheads are usually already lean, there are few chances to raise prices, and capital can dry up if donors do not transfer their loyalty from the old organization to the newly merged one.

The mergers and acquisitions skills that Traill learned during his years in private equity were tested. It was not clear how to structure this deal. Few like it had closed before. Crawford, a senior banker at Macquarie Bank and a long-time supporter of SVA, attracted the attention of Michael Ullmer, deputy chair of the National Australia Bank, and other heavy hitters. Traill and Crawford were also able to drum up such platinum-quality advisors as Gilbert + Tobin, Champ Private Equity, and Pacific Equity Partners, who put fees at risk and worked pro bono to complete the transaction. The firms agreed to a total fee cap of $750,000 for work worth $2 million.

Traill's view was that they "really needed contributions in terms of deeply discounted fees. We used the moral high ground to squeeze rates down, asking whether or not they wanted to be part of this once-in-a-lifetime opportunity to help the children of Australia." Merger expertise is critical, and U.S. research also shows that most successful combinations required consultants with specific merger skills.[7]

On December 9, 2009, Goodstart was announced as the preferred bidder, and in April 2011 it took over the last of the centers. Goodstart bought 660 centers for $95 million in a carefully layered deal. The members invested $7.5 million, angels bought $22.5 million of social capital notes, National Australia Bank bought $50 million of senior debt, and the Australian government chipped in $15 million of subordinated debt. (The social capital notes were a new unsecured debt instrument bought by forty-one social investors.)

Lesson 4: Manage toward hard goals.

Completing the acquisition was a notable accomplishment but the bigger challenge was the road ahead. With fifteen thousand staff, Goodstart wanted both to improve outcomes for children and to stabilize the finances. These two goals do not always sit well together. While most sites in poorer areas are financially sustainable, some are not yet. Goodstart has explicitly cross-subsidized some less financially sustainable sites in areas with great opportunity for social returns.

It was hard to squeeze costs, as economies of scale are hard to extract, but Goodstart is making a good start on the road. In its first year, it managed to improve occupancy and trim costs enough to repay $21 million of debt on time and deliver a net surplus of $5.6 million. In 2012, Goodstart increased its surplus to $8.3 million and strengthened its balance sheet with an accumulated surplus of $21 million. It has now managed to repay $66 million of the $110 million borrowed at the time of acquisition.

Now that Goodstart is proving financially sustainable, it has been able to invest in early learning beyond simple child care. It has invested $51 million in extra staff, including one hundred teachers, who can work in each center. It has invested $10 million in professional development with its own training college. Leading its professional practice is a professor splitting her time fifty-fifty with Australian Catholic University.

Monika Henry, director of Goodstart Early Learning Tamworth-Hercules Street, in New South Wales, said, "Watching a child learn something new is a special wonder of my job, and it is a great pleasure to be part of children's, families' and educators' learning journeys."[8]

The Hopeful Conclusion: For-Purpose Can Work Well at Scale

Goodstart CEO Julia Davison commented, "I am proud of the positive impact our early-learning programs are having on the 73,000 children who attend our centers." In Goodstart's 2011 annual report, Crawford commented, "The next stage of our journey presents us with significant opportunities to lift the quality of our early learning, do more for disadvantaged children, and engage with the sector and other relevant stakeholders to deliver our vision for all Australia's children to have the best achievable start in life."

Being a social enterprise does lend credibility in the eyes of parents and of the government, two groups that must support early education if Goodstart is to have the impact it intends for disadvantaged children in Australia. As a nonprofit, Goodstart may have greater ability than a for-profit to deliver both fair financial returns and good social returns. With respect to education, many parents prefer nonprofits to for-profits, as evidenced by the suspicion cast on for-profit schools in the United States, the United Kingdom, and Australia.

This restructuring may strike some as odd or counterintuitive, so it offers food for thought for people in all three sectors. Are there enterprises that could function better as nonprofits, saving taxpayer dollars and providing better service? It may be that blanket assumptions about the relative competence of one sector over the others need to be dispensed with so that we can look with clear eyes at the comparative advantages achieved by placing an endeavor in one sector versus another.

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Supporting Nonprofit Capacity: Three Principles for Grantmakers

by Lori Bartczak

When Grantmakers for Effective Organizations traveled cross-country to meet with funders and nonprofits and learn more about their capacity-building experiences, the effort led to their development of an approach to capacity building that may help grantmakers be better positioned to support nonprofits in achieving lasting impact.

As the demand for services from nonprofits continues to rise in communities everywhere, more funders are recognizing capacity building as a critical way to support strong organizations that are equipped to rise to the challenge. A recent survey from Grantmakers for Effective Organizations (GEO) found that 65 percent of foundations in the United States provide some type of capacity-building support to grantees, through investments in such areas as leadership development, fundraising capacity, evaluation capacity, communications, and technology.[1] Some foundations, like the Edna McConnell Clark Foundation and the Deaconess Foundation, have it as a core strategy; others, like California's Evelyn and Walter Haas, Jr. Fund, either have specialized capacity-building grant initiatives or programs in-house; and still others provide funding for local management support organizations.

Over the past year, GEO traveled across the country to meet with dozens of funders and leaders of nonprofits of all shapes and sizes and conduct "listening sessions" to learn more about their capacity-building experiences. We wanted to get a sense of how capacity-building practice has evolved since GEO's founding, fifteen years ago,[2] and what new trends are on the horizon.[3]

We learned that some of the most basic challenges that led to GEO's founding still exist today. Questions persist about how to build strong nonprofit boards that really add value; how to build and track budgets in uncertain times; and how to look at questions of decision making and leadership. One "right way" solution does not fit every problem, because each leader and organization is unique, and circumstances are always changing. The good news is that as a field we know more than we used to about what it takes for funders to do capacity building well. Research over the past fifteen years has added much to the knowledge base for funders, consultants, and organizational leaders designing and participating in capacity building, and the field has matured considerably.

What follows are our observations about some basic principles that emerged as pivotal to success.

The Three Cs for Providing Capacity-Building Support

1. Make It *Contextual*

One of the hardest-won lessons in this field is that capacity building must be tailored to meet the unique characteristics and needs of each organization. For instance, a small dance company that is losing its audience and a large multiservice center in an urban setting that has depended upon political relationships that are aging out may have different things to consider. Organizational issues flow from such stuff as the geographic community, the field of practice, age and stage of development of the organization, and the fit of its revenue mix and budget to the current and coming environment.

GEO found that grantmakers are providing tailored and contextual approaches through a number of different ways. National Arts Strategies (NAS) has worked to contextualize capacity-building support for arts organizations for more than twenty-five years. Through its Chief Executive Program, NAS partners with business schools of three universities to contextualize their curricula for leaders of cultural organizations, with an end goal of building personal leadership capacity. The program's curriculum relies heavily on the case study method, using arts organizations as case examples. "If people believe there will be utility, they can learn better," said NAS president and CEO Russell Willis Taylor. "NAS serves as the 'editor' to help make the curriculum more nuanced for the cultural sector."

In a different model, recognizing that strong leadership is the most critical capacity for nonprofits, the Evelyn and Walter Haas, Jr. Fund established the Flexible Leadership Awards program, which provides long-term, customized leadership support to grantees. Designed out of the recognition that there is no one-size-fits-all approach to leadership development, the award allows the nonprofit board and staff to step back and think expansively about what their organization wants to achieve and the leadership challenges they have to meet to get there.

Ideas for Providing Contextual Support

Developing a contextual approach to capacity building requires a great amount of trust and relationship building, both of which take time to develop. The nonprofit leaders we spoke to in the GEO listening sessions discussed the challenges of and opportunities for communicating their capacity-building needs with funders. "It's hard for any leader to say, 'These are our deficits,'" one nonprofit leader said. "To share that internally is hard; to share that with someone who's not in the family is painful. But you need to have one funder with whom you can share your dirty secrets. Otherwise, it's just smoke and mirrors."

Another nonprofit leader described an exemplary relationship with one particular program officer. "She will have lunch with us, she visits, she'll call us because she heard something that might be of relevance to our work. I see her in the community, at coalition meetings, in city meetings. She's not just sitting in her office. I'm impressed with her because she cares about what we—her funded organizations—are doing. That's big. We have a relationship, and because of this I am more likely to call her with a concern or a problem, or to let her know what we're up to so she won't be blindsided."

A key way to build an open, trusting relationship is for grantmakers to make themselves accessible to grantees. Consider how even your application and reporting requirements may create barriers for open exchange. "More and more, I'm finding online applications. There's no discussion; there's no one you can reach at the foundation to answer your questions," one nonprofit leader said. "It is not only impersonal and a tough way to engage someone in your work, but I think the foundations are losing out on an opportunity to learn."

2. Make It Multiyear and *Continuous*

Grantmakers should take a long-view approach to building capacity, because organizational transformations will not happen overnight. One-time workshops on fundraising or management, and even many short-term consulting engagements, cannot be expected to produce significant changes in capacity.

One of the most frequent challenges we heard from nonprofit leaders in the listening sessions was that funders were not providing capacity-building funding with an appropriate time horizon. We heard many stories of partially completed capacity-building projects that ended up not meeting their original objectives due to the lack of funding to cover costs required to implement and maintain the work. "Funders build our capacity, and then what?" one leader asked. "The funders are going to walk away, and we have to be able to sustain whatever they helped us build. A lot of the challenge with capacity building is the question of how we're going to sustain the work after the funders are done helping us."

"If you really want to support an organization's capacity building, it has to be over a longer time frame, at least three years," another leader said. "That time horizon allows me to think about this year's internal capacity building in a larger context."

Ideas for Providing Continuous Support

Those grantmakers who do this work well devote a considerable share of their time and resources to capacity building and endeavor to establish a strong and open relationship with grantees. Through its Impact Partnership program, the Deaconess Foundation, in St. Louis, provides four years of significant investment to help build the capacity of youth-serving organizations providing critical services in the city. According to Elizabeth George, co–vice president of the foundation, it takes six to twelve months for relationships to solidify and for the partners to create their capacity-building plans.

In addition to making long-term commitments to grantees, continuous capacity building also means sticking with an approach long enough to be able to learn from it. As a place-based funder, the Eugene and Agnes E. Meyer Foundation, in Washington, DC, has developed long-term relationships with its grantees, and capacity building is a central part of its work. Rick Moyers, vice president for programs and communications at the foundation, advises funders to take the long view in their capacity-building work.

"Be willing to stick with programs longer than three years," Moyers said. "While it's always good to be open to new ideas, funders can sometimes jump from one fad to the next without giving programs enough time to produce results or taking the time to learn from both success and failure. At the Meyer Foundation, we've been running essentially the same management assistance program for more than fifteen years. Some nonprofit organizations have used the program many times. The program's longevity has given us a body of experience that has informed adjustments and improvements over time."

Lynn Coriano, deputy director at Social Venture Partners (SVP) Seattle, has the same observation from her experience. SVP Seattle funds fifteen organizations with up to $225,000 in general operating support over a five-year period, with additional access to about $10,000 per year for capacity-building support. They have been using this model for fifteen years.

"Over the years, we've observed that many of the same issues affect a variety of the nonprofits we've funded," Coriano said. "For example, we've seen executive transitions over and over again, as well as organizations struggling to really understand and articulate their financial position. Given what we've learned and what our nonprofits continue to ask for guidance on, we could potentially play a more active role in advocating for what's worked well and sharing those tools more proactively. This has the potential to lead us to a more blended capacity-building approach, combining both responsive and prescriptive tools. An example might be that our grant guidelines could outline that, in the first three years of a funding relationship, we'd want to see the advancement in certain capacity-building areas dependent on the particular needs and life cycle of that organization—a succession plan, the ability to produce cash flow projections, or maybe a clearer understanding of their business model and programmatic outcomes, etc.—recognizing how much these particular areas can influence success in the long term."

3. Make It *Collective*

While leaders and boards of organizations are powerful, they are not the only powerful actors, and so funders are paying much more attention to how learning and change happen at multiple levels inside organizations and networks. They pay attention to the role and influence of other funders supporting individual grantees, and, in this environment of greater board accountability, to the role and capacity of the community being served.

Many successful capacity-building programs reach beyond the executive director role to engage a team that is drawn from multiple levels of the organization. "People respond to and remember information better when they are learning it in a group," said Russell Willis Taylor of National Arts Strategies. "When working with organizations, we try to find ways to educate the team to help ensure the learning sticks."

Ideas for Providing Collective Support

Because building capacity requires a significant, ongoing investment, grantmakers should look for opportunities to collaborate with other grantmakers to leverage investments in capacity and provide more comprehensive support to grantees. One nonprofit leader shared a story of when this worked well: "One funder made us the largest grant in the history of the foundation, and said if we received money from other funders for capacity building they would match it. We were able to go to other funders and ask for funding to grow our staff, our board, our technology. We could say, 'If you give us $50,000 for Salesforce[.com], this other foundation will give us another $50,000 to make sure it's implemented properly.' For the first time in ten years, I'm able to think about how to spend money wisely, and it's because of the capacity building."

When designing capacity-building offerings, grantmakers should look for methods to engage whole systems in a change process. In Memphis, Tennessee, the Alliance for Nonprofit Excellence's intensive Program for Nonprofit Excellence starts every engagement with an assessment that involves input from diverse organizational actors, including boards and multiple levels of staff. The expectation is that the three years of consulting that follow the introductory session will maintain this high level of engagement.

Organizations are accepted in rounds, and members of that class not only work to improve their own organization but also work together for three years as part of a learning and knowledge-sharing group. The program engages chief executives, board members, and emerging leaders from each participating organization to ensure the capacity-building work is well integrated into the organization. Peer networking across organizations and at various organizational levels is an important part of the program as well.

Nancy McGee, chief executive officer at the Alliance, said they have seen some exciting changes take place since the program began engaging emerging leaders a few years ago. "The emerging leaders are starting to realize they can push change from underneath," she said. "And the executive directors are recognizing ways they can and should give up control of certain things, which can be freeing and frightening at the same time."

Grantmakers should walk the talk when it comes to encouraging collective work, and consider ways to work with other funders to coordinate capacity-building support, thereby streamlining the process and freeing up time for grantees. The Edna McConnell Clark Foundation makes large, long-term investments in nonprofits with a potential for growth, in order to help them reach thousands more economically disadvantaged young people than they could have had they been forced to seek out more funding sources and diverted more attention away from mission fulfillment toward fundraising. For many of these investments, the foundation works to aggregate funding from other foundation partners, thereby leveraging the foundation's own investment and helping to ensure their grantees have what they need to deliver on their goals. At a smaller scale, the Lumpkin Family Foundation, in Illinois, provides funding for small grants for board and staff professional development that is matched by four local community foundations.

In addition to considering how to collaborate with other grantmakers, collective approaches to capacity building include considering the overall capacity of the set of organizations that are vital to the issue you work to address—whether that set is bound by a geographic area or an issue area.

The mission of the Sherwood Trust in Walla Walla, Washington, for example, is to build the Walla Walla Valley community's capacity. The trust provides funds for leadership, organization, community, and economic development. "You can't have a healthy economy unless all those levels are healthy—everything is interconnected," said its president, Jock Edwards. In addition, the trust funds infrastructure to convene appropriate stakeholders around multiple issues, creating and sustaining conditions through which stakeholders can come together and take responsibility for addressing an issue in an integrated and comprehensive manner.

The trust is also part of Washington's Statewide Capacity Collaborative, a collective effort of nine funders working to build the capacity of the nonprofit ecosystem across the state. The funders came together in 2009 in response to the challenges facing the nonprofit sector as a result of the economic recession, with the intent to understand the grantmaker's role in supporting a thriving nonprofit sector. They commissioned an assessment of capacity building in Washington State, which found a disinclination for thinking systematically about capacity building at a state or community level and recommended specific investments and strategies—from providing more general operating support to filling gaps in knowledge and service delivery.[4] Since 2010, investments from the collaborative include an online directory of vetted consultants and resources related to capacity building, targeted funding to rural areas in the state, and the creation of an organization that aims to provide a voice for nonprofits across the state through advocacy, education, capacity building, and networking.

"Building the capacity of the statewide sector is not necessarily appealing or attractive to individual donors," said Sally Gillis, senior program manager of collective action at SVP Seattle. "Therefore, a collaborative such as ours must be made up of community-oriented funders who are already brought into the value of capacity building. We understand the power of working as a group, and no one funder can drive or invest in this alone."

The End Result: Capacity

Grantmakers want to support their grantees in having the greatest impact possible, and capacity building is a key means of achieving that end. But the diversity of the organizations grantmakers support makes it difficult to be clear on best practice. Based on fifteen years of experience with our members and conversations with nonprofit leaders, GEO believes that by taking an approach that is *contextual* (tailored to the unique needs of the grantee), *continuous* (taking the long view), and *collective* (considering how the parts add up), grantmakers will be well positioned to provide capacity-building support in ways that effectively support nonprofits to achieve lasting impact.

Notes

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Lori Bartczak is the director of programs at Grantmakers for Effective Organizations, a community for grantmakers committed to building stronger and more effective nonprofits.

Toward a Successful Internet-Enabled Philanthropy Ecosystem: Part 2

by Buzz Schmidt

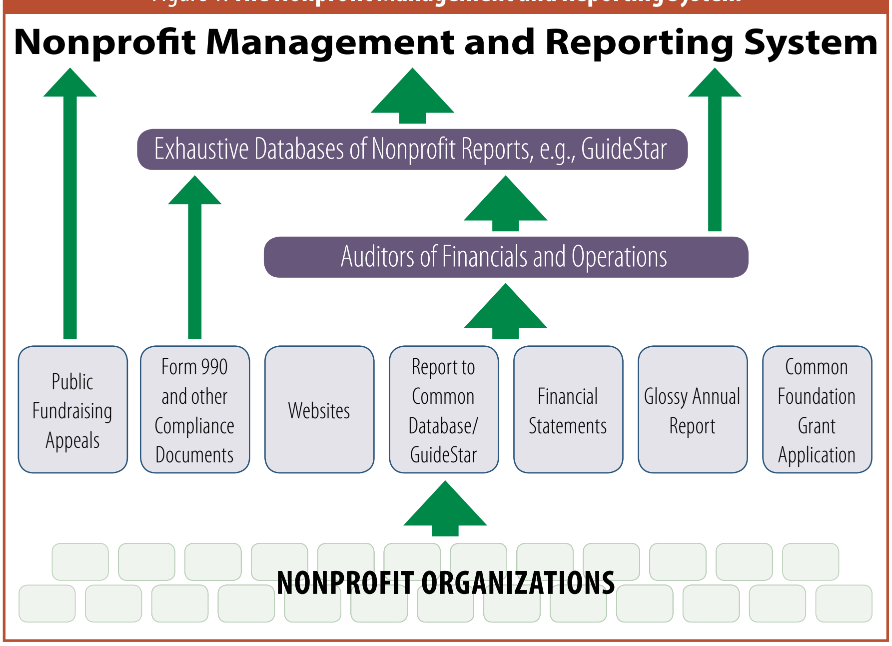
In this article the author lays out his vision for a "philanthropic ecosystem"—dividing its principles into four component systems and explaining that, in order for the sector's online ventures to succeed, we must remove the "systemic barriers" existing in philanthropy that "limit the progress of innovative initiatives."

***Editors' note:** This is the second of two parts of this article, the first of which appeared in* NPQ*'s summer 2013 edition. The article started as a paper titled "Promoting Passion, Purpose, and Progress Online"; it was first published online by* Alliance Magazine, *in February 2013. This half of the article addresses the realm of effectiveness measurements, a much worked-over concern in the sector. Do we need a more consistent set of standards by which we all judge the work of nonprofits, and if so, what should it include as foci and questions to be answered? Schmidt here takes a very complex and diverse system and tries to overlay general scaffolding for evaluation of effectiveness. Does it resonate? Do you have thoughts to add?*

The Nonprofit Management and Reporting System

The nonprofit organization is the ultimate object of the attention of each system within the philanthropy ecosystem. As figure 1 illustrates, a reporting process that provides pertinent performance information to external stakeholders as well as to internal staff resides at the heart of each effective organization's management process. In an ideal world, external audiences and internal organization actors would focus upon precisely the same information; the same objectives for output and outcomes, capacity development, and fiscal health and proper fiduciary conduct; and the same periodic reports that explain progress

Figure 1: **The Nonprofit Management and Reporting System**



toward meeting those objectives. It is incumbent upon the trustees and senior management of nonprofit organizations as well as donors, transaction intermediaries, and evaluators to reinforce consistent reporting practices. If we are serious about realizing effective management practices at nonprofit organizations and working through them to achieve excellent results, we must all seek, review, and make decisions using the same managerial reports for past periods and plans for future periods.

To achieve that end, a common reporting core, such as that promoted by the Charting Impact initiative of Independent Sector, the Better Business Bureau (BBB), GuideStar USA, and the William and Flora Hewlett Foundation, should accompany all nonprofit reports. These critical questions, or a very similar set of reporting elements, are central to any useful planning, managing, and reporting system. In the spirit of common objective setting, rather than follow my own entrepreneurial inclinations to advance a new, proprietary set of questions, I will use Charting Impact's model and five questions to make this point.[1]

1. **"What is your organization aiming to accomplish?"** Charting Impact's first question in essence asks the organization to state a vision for a distinct future (within a distinct time frame) that will result from successful completion of its work. This is the organization's "intended impact." It is also a question that must be revisited for relevance every reporting period, because it forms the essential rationale for the nonprofit and the cornerstone for its strategic plan. I would argue that the vision the organization offers should have external as well as internal characteristics: external with respect to what the organization's good work will mean for society; internal with respect to what the organization will look like at that future "vision" date.
2. **"What are your strategies for making this happen?"** Or, "What programs will you pursue to achieve this larger vision?" Or—maybe—"What is the organization's theory about how it will achieve change (the intended impact)?"[2]
3. **"What are your organization's capabilities for doing this?"** This is the reality question, anathema to many a social entrepreneur. But an answer is essential for every serious effort, even if the answer indicates capabilities short of what's required at the moment. A more useful construction might be, "What are your organization's current resources and your plan to secure any additional resources and competencies required to achieve your objectives?" Ultimately, the resources and objectives must be reconciled, or, if not, objectives must be restated. This is an excellent exercise that must be conducted in one form or another each reporting period.
4. **"How will you know if your organization is making progress?"** Though an important question, this requires some art to develop. It's an unusual organization for which the actual "output" of its program activity will equal demonstrable progress toward the longer-term vision. With respect to tracking the organization's progress against strategic objectives and toward achieving its vision, it is important to choose metrics that can be discerned easily and measured accurately; understood by staff and utilized in their own periodic internal reporting; and for which a reasonable case (theory of change) can be advanced for its correlation with the impact the organization intends to have.
5. **"What have and haven't you accomplished so far?"** The fifth and final question is the regular performance report. It must be emphasized that answers to at least one (and probably more than one) of the first four questions will change each reporting period. We should also expect the answer to question five to change, and when it does, the reasons for the change should be flagged and incorporated along with the progress statement in any reporting. Appreciation of these changes, regular restatement of answers to these questions, and faithful reporting of the results of the process are the hallmarks of a learning organization. Every participant in the philanthropy ecosystem must respect the central importance of this process.

Likewise, it is not enough for GuideStar USA, the Better Business Bureau, Independent Sector, and the Hewlett Foundation to commend the five questions to nonprofits as best practice. Nonprofit organizations' answers to these questions must be thrust front and center in the information systems developed and displayed by each of these actors, by all other evaluators, and in the grant application and reporting forms required by all foundations, donor intermediaries, and other institutional philanthropists. Only then can we expect that the substance of the questions will be taken seriously and internalized in the sequential planning/reporting/planning/reporting processes of each nonprofit.

In other words, the "audience" for the Charting Impact initiative must all be serious participants in the philanthropy ecosystem, and foremost among these are the nonprofit organizations themselves. Although the level of sophistication and quality that nonprofits bring to their reporting will vary considerably, every organization has ample opportunities to interject consistent responses to the five questions in every reporting venue.

What Is the Importance of This System within the Philanthropy Ecosystem?

To achieve its potential, the philanthropy ecosystem requires that nonprofit organizations operate and, just as importantly, report as effectively and consistently as possible. Without an expectation and fact of dependable reporting by nonprofits, the ecosystem will not move beyond its current dysfunction.

What Are the Bottlenecks or Impediments to Making This System Function Optimally?

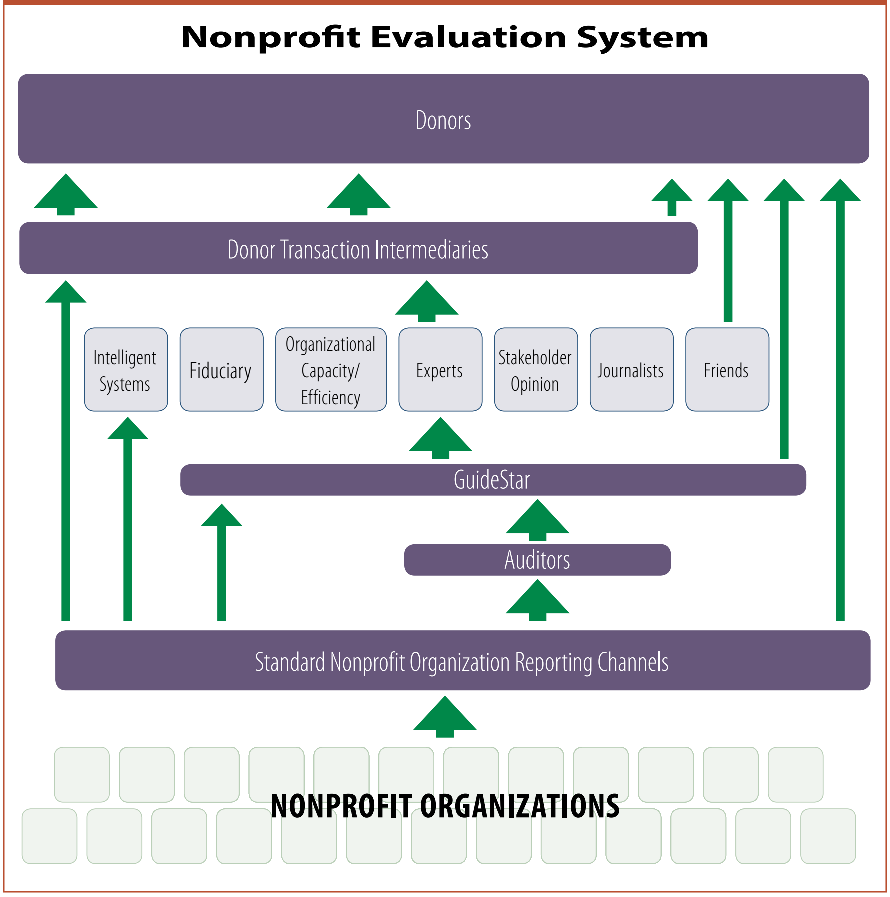
The failure of the donors and intermediaries comprising the giving system to take nonprofit reporting seriously, agree on a common application for grants, and demand a common annual report that derives from the nonprofit's internal planning/management/reporting process is the principal impediment to optimal functioning of the nonprofit management and reporting system. Unless nonprofits can count on donors to coordinate to reinforce the value of excellent and singular reporting, they cannot expect to benefit externally from consistent donor signals or internally from more effective management processes. Instead, they are more likely to spend scarce managerial time responding to multiple and disparate requests for information that may be impossible to internalize in any cohesive reporting system.

What Are the Principal Opportunities for the Innovative Social Entrepreneur?

We must do everything possible to focus the attention of donors and their intermediaries on the necessity for cohesion in the funding application and regular nonprofit reporting processes.

- **Revisit the Charting Impact program.** Redirect the promotion of the Charting Impact program from nonprofit organizations to donors and donor intermediaries. If every donor and intermediary demanded an annual report that featured the five questions, the quality of nonprofit reporting—and, as a consequence, philanthropy and nonprofit management—would improve immediately. Short of that, attempts to influence nonprofit reporting behavior will fail.
- **Synchronize all standard nonprofit reporting systems.** This opportunity will require social entrepreneurs to engage in a program of education and advocacy with established ecosystem reporting systems to reinforce the ethos of the Charting Impact program. For twelve years, GuideStar USA, the most ubiquitous and neutral reporting venue, has asked that nonprofits voluntarily enter answers to survey questions that are quite similar to Charting Impact's. If GuideStar USA ensured that its own reporting form were precisely consistent with the five questions, and honored or featured the most faithful, multiyear nonprofit reporters, it would be an immediate boon to this movement. Additionally, even though the IRS recently revised its Form 990, it might be willing to include these questions in the next iteration if the principal ecosystem actors could converge around the five questions. The inclusion of these questions on the universal reporting form for all tax-exempt organizations would aid in the effort to create a common reporting formula benefiting nonprofits and the public in general. Further, associations of nonprofits could include the five questions in the best practices they promote to their members. Groups that honor the best annual reports could require that proper attention to the five questions become a central criterion for consideration. Finally, the principal nonprofit sector media could be trained to look for answers to the five questions in their reporting on individual nonprofits instead of focusing on financial ratios, as they do today.
- **Use common foundation grant applications and annual reports.** Any effort to cajole, coerce, or otherwise convince foundations to adopt common policies with respect to grant applications and subsequent evaluation of the performance of organizations would be well worth undertaking. To be meaningful, this would require that foundations first focus intently on the nonprofit organization as an entity rather than on its individual programs. Further, foundations should use the formal, annually revised business plan and annual report of each organization, both of which would emphasize the organization's response to the five questions as its primary source of information about an organization. In this way, foundations would reinforce more effective internal management systems and strategic planning as well as pertinent reporting. They would also benefit from the receipt of better information and presumably more effective nonprofit interventions.
- **Establish a service to audit nonprofit output/outcome reporting.** The planning/management/reporting information environment envisioned here asks nonprofit organizations to self-report their accomplishments versus their objectives. Presumably, donors will identify organizations with work that coincides with their own purposes and values. In a well-functioning

Figure 2: **The Nonprofit Evaluation System**



philanthropic ecosystem, both donors and nonprofits would have access to a robust philanthropy knowledge system, and donors would have the ability to reward organizations that pursue objectives that are most consistent with community goals and expert opinion about effective solutions. One concern would be how to determine whether the organization's reported accomplishments are accurate. We rely now on accounting firms to audit the veracity of a nonprofit's self-reported financial statements, and we can expect the development of firms that audit and validate reported organization accomplishments. Such developments would add appreciably to the integrity of the ecosystem.

The Nonprofit Evaluation System

Figure 2 depicts the entire flow of information about nonprofit organizations reported directly and indirectly through intermediaries from nonprofits themselves as well as content-contributing intermediaries to donors and donor transaction intermediaries. Most nonprofit self-reporting is made through standard reporting channels.

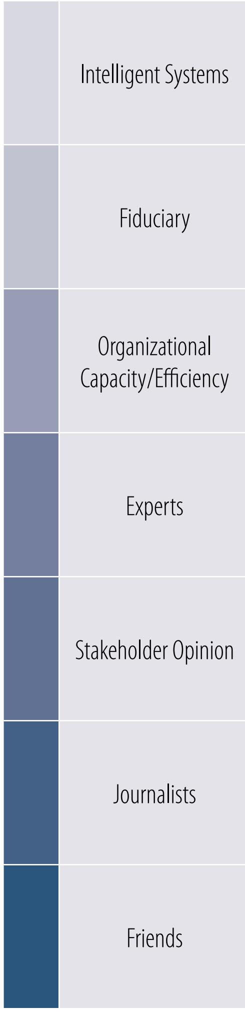
Some nonprofit reporting, mostly promotional, finds its way directly to individual donors. Some of it, grant applications and performance reports, flows directly to foundation program staff. The financial statements of substantial organizations are audited by public accountants. Data flows directly to regulators (including the Form 990 to the IRS and state charity officials) and finds itself posted at neutral online data services, notably GuideStar. From these channels, data flow to third-party evaluators, and then, along with what is still a limited quantity of evaluative content, to donor transaction intermediaries and donors. The system comprises the evaluation methods and strategies shown in the middle of figure 2.

Evaluation Methods

Online initiatives promoting more generous or intelligent philanthropy seek to evaluate nonprofit organization worthiness from distinct points of view. It could well be argued that evaluation is as much a function of the evaluator's values as it is of the substance of the organization's work. Theoretically, there are as many ways to assess the worthiness of a nonprofit as there are evaluators or even donors. Seven evaluative methods, existing and theoretical, are covered below.

1. **Implementing intelligent systems.** Intelligent systems recognize the pivotal importance of values and would enable individual donors to employ their own, using customizable evaluation algorithms and exhaustive data about the full population of nonprofits. There are no truly intelligent systems today, but with better data (maybe GuideStar x2) we could implement this intellectually attractive methodology.
2. **Assessing fiduciary and fiscal integrity.** The BBB Wise Giving Alliance is an example of the second evaluative method, one largely concerned with fiduciary and fiscal integrity. It derives from the perceived need to protect the donor-consumer from fraudulent fundraising. This method does not address nonprofit operations and effectiveness.
3. **Assessing organizational capacity/efficiency.** Charity Navigator and periodic "best charities" lists focus upon the financial ratios

of organizations as indicative of their efficiency, health, and capacity. While popular, this third approach lacks analytical integrity. Charity Navigator also evaluates organizations for accountability and transparency, and has recently announced analysis that will better reveal the impact made by organizations. The jury is out on this.



4. **Asking experts.** Asking "expert" practitioners, academics, and funders to review the bona fides and work of organizations has significant inherent appeal. Philanthropedia seeks to assemble a body of informed opinion to help donors identify the most effective nonprofit organizations.
5. **Asking other stakeholders.** Beyond seeking the point of view of external experts about the worthiness of an organization, is it not equally valid to seek and display input of other stakeholders of an organization—staff, beneficiaries, donors, etc.? Keystone Accountability has pressed donors and evaluators to adopt this fifth methodology. GreatNonprofits seeks to capture broad stakeholder sentiment about nonprofits.
6. **Journalists.** Journalists have long been the principal public evaluators of nonprofits. Their evaluative method typically focuses on organization attributes the journalist deems "newsworthy." We would be wise to remember the power of journalists and seek to advance their knowledge and sophistication accordingly.
7. **Friends.** Friends have always been the most important implicit evaluators of nonprofits. Traditional philanthropy counts on the human tendency to share interests and preferences. Social network philanthropy initiatives are betting that reliance on friends will become ubiquitous on Facebook. Hopefully, these initiatives will bring objective system knowledge as well to this crowded venue.

What Is the Importance of This System within the Philanthropy Ecosystem?
Theoretically, using intelligent systems, donors will one day manipulate data and generate their own custom evaluations of nonprofits. Even if this expectation is realized, we will doubtless witness increasing demand for third-party evaluations of nonprofit organizations. If these evaluators can reinforce proper and consistent nonprofit reporting (for example, the five questions), are transparent in revealing their own values, and contribute insight as well as adopt a cohesive philanthropy knowledge system, they will be an important and progressive component of the ecosystem. In fact, we need many more evaluators bringing many more perspectives and transparent values to this work. However, if evaluators encourage perverse economic behaviors by organizations (via overemphasis on financial ratios, for instance), erode the sophistication of donors by dwelling on irrelevant measures of worthiness, or let their perceived need for scale compromise the quality of their work product, they will be detrimental to the ecosystem.

What Are the Bottlenecks or Impediments to Making This System Function Optimally?
Perhaps the principal impediment to making this system function optimally is the failure of its practitioners to understand the practices, deficiencies, opportunities, and interconnectedness of the components and systems within the philanthropy ecosystem. Internet entrepreneurs are driven by a perceived need to achieve scale. When an Internet entrepreneur thinks about evaluating nonprofits, the first question faced is, "How can I evaluate large numbers of organizations so that I have sufficient scale to get noticed and influence behavior?" The inevitable result is the selection of highly "leverageable" methodologies (e.g., simple financial ratios, networked friends' endorsements, Zagat-inspired stakeholder opinion, and wiki-like networks of experts), each purporting to be the most useful means of assessing nonprofit worthiness. Underscoring and encouraging this phenomenon, though, is the absence of more pertinent and readily available information about nonprofits and the environment in which they function, such as that envisioned within the philanthropy ecosystem.

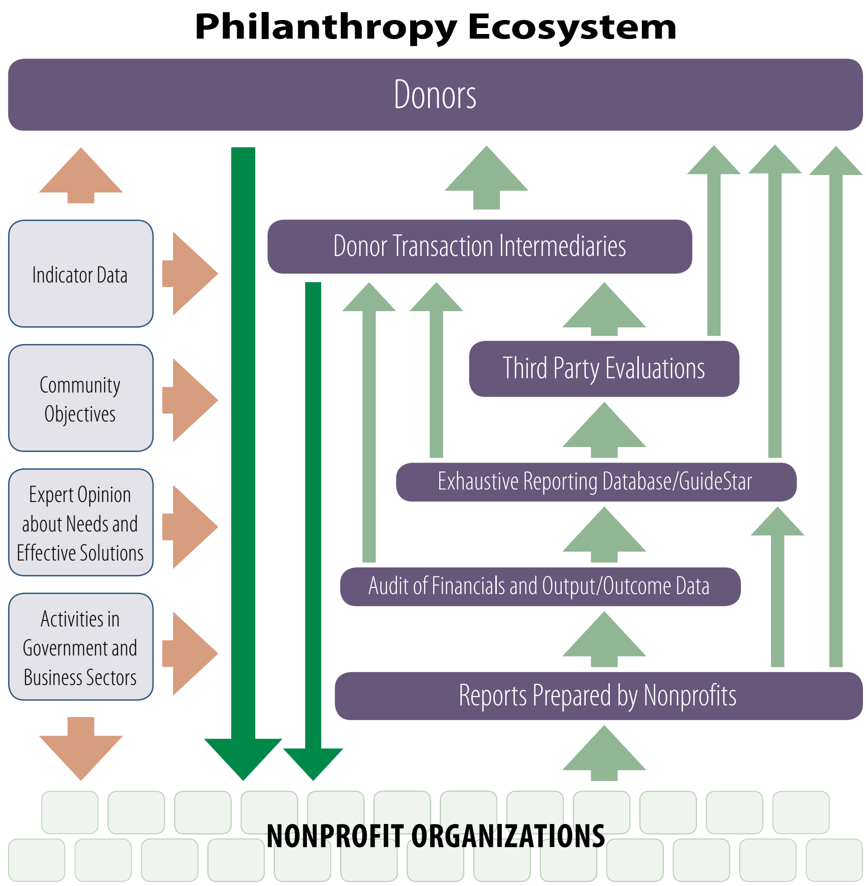
Another barrier is the absence among evaluation practitioners of a clear understanding that this is not an ordinary sector to remediate like banking, book selling, music, or rummage sales. There is no first-mover advantage. This is no zero-sum game. There is nothing to lose and everything to gain through close collaboration among evaluators, helping new ones get started (especially ones with different methodologies), contributing to a common knowledge base, and reinforcing excellent nonprofit reporting practice.

A final barrier is reputational. It is easy for nonprofits and serious donors to discount the current work product of evaluators, particularly the online variety. The misconceived shortcuts taken by a few can hinder progress for everyone in this space.

What Are the Principal Opportunities for Innovative Social Entrepreneurs?

- **The evaluator network.** Serious evaluators should form an association to ensure high analytical standards (and encourage reinforcement of the five questions); identify opportunities in the evaluation space; attract others to the field; classify the association members by expertise (for those who specialize in nonprofit subsectors) and type of evaluation; and promote their work product through a common web interface. GuideStar USA could provide the most logical venue and organizing device for this service. It already has a head start through its relations with several online evaluators, although its recent merger with two evaluation agencies may compromise either its neutrality or the appearance of its neutrality in this regard.
- **New knowledge/reporting-based evaluation algorithms.** This approach would reconcile information from the philanthropy knowledge system and nonprofit management/reporting systems. From the knowledge system it would capture information about the most effective intervention strategies and community objectives. From consistent nonprofit reports (featuring answers to the five questions) and audited financial and output/outcome reports, it would capture information about the capacity and success organizations have in achieving their stated objectives. The resulting evaluative report would use the combined information to assess the extent to which an organization (1) established interventions and objectives based upon well-supported assumptions about the correlation of its expected operating outputs and community-valued outcomes, and (2) performed the stipulated interventions and achieved the stated outcomes.
- **Establish a service to audit nonprofit output/outcome reporting.** This opportunity was presented in conjunction with the nonprofit management and reporting system described early on in this article. Its inclusion here in the third-party evaluation section underscores the overlapping quality of these systems. But repetition is warranted in this case. The same energy that is now expended by an "evaluator" could very productively be devoted to verifying the programmatic representations of nonprofits. It would provide the philanthropy ecosystem with information of greater integrity, and reinforce conducive and consistent nonprofit reporting methods (the five questions again).

Figure 3: **The Philanthropy Ecosystem**



The Philanthropy Ecosystem

With vibrant subsystems each functioning well within the overarching ecosystem, we cannot help but enjoy more satisfying philanthropy, greater innovation, and better societal outcomes. As figure 3 describes, in this high-functioning philanthropy ecosystem, we will:

- Work from a common knowledge base;
- Seek consensus around community objectives and collective action;

- Require consistent reporting by nonprofits that is at once internally valuable for the organization and publicly transparent;
- Direct resources to organizations that do well the work society values; and
- Demand accountability not only of foundations, trusts, and intermediaries but also of ourselves—the vast population of individual donors who account for the great majority of charitable giving.

As we build this ecosystem, we will introduce dependable market signals, establish consistent expectations, and instill dynamics that not only ensure mutually reinforcing progress but also demand and reward far greater innovation, online and otherwise, than we have witnessed to date.[3]

Conclusion

The positive implications of a high-functioning philanthropy ecosystem are substantial. The success of the whole, as well as the success of each of the parts, requires successful innovation throughout. While expansive, the scenario developed here is hardly revolutionary.[4] Rather, each component system described in this paper should be immediately recognizable. All of the ecosystem's existing institutions will continue to play major roles. No legal or regulatory changes are proposed. Innovation and change will be evident at the edges; in the connective tissue linking people, institutions, and subsystems; and in greater accountability and a stronger ethos of common objective setting and collective action.

The frustrations encountered by today's online social entrepreneurs will continue so long as we fail to recognize the systemic nature of the philanthropy universe and the need to embrace innovation throughout. We cannot blame nonprofits for being unaccountable if donors are inconsistent and unaccountable themselves. We cannot expect great results if the major players will not coalesce around common objectives and collective action. We cannot expect the success of innovative efforts by individuals to promote excellent philanthropy online if the rest of the philanthropy ecosystem is not functioning sensibly.

Finally, as we take on this surfeit of entrepreneurial challenges, we must remember why we are doing it. We do it to secure better outcomes for the causes we care about. We do it to build a stronger civil society and more competent and resilient nonprofit organizations. We do it to make safe the proposition that private initiative for the public good remains an essential facet of our democratic society. Narrow and "siloed" thinking as well as protection of turf, methods, brands, and the like have no place here. Instead, we must recognize this universe for what it is, embrace a common vision for a high-functioning philanthropy ecosystem, and set out together to build and link the components of that ecosystem. Only then will our frustrations dissipate and our ambitions ignite.

Notes

1. For Charting Impact's five questions, see www.guidestar.org/rxg/update-nonprofit-report/charting-impact.aspx.
2. The Bridgespan Group may be the principal proponent of a planning/reporting language that places "intended impact" and "theory of change" at the heart of a good organization's strategic plan.
3. Today, it makes good sense to focus our attention on developing the philanthropy ecosystem as described herein. Nonetheless, it will soon be necessary to incorporate two other emerging systems into any future analysis (the online social entrepreneurs will make sure that this happens). One, the social network system, is shaping behavior in myriad ways. At a minimum, the Facebook and Twitter duopoly has become an essential venue for nonprofit organizations and a source of "friend-based evaluation." The jury is out concerning the degree to which the ad hoc actions and associations of online social networks will supplant many activities and associations traditionally conducted and enabled by nonprofit organizations.

Likewise, a second emerging system, the social enterprise system, is capturing significant mindshare from a broad swath of society. Among its captives are many already committed professionally to the philanthropic ecosystem. What are the limits of this system? Can it realistically challenge the provenance of nonprofit organizations in our conception of a social action marketplace and in the hearts of donors? How can we most productively think about these developments?

For the sake of simplicity, I have avoided consideration of the extensive system of volunteer activity. Suffice it to say that implications of improvements of the philanthropy ecosystem that improve the participation, sophistication, and satisfaction of individual donors should hold true for volunteers as well.
4. A revolutionary solution might scrap the private foundation model for one less inherently autonomous and disconnected. It might scrap tax deductibility of organizations that operate in areas of dubious social benefit or simply don't need the money. It might require accelerated payouts to defray the social cost incurred when foundations warehouse capital perpetually.

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How Much Profit Does a Nonprofit Need?

by Woods Bowman

Organizations should continually invest in their capital to keep it healthy, but that is easier said than done. When money is tight, managers tend to close their eyes to the farther-off consequences. What managers need, argues the author, is a theory-based investment model to help keep them on the straight and narrow. Because, as he concludes, "Take care of your capital, and it will take care of you."

***Editors' note:** This article is based on chapter 6 of* Finance Fundamentals for Nonprofits: Building Capacity and Sustainability *(Wiley & Sons, Inc., 2011).*

Nonprofits need profit. Because every nonprofit is unique, the amount depends upon individual circumstances. This article will identify the key variables and explain how any organization can calculate the minimum profit it needs to prevent slow, steady erosion of the quality of its output. The calculation is so simple it can be done without pencil and paper, but it has far-reaching implications.

The key variable is capital. It is obvious that organizations should continually invest in their capital to keep it in top condition, but this is an elusive goal. When money is tight, managers may not be able to resist the temptation to skimp on investment, because the negative consequences are remote. Even managers with the best intentions may invest too little because they do not have a well-grounded investment target. What they need is a theory-based investment model.

Here is the theory. Economic models of production are a function of the particular combination of land, labor, and capital an organization uses. (A combination of resources is like a cookbook recipe—so much of this and so much of that.) In nonprofit organizations, every service-delivery model employs an ideal combination of resources. If the actual combination departs from the ideal, the quality of service will suffer. Once an organization chooses a particular service-delivery model, it must utilize more of every resource (more land, more labor, more capital) to produce more output at constant quality. Conversely, if it reduces the amount of every resource in the same proportion, it will produce less output but quality will stay constant.

Reducing the amount of a single resource implicitly changes the service-delivery model. For example, if an organization uses less capital without changing the amount of labor in the same proportion, the quality of its services will suffer. (Like using fewer eggs in a cake without reducing sugar, flour, etc.) No nonprofit organization would be so foolish as to throw away capital, but it might carelessly allow it to wear out or become obsolete, which amount to the same thing. Some organizations try to avoid steady erosion of quality by investing an amount equal to depreciation, but this is not enough. This tactic only maintains the value of assets at their original cost, which is insufficient, because inflation constantly pushes up replacement cost.

The capital investment needed to maintain the status quo in a given year is the rate of inflation (r) multiplied by total assets (A) on hand at the beginning of the year, which is how accountants measure capital. Division by spending on operations (S) converts this number into the minimum percentage of an operating budget that managers should set aside for investment. It is easier to solve this problem mentally by changing the sequence of calculations. Divide total assets by spending on operations, and then multiply by an inflation rate.

$$\text{Status quo profit rate} = (A / S) \bullet r$$

In accrual accounting, spending on operations is total expenses minus the non-cash expense, depreciation. Viewed prospectively, this approximates the size of an operating budget. (An operating budget excludes investment, but I will say more about budgeting later.) Users of cash accounting and endowed organizations need to tweak this formula, but I defer this discussion for the moment. I will also say more about the inflation rate later on, but for the purpose of illustration I will use a figure of 3.4 percent that I have calculated for the average rate of increase in the Consumer Price Index, All Urban Consumers (CPI-U), over a ninety-one-year period.[1] Notice that the status quo profit rate is based on spending, not revenue, which is a popular base from which to measure profit rate.

The formula shows at a glance that organizations with a large asset base and a small operating budget need a higher rate of profit than organizations with negligible assets and a large operating budget. Incidentally, it also shows how organizations can get into trouble when they decide to buy the building they currently rent. Overnight, their assets-to-spending ratio goes from low to high, which requires them to become more profitable immediately. If they fail to grasp their new responsibility for making capital investment, problems will soon surface. I want to emphasize that the above formula shows the status quo profit rate. Growth requires greater investment and more profit.

A couple of examples may help solidify these ideas. I used 2012 data from GuideStar to compare my university with a small local theater company.[2] My university has a huge campus, whereas the theater company performs in an old retail store. Both own their facilities. However, my university, with a large campus and a budget of $667 million, has a lower assets-to-spending ratio than the theater company, with a budget of $0.3 million. The university's ratio is 1.8 and needs a profit rate of 6 percent to maintain the status quo, whereas the small theater company's ratio is 3.0 and needs a profit rate greater than 10 percent.[3] Incidentally, another theater company with a similar budget that performs in rented space has a ratio of 0.5 and needs only a 1.7 percent status quo profit rate.

It may seem strange that a university that owns many buildings (including a theater) would have a higher assets-to-spending ratio than a small theater company that owns an old store. However, the average productivity of the university's capital is greater than that of the theater company's capital. The university's pricing policy and its ability to fill seats imputes greater productivity to its assets. This observation conveys an important lesson for nonprofit organizations: they can reduce their need for profit by squeezing more productivity out of their assets. The consulting work I do in my spare time has convinced me of widespread inattention to this point.

Occasional failure to meet the status quo profit rate is nothing for managers to worry about, provided that surpluses in other years compensate. Even consistent failure to meet this target does not portend demise, but it should put managers on notice of a need for periodic capital campaigns to upgrade their facilities. The formula enables managers to calculate how large a capital campaign they will need. The data in the table below indicate the size (in millions of dollars) of a capital campaign that will be needed to support a new $100 million investment in physical plant under different assumptions about a shortfall in the profit rate and how long an organization waits before conducting one (its planning horizon). The table appears in my book *Finance Fundamentals for Nonprofits: Building Capacity and Sustainability*.[4]

Size of Capital Campaign Needed (in million $)

Planning Horizon	Shortfall 33%	66%	90%
10 years	8	15	22
20 years	13	24	33
30 years	16	29	38

How a manager would use this table is best shown by an example. Assume that a nonprofit organization that needs a 6 percent profit rate but only generates 4 percent has a 33 percent shortfall (first column). It could wait ten years (first row) to replace this shortfall with an $8 million capital campaign. An equivalent interpretation of this example is that $8 million would be the price of a ten-year annuity (invested at a 5 percent rate of interest) that would exactly replace the shortfall. By equating the target of a capital campaign to the purchase price of an annuity, it becomes apparent that all of the numbers in the table will increase when the interest rate falls below 5 percent, and they will decrease when the interest rate on those securities rises above 5 percent. (I recommend using a benchmark rate corresponding to the yield on high-quality tax-exempt bonds issued by large nonprofit organizations.)

This completes an overview of the formula for the status quo rate of profit. The discussion will now fulfill the promises made above with respect to deferred topics, such as measurement of key variables; how users of cash accounting and endowed organizations should modify the formula; and how nonprofit organizations should budget for capital improvements. A question introduces each topic:

1. *Why are land and securities included in "total assets" variable, since neither wears out or obsolesces?* Ideally, we should subtract land from total assets and use only the balance in the formula, but neither financial statements nor 990 forms separate the value of land from the value of buildings. Including land is simply an expedient, which is unlikely to materially distort the calculation of the status quo profit rate. Although securities do not wear out, they finance uneven cash flow and serve as an operating reserve in case of budget shortfalls. To maintain their purchasing power at a constant level, they too must grow at the rate of inflation.
2. *Is the long-run average rate of growth in the CPI-U the best number to use for the inflation rate?* All inflation metrics are problematic. Consider three issues. (A) Inflation varies from region to region and city to city. There are inflation data more representative of local conditions, but their availability is spotty. (B) Inflation in the prices of goods purchased by nonprofit organizations differs from inflation in prices of consumer goods. Fortunately, the U.S. government also publishes data on producer price indexes. Users of price indexes must decide which one is the most representative of their "industry." (C) All price index data is historical. Managers may prefer to use a prospective inflation rate; fortunately, what buyers of government securities think inflation *will be* in the future is easily estimated by subtracting the yield on Treasury Inflation-Protected Securities (TIPS) from the yield on an ordinary U.S. Treasury bond of comparable maturity (currently 2.3 percent for the next thirty years). An organization that adopts this method must doggedly stay with it through episodes of high as well as low interest rates. A long-run historical rate is probably a safer bet.
3. *How should users of cash accounting modify the formula?* My research indicates that approximately half of nonprofit organizations use cash accounting. Unlike accrual accounting, which is standardized through generally accepted accounting principles (GAAP), cash accounting is not standardized. I will assume that all cash outflows—for whatever purpose (including investment)—are

spending, and no assets are depreciated. Thus, users of cash accounting should redefine total assets to be the sum of the original cost of physical assets and the market value of financial assets. They should also redefine spending to be total cash outflow minus capital investment.

4. *How should endowed organizations modify the formula?* My research indicates that approximately one in ten nonprofit organizations can perpetually finance at least 5 percent of their operating budgets with their securities holdings. These organizations are either endowed or have enough financial wherewithal to establish an endowment-like fund. They should redefine total assets to be that portion of their assets that are not functioning as endowment.
5. *How should a nonprofit organization incorporate capital investment into its budgeting process?* All nonprofit organizations should have two budgets—an operating budget and a capital budget. An operating budget should provide for regular and routine spending that is financed with current revenue. However, capital spending is episodic and often financed with debt, so it should be segregated from the operating budget. There should be a separate budget for capital investment. The two should be linked with a line item in the operating budget to provide a steady source of funding to the companion capital budget. Interest—but not principal repayment—should be in the operating budget, and principal repayment should be in the capital budget. (This structure makes comparison with financial statements easier.) Cash generated by the profit policy advocated in this article becomes a regular and routine transfer to the capital budget.

Regardless of your budget's structure, you should have an investment plan. Do not simply rely on whatever is "left over" to finance capital investment. Take care of your capital, and it will take care of you.

Notes

1. U.S. Department Of Labor, Bureau of Labor Statistics, "Consumer Price Index: All Urban Consumers (CPI-U); U.S. City Average," November 20, 2013 (Washington, DC: Government Printing Office, 2013), ftp://ftp.bls.gov/pub/special.requests/cpi/cpiai.txt.

2. GuideStar is a nonprofit organization that posts IRS 990 reports on its website (www.guidestar.org) for public use. Although these data are public, I do not identify the organizations I use as examples in order to avoid even a hint of criticism where none is intended.

3. Financial analysis is not an exact science, so when calculating an assets-to-spending ratio, drop the last several digits from both the numerator and denominator, taking care to drop the same number of digits from each. For example, I rounded off to the nearest million by dropping six digits from my university's assets and spending. I mentally divided assets of $1,200 million ($1.2 billion) by spending of $667 million (two-thirds of a billion).

4. Woods Bowman, *Finance Fundamentals for Nonprofits: Building Capacity and Sustainability* (Hoboken, NJ: John Wiley & Sons, Inc., 2011), 88. Winner of the 2013 Virginia Hodgkinson Research Prize for the "best book on philanthropy and the nonprofit sector that informs policy and practice."

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A Century-Old Organization Faces Its Own Journey to the Next Century

by Marla Weston, PhD, RN, FAAN, and Wylecia Wiggs Harris, PhD, CAE

At the end of a yearlong journey toward organizational transformation, the American Nurses Association learned a number of important lessons, not least, that leaders must be willing to risk personal success for the good of the organization, non-squeaky wheels should never be ignored, and change will often come at the grassroots level. Perhaps most important, however, is the understanding that with any such effort there are sure to be midcourse corrections, and the law of unanticipated consequences always applies.

Editors' note: *This case study addresses the issues faced by a national association that has been losing membership. Leaders in the organization believe that these losses are partially due to an outmoded and unwieldy structure that is less responsive than it should be to a quickly changing field. But the organization needs to get the changes made using the structure that exists. What does the first leg of the journey look like, and what additional questions does it raise? This is a self-reflection piece and may be subject to the problems we all have in seeing ourselves accurately.* NPQ *is advancing this with the understanding that it should be treated as a hypothesis for organizational change.*

In the span of a year, the American Nurses Association (ANA) unfettered itself from its own tradition and institutional bureaucracy to forge a dynamic path forward. A declining membership and an unwieldy governance structure gave way to more streamlined governance, closer collaboration with and among state associations, and new commitment to a culture of innovation. This article provides a behind-the-scenes look at the organizational transformation of ANA, and includes both lessons learned and continuing challenges that we think may be relevant to leaders of other nonprofits.

Why Now? The Drivers

During strategic planning in the late fall of 2011, ANA leadership realized the organization needed to modernize on a rapid timeline. That change needed to be radical in some ways but also needed to be ratified by members. Making the whole situation more difficult was the fact that we had to use an outmoded structure to change the way we operated.

The last major changes to organizational structure had been made in 1989, well before the Internet revolution. More-recent attempts to streamline the organization had been unsuccessful. At the time, ANA was a national organization with a federated structure and members that were predominantly state nurses associations. This was a change from the policy allowing individual nurse members, which dated back to 1982.

The number of individual nurses represented by ANA and state nurses associations had declined significantly over the past two decades. Some of this decline was the result of disaffiliation by some state associations that joined competing organizations. Other factors were the rise of nursing specialty groups, the ability of individual nurses to access content directly due to technological advancement, and our own cumbersome

About the American Nurses Association

The American Nurses Association was founded in 1896 by a group of twenty nurses. The organization today represents the interests of the nation's 3.1 million registered nurses through legislative advocacy, educational programs, and other membership benefits. Working in collaboration with its constituent and state nurses associations and its organizational affiliates, ANA advances the nursing profession by fostering high standards of nursing practice, promoting the rights of nurses in the workplace, projecting a positive and realistic view of nursing, and lobbying Congress and regulatory agencies on healthcare issues affecting nurses and the public. It is ANA's mission to serve one of the nation's most respected professions in aid of improving healthcare for all.

membership-pricing model. ANA had a governing House of Delegates (HOD) with six-hundred-plus elected members. There was a fifteen-member board of directors, elected by the HOD, and a Congress of Nursing Practice and Economics (CNPE) group, composed of seventy members who met quarterly and advised the HOD on policy issues. The challenges:

- The House of Delegates' six-hundred-plus members met biennially, in person, leading to a corresponding outsized commitment of staff and volunteer time, and escalating costs.
- Dedicated volunteer leaders spent an inordinate amount of time on governance and cumbersome processes as compared with programs and advocacy.
- State associations varied greatly in size, staffing, resources, and capacity to serve individual members and be effective advocates on policy issues.
- There were more than five hundred different member dues rates across state associations, and the procedures for joining were onerous and confusing.

A leadership turning point began in 2011 when ANA President Karen Daley read *Race for Relevance*, by Harrison Coerver and Mary Byers.[1] Others, including both elected and staff leaders at ANA and in state nurses associations, quickly followed suit. The book served as a catalyst, inspiring ANA to tackle the stark realities we faced. A framework was provided by the authors, with recommendations to overhaul governance, empower the CEO and staff, rigorously define member markets, rationalize and simplify programs and services, and build a robust technology program. These solutions seemed to us exactly what the nurse had ordered.

President Daley noted that the structure and processes that had served us well in the past did not position us for success in a digital world. To meet the changing needs of nurses, she suggested, ANA must change too. The challenges faced by ANA and its organizational constituents mirrored those of other associations outlined in the book, specifically:

- Declining membership (58 percent decline in twenty years);
- Inadequately resourced associations in more than half the states;
- Outdated, costly, and cumbersome governance;
- A membership dues structure that was confusing, difficult, and too expensive; and
- Inadequate technology platforms.

Together, these challenges were like quicksand for ANA, holding it back from being the world-class organization nurses deserve. Leaders realized that a failure to act quickly could result in a downward spiral.

The Proposal

Remember as you read the next description that we did say we were working with an unwieldy structure. Within about a month, an internal group of ANA staff had devised a draft plan that was subsequently fine-tuned through input from state nurses association chief staff officers, and finalized in February 2012 in a two-day board and executive staff strategic planning session. The plan was developed with feedback from the elected leadership of our constituent and state nurses associations (CSNA) as well as from data compiled by ANA staff. The elements of the recommended plan included:

- Eliminating the House of Delegates and replacing it with a much smaller advisory council, and placing governing responsibility with the board of directors;
- Reducing the board of directors from fifteen to seven;
- Abolishing the CNPE and replacing it with ad hoc expert panels composed of subject-matter experts;
- Combining some state associations into multistate divisions with shared administration;
- Increasing buying power, a common technology platform, and other business services provided by ANA;
- Changing the membership structure so that individual registered nurses instead of state associations comprise ANA members;
- Reviewing and revamping the price of individual membership to enhance member growth; and
- Aligning programs and products to better meet member needs.

Adoption of the recommendations was intended to rescue the culture of our organization from layer upon layer of decision-making and bureaucratic processes and replace them with an appetite for innovation that still respected the traditions and voices of members

Determination: Staying the Course

For a large organization with long-standing and embedded traditions, moving quickly is no easy task. But ANA knew that if it did not have a solid plan with significant support from state leaders in place by the June 2012 biennial meeting of the House of Delegates, it would be looking at another two-year wait. The case for change and preliminary recommendations, designed by a rapid response team, was presented to state executive directors at a meeting in January 2012. Following board of director deliberations, refinement, and approval in February, a special session of the House of Delegates was added to the upcoming biennial agenda so that the new proposals could be considered for adoption.

Staff members from all segments of the organization—virtually everyone from leadership services to legal to finance to communications—were called upon to assist in getting proposed amendments ready for review and comment. The elements of the proposal were then subject to modifications and amendments before and during the HOD meeting. The speed of the proposal development in and of itself marked an organizational transition: ANA was unaccustomed to making quick decisions or moving forward without full consensus, and many asked if the process could be slowed down. Even a consultant brought on to assist with the design expressed doubts about whether such transformative change could be accomplished within the time frame, and he suggested that ANA move more incrementally. But as Coerver and Byers make plain, a sense of urgency is necessary to make change happen. ***Lesson learned:*** *Be fast and nimble when it really counts.*

Elections for all officers and half of the board members were also being held at the HOD meeting. Delegates would have an opportunity to cast votes for candidates in addition to the bylaws proposals. As a result, ANA's CEO, president, and board were putting their jobs on the line, but in order to create change for the life of the organization it was necessary to take such risks. By proposing radical change, they might be seen as visionary leaders—or as threats to the status quo. Either way, the plan and the leaders would be subjected to intense scrutiny. ***Lesson learned:*** *Be willing to risk your personal success for the good of the organization.*

The organization instituted several discrete processes to maintain momentum and keep board and staff—as well as state nurses association elected and staff leaders—informed and engaged. These included:

- Communicating often and via multiple channels, such as: 1. Board president and CEO conference calls and webinars with state presidents and executive directors; 2. Updates at all national committee and subsidiary board meetings; 3. Regular postings on the House of Delegates closed community site, reaching the six hundred delegates who would vote on the proposed changes to the bylaws; 4. Electronic updates from the CEO to state executive directors; 5. In-person visits to state offices by board members and key staff; 6. Posting and regular updating of FAQs about the proposed changes; and 7. Using supportive state colleagues as informal ambassadors among their peers.
- A technological needs assessment and immediate steps to find the right business partners.
- Development of preliminary business and legal documents and processes so that ANA would be ready to execute changes if they were approved.

Misinformation spread, as it is wont to do in such situations, and vigilance was required to disseminate correct and up-to-date information. ANA needed to listen, and we learned that doing so often drove us to better and more comprehensive communication. For instance, questions arose as to whether state associations would continue to have state-based communications vehicles. Many nursing issues are state based, and we wanted state associations to continue to have a state presence. No matter how many we times we said this, however, there was still the feeling that somehow the ANA national office wanted to "take over" state-based communications. Putting a clear answer in writing and referring back to that language repeatedly eventually worked. ***Lesson learned:*** *Repeated, consistent, multichannel communication, including face-to-face meetings and personal phone calls, is imperative in order to prevent the spread of misinformation.*

Making the Deal: Multiple Stakeholders

ANA was cognizant of the array of stakeholders vested in the recommendations and outcomes of the deliberations that would culminate at the June 2012 national meetings. The key stakeholders directly impacted by the proposed changes to ANA's governance and membership models, structural changes, and new products and services included state-elected leaders and staff, national elected leaders and staff, subsidiary organizations, and ANA members. Indirectly, the larger nursing community would also be impacted by the changes.

One of the fundamental challenges of this level of organizational transformation is the need for leaders who have been successful in the existing structure to embrace the push for change and lead others toward a new model. A core element of ANA's success in moving forward many of the proposed changes was the work of leadership and early adopters from state associations in convincing others of the need for change and in getting buy-in to the proposed solutions. An additional challenge that impacted both staff and volunteers was living with the uncertainty of the outcome during the planning period.

Not surprisingly, many of the plan elements were met with a healthy dose of skepticism. Some leaders of state nurses associations were initially resistant to the proposal. Many were influential with leaders in other states, and some states worried that smaller governing bodies might diminish their representation in the national organization. ANA encouraged state leaders to think not just about the circumstances of their own state organizations but also how the interconnectivity—national as well as statewide—created a strong network. Data about historical trends, existing market shares, and the consequences of past failed attempts to change reframed the discussion, and impassioned resistance gave way to comprehension that ANA had to act in order for the organization to survive. Constantly returning to the evidence focused the discussion on the viability of various options while also providing the necessary time to move beyond initial concerns. With graphic visuals of membership decline, attention could be redirected from why change was necessary to how best to effect that change. ***Lesson learned:*** *In times of organizational change, evidence rules the day.*

As with any transformation, leaders were challenged by the double-edged sword of seeking input before the plan was finalized and then encountering resistance and confusion by those who thought there were insufficient details. Understandably, leaving specific financial and operational decisions to be determined at a later date made state organizations skittish. They were reluctant to embrace a plan without knowing exactly how it would impact their bottom line, their members, and their staffs. Responding to their questions, which sometimes brought up issues ANA had not yet considered, became a key part of the planning process as the project unfolded. At the same time, not every single detail could be worked out ahead of time. The leaders in the association needed to trust that if the overall plan made sense, so too would the final details. ***Lesson learned:*** *Sufficient details are needed to instill confidence.*

The most readily embraced change element was the adoption of a more robust, universally available, world-class technological platform. It made sense that common technology and communications channels would save money and avoid headaches for state associations. Smaller offices also saw the benefits of group purchasing for other shared services. But questions abounded about state autonomy, which some thought would be jeopardized by the proposed changes to governance, consolidation of business services, creation of some multistate divisions, and new membership methodology. How could we create mechanisms for maintaining state identity while bringing all entities closer to ANA? Getting that balance right was imperative.

Small groups of state leaders began talking with like-minded colleagues, resulting in coalitions resisting or supporting various provisions of the proposal. There were rumors of rebellion and secession. Not surprisingly, a "state vs. national" tension emerged, with a feeling among some state leaders that the proposal was top-down and being forced on them. That was not ANA's intent. While recognizing that this phenomenon was human nature, or perhaps organizational change theory in action, we had to convince state-based leaders that our honest goal was to strengthen the association, and to do so in partnership with the states.

Two components of the proposal were receiving the most resistance. The first was eliminating the House of Delegates and transitioning to the board of directors as the highest governing body. The second was the plan to consolidate small- and medium-size state associations into multistate divisions. Some midsize state associations were particularly concerned with this element, and challenged proposed criteria that they perceived as reflecting unfairly on their current status and potential for future growth.

Throughout that spring, the board and staff kept ears to the ground. A turning point came in May, when the board, in response to concerns expressed by state leaders, changed the recommendation to eliminate the HOD to one that would reduce it in size to about two-hundred members. They also exempted the midsize state associations from automatic multistate participation by lowering the dues and revenue thresholds.

As soon as those adaptations to the plan were announced, previously silent supporters of the original version came forward. Some state leaders expressed disappointment and frustration, concerned that the transformational change necessary for organizational sustainability was being compromised. They questioned whether the guiding principles for ANA's transformation were being thrown aside, and whether real impact would occur. Some felt that the interests of a few powerful states had outweighed the objective of strengthening and unifying all states.

In an effort to assess delegates' understanding of and support for the proposed changes, ANA conducted a poll three weeks ahead of the HOD meeting. The response was both enlightening and encouraging, demonstrating more support than had been reflected in the direct feedback, as well as that a sizeable number remained undecided. ***Lesson learned:*** *Don't ignore the non-squeaky wheels; get objective feedback from all stakeholders—you may have more support than you think.*

Day of Decision

The House of Delegates convened in June 2012. During the formal sessions, remarks were made from the podium and the floor, following a rigorous protocol. Only those with official delegate status, indicated by badges and color-coded ribbons, could address the body. At one point the meeting was halted so that additional copies of complicated amendments to the bylaws brought to the floor by state delegates could be made. A procedural curveball resulted from the recommended bylaws being taken out of order, changing the building-block approach that had been carefully constructed for the presentation.

Behind the scenes, a coalition of state leaders had drafted an alternative proposal and coordinated with national leaders to ensure that the overarching goals of the transformation were kept intact. Arising from an initial frustration with the bylaws process, state leaders who had attended a regional meeting in the spring realized they shared some concerns about the direction of the changes and created informal working groups to move forward on alternative recommendations. They lined up support from thirty states. Committed state leaders worked both prior to and during the meeting to garner support for a solution that would achieve the forward-looking goals of the association related to downsizing of governance while minimizing the perceived risks of diminished CSNA authority over the national organization. Their proposal, recommending change that was more incremental, was more palatable to many of the states. For instance, both proposals eliminated the unwieldy House of Delegates, but the alternative proposal replaced it with a much smaller membership assembly rather than shifting the highest governing authority to the board of directors, as the original proposal specified. It was their alternative, and the state leaders behind it, that succeeded in garnering enough support to break through the logjam. ***Lesson learned:*** *Change will often come at the grassroots level, and not necessarily via established protocols.*

President Daley, realizing the potential for a compromise, adeptly handled the process to allow the alternative proposal to come forward. By the time of the meeting, although there was no certainty, our sense was that some of the changes would be adopted, some would be modified, and some, like changes to the membership dues structure, would be deferred for further review. In the end, many—though not all—of the proposed changes were adopted:

- The House of Delegates was eliminated. The centerpiece of a compromise was the creation of a much smaller membership assembly that would serve as the governing body, reducing the size from over 600 to approximately 250, with the constituent and state nurses associations having weighted votes to reflect size. The aim of the reduction was to save

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ANA many thousands of dollars in meeting costs as well as to streamline processes while keeping delegates from the membership as the highest governing body.

- Beginning in 2014, the size of the board of directors will be reduced from fifteen to nine members, enabling the board to increase efficiency and be more nimble as needed.
- The CNPE was abolished and replaced with ad hoc professional issues panels.
- A decision on changing the membership basis from state organizations to individual members was postponed, pending the completion of member research and new recommendations from the board.
- A requirement for all state organizations to enter into a shared services agreement was rejected. Since then, however, many states have moved forward to create multistate groupings voluntarily.

As a result of this process, governance was greatly streamlined, new membership methodology will be reintroduced after testing, and the door was opened for states to come together—although they would not be required to do so. In addition to seeing many specific changes adopted, we had also succeeded in establishing a collective understanding of the need for change and an excitement about becoming an enterprise that was more nimble and more efficient.

Diving In: Now the Real Work Begins

While the board, state leaders, and staff knew that a great deal had been accomplished, we had not achieved all we set out to do. But, through integration of various perspectives, we had made significant progress and ended up with a stronger outcome. And the changes were made while keeping the organization intact, with state and national leaders attuned to collective success, despite significant early resistance.

The work, of course, continues. ANA must proceed with implementing the approved changes as well as explore proposals needing further research, such as a new membership structure. So far, the following has been accomplished:

- Detailed tactics and steps to implement ANA's strategic plan for organizational transformation were developed.
- Many states have moved forward in creating multistate divisions; two divisions have launched, and two others are in development.
- A new technology system has been built that will enhance the work of ANA and state affiliates as well as maximize return on investment.
- The CNPE was retired, and the first new professional issues panel has been convened, with two others planned.
- Innovative new programs utilizing cutting-edge tools for virtual learning have been launched.

Change has not been easy. Understanding and support for the changes vary among stakeholders. The impact of working for months to get changes approved, and then working to implement them, has taken its toll. There continue to be pockets of resistance. As ANA approaches the first membership assembly, it is clear stakeholders need to be reminded that the changes to governance will be more substantive than simply reducing the size of governing bodies. The membership assembly and professional issues panels will have different roles than the bodies that came before them. And ANA is focused on moving quickly on a number of additional fronts, including:

- Research to better understand member needs (new membership pricing and recruitment methodologies are currently being pilot tested);
- Training and support for state leaders that is more robust; and
- Planning for transition to a smaller, skills-based board in 2014.

Not everyone will like every element of the new ANA, but we hope the organization will be stronger and that nurses will be better served—and, consequently, so will the nation's healthcare recipients. Through the experience of working toward organizational transformation, ANA discovered that change can be positive, it can be fast, and the seeds of cultural transformation can take hold when the time is right. There are sure to be midcourse corrections, and ANA recognizes that at each step it must strive for objectivity—and it must be ever on the lookout for new challenges to address. This is a moment in time in which we think we've found some answers. However, the law of unanticipated consequences still applies. Some of those answers will be less than perfect, but we hope the exploration of our quest for relevance may be helpful to other organizations in similar situations.

Note

1. Harrison Coerver and Mary Byers, *Race for Relevance: 5 Radical Changes for Associations* (Washington, DC: ASAE: The Center for Association Leadership, 2011).

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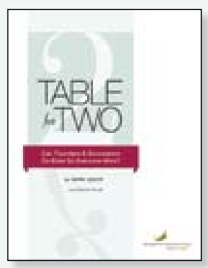
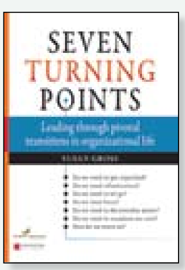


Table for Two explores the conditions under which a founder stays on under new executive leadership after stepping down as CEO for the overall success of the nonprofit.



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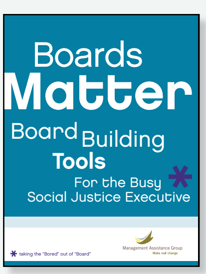

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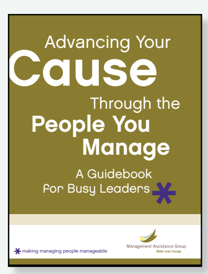

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