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Volume 14, Issue 3

The Nonprofit Quarterly

Fall 2007

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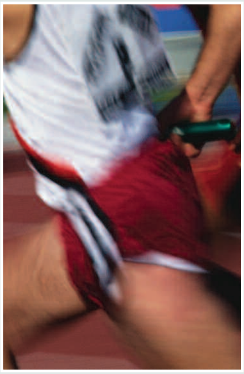

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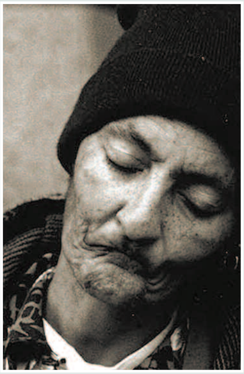

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Mission:
The *Nonprofit Quarterly* strives to provide nonprofit leaders at every level, paid or voluntary, a forum to exchange innovative ideas and informational resources—so that they can more fully realize their organizations' missions.

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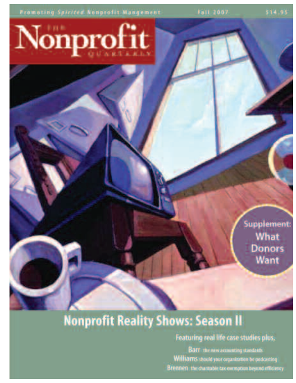
Welcome



WELCOME TO THE FALL 2007 ISSUE OF THE *Nonprofit Quarterly*. It is full of interesting organizational stories and case studies brimming with drama, suspense, twists and turns—you know, the daily stuff of nonprofit life. We've all heard them, the stories of nonprofit organizations that folded unexpectedly, merged with an unlikely partner, faced board turmoil, or achieved unprecedented success.

The feature stories in this issue focus on the kinds of moments that mark a turning point for many nonprofits in our sector and ultimately propel them, willingly or not, toward organizational transformation. Change may come from external forces, such as mergers, leadership transitions, board shifts, or restructuring; or it may come from long-brewing internal troubles, forces that change the landscape slowly but definitively, or an unexpected storm. As you read about Coastal Family Health Center, a community health center ravaged by Hurricane Katrina, you will learn about the perilous, but remarkable survival of a community institution, its employees, and those it serves as they recover from enormous personal, community, and organizational devastation. Tenderloin Health also offers another story of survival after an internal storm: a leadership and organizational life-stage transition that rocked the organization to its core. And, United Housing suffered a shock to the system when it lost a major grant on which it depended. As a result, it not only had to rethink its funding strategy but also reframe its internal and external relationships and restructure its core goals.

Then there is the story of the Girl Scouts, which is undergoing a major transformation across the country. Like other federated organizations, it is rethinking its guiding assumptions and operating structures. The changes at the Girl Scouts will have a lasting impact on its affiliates and on the way other multisite nonprofits approach similar challenges to their identity and practices.

This issue deals with birth and death as well. The story of ONE DC helps us understand how organizations are born and leave the nest to face the joys and challenges of independence, while the Metro Arts and Film board faces the ultimate question of when to close the doors and how to honor its commitment to its work.

The stories are real, and the insights are yours to keep and use as you pursue your work in this sector. In the tradition of case studies, we have given you the story and the facts but have left the conclusions up to you. We hope these stories become the kind that you share with your friends and discuss into the late hours of the night.

Finally, we bring you some down-to-earth practical articles to round out the issue including an examination of the new audit standards and what organizations need to know and do as they work with them, and a review of podcasting for nonprofits, which looks at organizations that are using them and guides readers in considering whether and how to tap into this communication channel.

The Nonprofit Ethicist

by Woods Bowman

Dear Nonprofit Ethicist,

I worked for a supervisor who was concerned about posting figures that presented the fundraising department in a flattering light—although, for various reasons, our figures did not do so. We were always struggling until (literally) the last minute before a board meeting, the 31st of the month, etc., counting money, to get every last cent posted, when comparing it with last year's month-to-date, etc.

As the year progressed and we failed to compensate, however, my supervisor's "creative accounting" got to be very difficult to deal with. As the one who was responsible for reporting the figures from the database, I was instructed to do a variety of increasingly questionable things.

Although a certain, separate fund was not counted in any previous year's total, I was instructed to add this fund's income into the general Annual Fund total for this year.

When I refused to alter the data entry of <gift date> from the postmark on various gifts received by mail, my supervisor made a point to volunteer to photocopy gifts himself on crucial days during the end of certain months and did not copy the envelope, which indicated the postmark.

At year's end, many, *many* gifts that were received—either by mail or by hand in late January or even early February were posted to the prior year's income. I explained that this was not only wrong but illegal! He dismissed my objections as "not understanding what was at stake."

There were certain things I would do, such as lump this fund with that fund. It was money earned, just being counted together. There were other things I refused to do, such as list funds earned on dates when they weren't. When I refused to falsify dates, my boss just threw away documentation so that I had no idea when donations were legally received. I no longer work at that organization.

Pressured

Dear Pressured,

You don't need any advice from the Ethicist. It seems as if you got it right every time, including by quitting. The Ethicist cringes every time he hears of supervisors telling subordinates to do something that is flat-out wrong. Subordinates do their supervisors a favor by pointing out the consequences of their illegal, unethical or just plain dopey instructions. It's hard to do—someone should award medals to people with the backbone to instruct a boss.

Some people seem to think that disregarding Generally Accepted Accounting Principles is not as serious as breaking the law. Maybe no one will lock them up if they fudge the books but recordkeeping is very serious business. If records are a mess, they are a useless source of information for management. The organization's leaders will have no way of knowing whether their fundraising methods are working. As for erroneous dating of year-end gifts, your former boss had better pray that none of his big donors ever get audited, because the gift will be disallowed for that year and they will probably be angry with the organization. (You can bet they won't blame themselves.)

Dear Nonprofit Ethicist,

This may be a well-worn issue, but it has re-emerged for me recently. Is my understanding dated? The issue in question is the reporting on multiyear pledges of restricted grants, primarily from institutional sources, but equally from larger, restricted multiyear pledges from individuals. This topic is covered by the Financial Accounting Standards Board (FASBE) publications #116 and #117, although it may not be as crystal clear as it would seem.

For example, I am aware of a large organization that does not report multiyear pledges from major corporations, but rather, reports on each annual payment as though it were an independent grant. The CFO and auditors feel that because of the restricted nature of the grant, the donor may not honor the full annual grant payments, and / or because the organization may not accomplish each of the deliverables stated in the grant proposal such that the donor may wish the funds returned. This organization has never been asked to return grant money and has an excellent reputation with these donor groups, having received numerous multimillion-dollar, multi-year grants over the past ten years. The way I read FASBE #116, and the way it has been interpreted by every other organization with which I've been associated, the full grant commitment needs to be recorded as income in the year the gift commitment is made. Failing that, at the very least it would be footnoted in the audited financial statement. Neither is happening in this organization and the full commitment is not being recognized other than in the annual payments. In so doing, over $1 million in committed income, is invisible.

The CFO feels that this approach helps the organization look more like it needs the money than if it were recorded as a receivable, but I feel that donors don't give to our need but to our effectiveness, and the more we show we've raised, the more confidence donors will have in making similar gifts. While I think FASBE #116 is clear, their interpretation may be technically defensible. I feel that the intent of FASBE #116 is to ensure that to the extent possible donors and the public have an accurate and transparent reporting of gifts, grants and other revenues regardless of such technicalities. Even if technically defensible, this seems misleading. What say you?

Grantman

Dear Grantman,
Pledges extending beyond the current year are ordinarily reported as temporarily restricted revenue. If the CFO and auditors believe that the donor may not pay in full, the proper procedure is to establish an allowance for doubtful accounts. You say they also have reason to believe the organization may not accomplish each of the points of a restricted grant. That is not an accounting issue; it is downright unethical. If the organization doubts its ability to perform, it should not accept the money.

Just for fun, let's explore the "logic" of their decision. They don't want to book pledges when they receive them because of concerns over nonperformance, but they book cash when they receive it. What could happen between getting the pledge and getting the cash that could caused them to change their minds about the organization's ability to perform? Nothing occurs to me—they just cannot avoid booking cash. They are just as likely to fail to perform. Therefore they are accepting a pledge under false pretenses. The Ethicist believes there is a close connection between good ethics and good management. This case is a good illustration: a donor who asks for money back is unlikely to give anything again.

Dear Nonprofit Ethicist,
While teaching in the local school of a country town in Australia, I volunteered to produce a weekly newsletter for our local church. It is supported by various small advertisements from the parish businesses, one of which was a coach company. Toward the end of the year, I arranged to take students on a camping trip to Uluru (Ayers Rock) in the center of Australia. I got quotes from the two coach companies in town which included provision of tents and catering for the week-long trip. Yes, you guessed it. I went with the company that didn't advertise in the parish newsletter. And he canceled his advertisements with a few choice words to me. I would do the same again, I think, but I still squirm remembering his comments.

Unhappy Camper

Dear Unhappy Camper,
Bravo. You did the right thing. After all, you did ask him for a quote. He had no right to expect more. He is confusing advertising with bribery.

Dear Nonprofit Ethicist,
I sometimes wonder about the following practice: A consultant or other vendor agrees to charge the nonprofit client its standard fee and then in return make a contribution to the organization so that the organization's net cost is less. Do you see any issues with this approach? This has been proposed as a "better" approach than discounting fees up front since then the organization may book the costs of doing business as less than what it would actually take if the provider were not so generous—or perhaps the organization should book at standard cost and show an in-kind contribution—if the two amounts are spelled out and not subsumed into one discounted rate?

Wondering

Dear Wondering,
The Ethicist prefers keeping the two transactions separate. Many services are not tax-deductible and valuation of contributed goods is always dicey. (Nonprofits are prohibited from providing the donor with an estimate of value.) Having a vendor charge a market rate and make an offsetting cash gift clearly establishes both the price of the good or service and the amount of the gift.

The tricky part comes when a vendor charges you more than market, but when the cash gift is figured in, you appear to be paying less than market. Be careful. Do not be blinded by a vendor gift. Perhaps you could find a vendor who would charge less and give a larger gift. Your "generous" vendor could be like the advertiser in the previous letter.

Woods Bowman is an associate professor of public service management at DePaul University.

Once Upon a Time

by Ruth McCambridge

The saboteurs of predictability may lurk in our blind spots, or they may be relatively unpredictable even when we apply a reasonable degree of rigor, or we may simply have misinterpreted an important indicator.

Editors' note: *Recently a* Nonprofit Quarterly *reader wrote that even the smallest nonprofits regularly face large practical and philosophical questions—and these questions can come at the most inopportune times. This issue of* NPQ *presents several case studies of real nonprofits that have confronted a combination of practical and conceptual challenges. Most of the cases walk you through to partial resolution but there remains some ambiguity in most of them. Remember that every solution creates new problems. In a few of these cases, we have also provided commentary, and the following discussion offers some general observations to guide you. Use these cases as you might in a business school class. Let them spark your own reflections and insights, and share your thoughts with us at feedback@npqmag.org.*

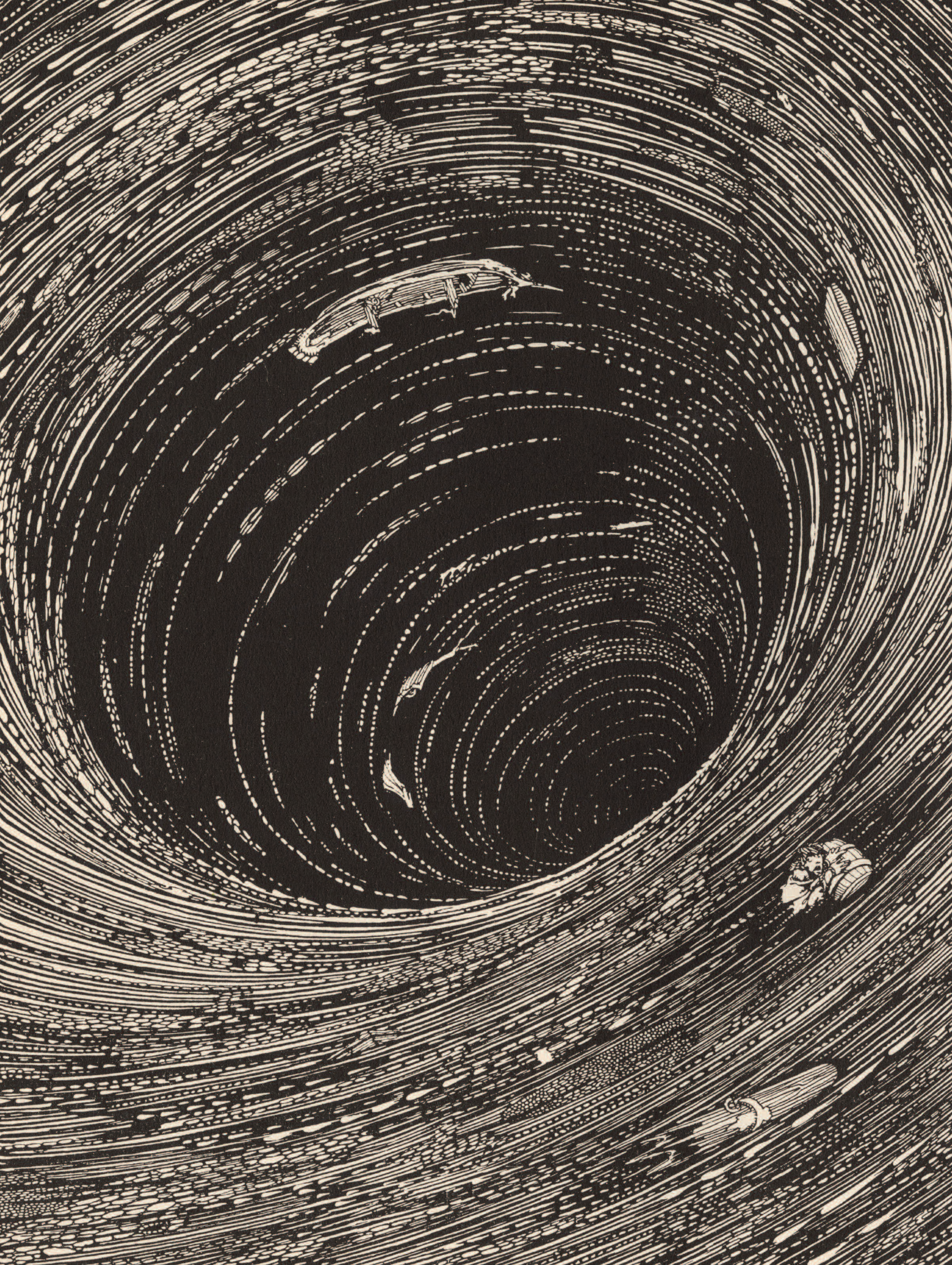
The things we fear most in organizations—
fluctuations, disturbances, imbalances—
are the primary sources of creativity.
—Margaret Wheatley[1]

If the Yiddish saying "Man plans, God laughs" is true, God better really enjoy a good laugh, because organizations of all kinds still persist in their efforts to draft rational plans for the future. Long-range planning in nonprofits is laudable, of course, but for most organizations the environment increasingly conspires to waylay or completely scuttle long-range plans. The saboteurs of predictability may lurk in our blind spots, or they may be relatively unpredictable even when we apply a reasonable degree of rigor, or we may simply have misinterpreted an important indicator. Sometimes intervening factors come over us quickly, like the death of a key leader or the unexpected loss of funding; and sometimes it creeps up quietly, as in the case of a slow-growing disconnect between the nonprofit and its constituents. It is not uncommon for several disruptive forces to converge at once. Being a resilient nonprofit requires more than foresight; it takes agility.

This issue of the *Nonprofit Quarterly* provides a window into the worlds of nonprofit leaders who face significant, urgent challenges. In most cases the challenges are in a combination of internal dynamics and externally imposed pressure. For the most part, we have told the stories in the words of the directors of these organizations. In some of the articles, we have also provided an "expert" discussion of some aspects of the situation, but the richness of these organizations' journeys lies in the narrative.

What distinguishes each of these nonprofits' situations is each organization's complexity: the

Ruth McCambridge is *NPQ*'s editor-in-chief.



personalities and belief systems of the key players, funding shifts, demographic issues, programmatic questions, the state and culture of the field or community each works in, the state of administrative systems, and even natural forces like the weather. We encourage you to consider all these factors as you read, looking particularly for what may not be explicitly stated. These case studies are purposely ambiguous to allow you, the reader, to consider what is in play and draw your own conclusions.

There are as many ways to view sources of organizational change as there are organizations, but some cross-cutting factors emerge as critical variables, including shifts in individual leadership or collective will, internal dynamics, money, authorizing environments, and changes in the macro-environment.

There are as many ways to view sources of organizational change as there are organizations, but some cross-cutting factors emerge as critical variables, including shifts in individual leadership or collective will, internal dynamics, money, authorizing environments, and changes in the macro-environment. Shifts in combination or even one at a time can create extraordinary opportunities, major crises—or simply the need to adjust.

Individual and Collective Will

The individual and collective will of those involved with a nonprofit is its life force. The clarity of purpose and the commitment with which an organization approaches its work is not quantifiable, but when we review the stories in this edition of *NPQ*, this factor is at the heart of what was possible for each of these nonprofits. Nearly destroyed by Hurricane Katrina, Coastal Family Health Center (CFHC) never wavered in its determination to recover (see page 32). In contrast, Mark Hager's case study catalogs an arts organization's difficult demise (see page 40). The collective will at CFHC to persevere—and in others to cease operations or change course or organizational form—was guided to some extent by constituent demand for what the organization could uniquely offer, but the outcome was determined by the presence or lack of will.

In each of these case studies, there is a need to be crystal clear about the why and how of filling a specific role in a larger field of work. Is this organization critical? In the context of other factors, can it provide the best value for constituents? In the case of United Housing, Executive Director Tim Bolding was surprised to discover that all the housing development corporation's financial support came from outside its home region of Memphis (see page 10). Of course, Memphis should have been where its organizational support was strongest. This was Bolding's wake-up call. Bolding was a smart, strong leader with a desire to build a program to the scale of the problem—and who suddenly realized that no one at the local level wanted to go in the direction in which United Housing was heading. United Housing had to reconsider its position and fit with the field so that other organizations could become an integral part of its supply chain.

Internal Dynamics

Organizations are expressions of human desire; they are sensitive to the influence of personality and, over time, develop collective personality dynamics of their own. Sometimes these are peculiar to the organization or emblematic of a field. And sometimes internal dynamics are the painful, predictable symptoms of the organization's stage of development, but they are rarely recognized for what they are.

At Tenderloin Health, the intense, intimate, and casual culture of the organization that was critical to its founding years later hobbled it. Tenderloin Health presents a compelling story about the difficulties in shifting from this first, informal organizational stage to a second, systems-focused phase. This transition can be a bloodbath—often taking on epic emotional proportions. Problems are personalized, sides are chosen. And then, even once an organization makes the transition, the solution has a way of creating new and equally damaging problems. Second-stage organizations that fail to rein in an overly directive management style can lose staff and undercut morale for those employees who stay.

Funding

Financial incentives can encourage or discourage growth or a particular programmatic response to a problem. They can keep organizations poised on the brink of starvation or engorge them to the point of stupor. Markets can also make the transaction costs so high that an organization is more responsive to funding sources than to its constituents. Obviously, market forces for nonprofits frequently fail to align with constituents' interests because nonprofits are often paid by a third-party buyer that is not the direct beneficiary of the service. This can erode an organization's natural base of support and create a weaker negotiating position, mission drift, and other problems.

While a nonprofit's financial environment is influential, the third sector features numerous examples of groups using their work to develop social awareness and thereby create their own financing markets. There are also many examples of groups working powerfully in financial ambiguity, such as Coastal Family Health Center, which dispensed services for free during its early recovery period. This is to be expected when the external market is not aligned with an organization's needs, but an organization that cannot access financing where it is available creates questions of competence. That was the case at Tenderloin Health before its new executive director joined the organization.

Authorizing Environment

In many areas of our work, "permissible" activities are established through legal, administrative, or elected mandates. While the legal requirements of nonprofits are many, they are not generally onerous and are often invisible to constituents. The authorizing requirements of a specific field, however, can profoundly affect an organization's day-to-day priorities. These requirements might be established by the state, a sector, the funding source, or, as in the case of the Girl Scouts, by the national core of a federated organization. The Girl Scouts' reorganization of chapters forced mergers to effect equity between chapters and gain efficiencies. Members' experience will change, but as each solution creates new problems, there will no doubt be losses.

States of Art and Large Scale Change

Advances in science, technology, management practice, and changes in social mores can force or spark change in organizations. Sometimes this change is simply incremental, but sometimes it truly transforms the practice of organizations. This has been true for AIDS organizations whose program models and funding streams have changed with medical advances. It is also true for the Girl Scouts, where a growing array of enrichment opportunities for girls has presented the organization with serious competition. When the form of an organization and its practices are an expression of organizational values, it takes courage to ask, "Is there another way to do this?"

Mystery and Certainty as Constants

Answering the "Is there another, better way?" question means unraveling what is core to an organization's work and what isn't. Jim Collins talks about this idea in *Built to Last*. He says that enduring organizations understand the difference; they are clear about what must never change and what is negotiable. By being clear about what should remain constant, organizations can better accept and manage volatile change and stimulate progress.

There is no question that as organizations' operating environment becomes more dynamic and fluid, nonprofits need to respond to change in shorter time frames. But better response time and greater agility require a constant feed of information and grounded processes for developing and using intelligence. Organizations must continuously scan their boundaries, and the environment inside and outside the organization, while taking stock and benchmarking. But keeping a highly intelligent system focused requires a strong core of vision, values, and principle. These comprise the heart that pumps the blood.

In Togo there is a proverb: "Where the heart goes, the feet will follow." It does not assume the path will always be visible but that people with a lofty and, as Collins says, "a big, hairy, audacious goal" will be driven to make it a reality—come hell or high water.

Consultant Meg Wheatley, who is quoted at the beginning of this article, believes that organizations become wiser when they develop the curiosity of all their members and that they should welcome disruptions. "Every mystical spiritual tradition guides us to an encounter with Mystery, the Unknowable, the Numinous. If spirit lives in the realm of the mysterious, then certainty is what seals us off from the Divine. If we believe that there is nothing new to know about God, then we cut ourselves off from the very breath of life, the great rhythms of spirit that give rise to newness all the time."[2]

By being clear about what should remain constant, organizations can better accept and manage volatile change and stimulate progress.

Endnotes

1. Margaret J. Wheatley Web site (www.margaretwheatley.com/articles/love.html).
2. Margaret J. Wheatley Web site (www.margaretwheatley.com/articles/pleasedisturb.html).

United Housing: *That's United, not Unitary!*

by the editors

Editors' note: *United Housing Inc. works to revitalize neighborhoods across West Tennessee through low-income housing development and other services, such as financial literacy education and affordable loans. In 2002, United Housing suffered a major blow when it lost its largest funder. The loss of $1 million almost overnight was both a shock and a catalyst that pushed the organization into a new phase of existence and forced fundamental changes in the way United Housing did business.*

"THE FOUNDATION HAD JUST CANCELED THE third year of its investment. We had been awarded $1 million a year for three years and had used $2 million of it." That's how Tim Bolding begins his story about the past five years of roller-coaster ride at United Housing.

Imagine his surprise when the organization Tim Bolding helped found began to fail in some pretty visible ways.

Bolding has a large personality. He is knowledgeable, savvy, and sure of himself. So imagine his surprise when the organization he helped found began to fail in some pretty visible ways.

"What happened was a local foundation had the idea to model us after another well-known community development corporation [CDC] in Tennessee. The foundation's president was very invested in this as a to-scale strategy—so much so that he himself sat on our board, which was an experience in and of itself. He had hoped to use this big investment to try to entice the city to make some very big changes in the area of

PHOTO © IRENE PREVOST / TEMP SPORT / CORBIS

"We had a business plan that was misconceived and eventually fell apart, and everything else cascaded from there."

affordable housing. We were to do this as a single agency. This was a fated idea from the beginning. But then just about as our third year was due to start, there were major board changes at the foundation, and they withdrew the grant, and the president left the foundation at exactly the same time. I then had to lay off half the staff, including all of our construction people, a finance person, and two home-buyer education people."

Meanwhile, with the loss of the grant, undercurrents of discontent grew on the board. Board members chose sides and began warring openly with one another about how United Housing should do its work and at what scale. To its credit, the board focused on the critical housing needs of the city's poorest residents, says Bolding. But there was no agreement about strategy or what was possible. "Memphis has 21,000 vacant lots that are tax-foreclosed," he says. "They used to have houses on them, and that is matched with a severe need for affordable housing. So a portion of the board got in a rut, like an old record with a skip on it that keeps playing the same thing, over and over again. The tune was 'If we're not building 2,000 houses a year, we're wasting our time, and we're worthless.' It was so awful. It occurred to me that I was possibly wasting my time trying to find the way forward."

As a result of United Housing being started at United Way, United Way had a legacy presence at the board level. Acting as the initiator, Bolding believed that United Way was the only local entity that could competitively pursue $1 million in Hope III monies (planning and implementation homeownership grants for low-income families). In retrospect this may have been a case of being careful what you wish for.

"United Way agreed to it," says Bolding, "but I don't know that they had any expectation that they'd get funded. They had never done anything where they administered a program themselves; they always funded other people that ran programs. So when they got into the housing business, it kind of freaked them out. They actually had one of their board members resign over the deal. When United Housing spun off, it carried United Way-identified board members with it, and they were the ones that ended up most in the clouds about what could be accomplished."

Bolding now admits that the original conception for the agency was flawed.

"There was no way that any nonprofit in this town was going to do 2,000 houses a year," he says. "There was no way that we were going to have any impact by ourselves on how the city did business. We could ask, we could beg, we could cajole, but saying, "We got this money, and this is what needs to happen" was absurd in the face of the scale and price tag of the problem and what else was going on. If you look around at the private-sector guys, for instance, who you would think was at scale? The biggest homebuilder in town is 120 units a year."

In the face of the upheaval and a good deal of financial and programmatic reorganization, staff began to fray.

"In the midst of all this, I think our financial person became disgruntled, but in any case she ended up misallocating a lot of our operating capital into permanently restricted funds. I believe she was hoping that I would be asked to go away first, and then the day could be saved by her switching things back later. I discovered [her plan], though, when I was really trying to figure out if we could survive, and she was fired. So we got a half-a-million-dollar reprieve right after we lost our $1 million.

"We had a business plan that was misconceived and eventually fell apart, and everything else cascaded from there. It was unrealistic to believe that we could do 2,000 houses a year. The legacy of not calling the question in a forceful way much earlier was that for ages we couldn't get a critical mass of people on the board to understand what was possible and what was impossible. We were in conflict at that level for a year or more. We hadn't helped at the staff level either because our method of counting or measuring what our impact was against the mission was to count only those houses for which we were directly responsible."

Bolding admits that even as things were tanking, it was difficult to ask for help.

"You're the executive director; you're supposed to know all this stuff. So if you ask for help, that shows that you don't know what you're doing. The macho and the 'me as an individual' thing got in the way. My own assumption was I knew housing and that was enough, but it wasn't. I had to realize that all these other folks and what they thought and knew were critical to our success: the staff, the board, other groups.

"But before I got to that, I thought about quitting. I seriously said, 'Well, now's the time to just forget it and go do something else.' Then I realized, if there's going to be any headway here, it's going to be me who has to do it, because it isn't going to happen any other way. I went in and talked to Nancy McGee at the Program for Nonprofit Excellence (PNE), and I told her the financial situation and all this, and I said, 'I don't know if we're going to make it a year or two, so I don't know if I should start.' She encouraged me. She said, 'This is exactly where you need to be.'"

That began United Housing's three-year involvement in that program, which provided a variety of healthy challenges and supports to Bolding, the board, and the staff.

"So we went from trying to do everything by ourselves to trying to do everything with groups of other people. We cultivated relationships internally and externally. It became about bringing in more people to be allies in every aspect of our work. Before that, I had been kind of bullheaded. I said, 'Well I don't like what the city is doing, so I'll go out here and get my money from HUD and bypass the city,' and I got a million dollars directly from HUD. I got money from the state and bypassed the city again. My nickname at the city was 'that GD Bolding.'

"This naturally was a losing strategy. Yeah, I could build 50 houses or even 100 in that mode. But eventually those resources began to dry up, and I had to recognize that, damn, I hadn't spent any time making them happy. So I began to pay more attention to the relationships and the politics and how it all can fit differently together toward a larger impact.

"If you look at the list of properties that we've got out there now, and the projects, every single one of them is because of somebody else."

Bolding was taking a leadership course at the time, and it helped him rethink his own style as an executive director.

"I had to discuss in essay form how I perceived the CDC industry in Memphis. As I thought about it, it occurred to me that the CDCs were a lot like guilds in the Middle Ages: everyone had a little fiefdom. This meant that resources were being poorly used, and our capacity to do anything as a field was very limited.

"Then I began to look at the question of support: who supports this and who doesn't? The epiphany was that all the support United Housing had at that point was outside of Memphis. That was tough to face. We had all this money, but it's coming from Neighborhood Reinvestment in Cincinnati, it's coming from the Federal Home Loan Bank in Cincinnati, it's coming from HUD out of Knoxville, it's coming from THDA in Nashville, and what was coming from Memphis? It said something about the way we were operating. We needed to focus on building support at home.

"Now I feel like we've got three very clear pieces of business that all boil down to homeownership for people who wouldn't have it otherwise. That includes, of course, what we started with: building and renovating a few houses. But then there is the home-buyer education, which we do for many other groups. So when somebody buys a house that's not ours, that we have provided counseling to get them ready to buy, then that's a success. We didn't used to count that before. . . . We gave it no importance, after a while we didn't know where those people were. There were hundreds over our first 10 years of operation. Now we spend a lot of time tracking them to see what happens to them over time. What I tell folks is that we spend as much time building our customers as we do building our houses. The third program is lending. That's what we're developing now, and that piece will also be in service to all those served by a larger community of groups in the area.

"You need to find what you're good at doing and do it. That's called 'finding your niche.' So the services we have and our business model now is to make our services available throughout the rest of the nonprofit world. Let's put it this way: last year we did 273 deals; $22 million with average sales in the mid-$80,000 range. Of that, we only built 15 houses; but we did tons of loans for other people's houses. We did tons of home-buyer education for other people's houses. That is a different level of impact. That's the real change for us and those we serve.

"Our emphasis is on the other CDCs, but as nonprofits go, United Housing is right on the edge of the private sector. Everything we do is to get folks mainstreamed into the private sector. So if I have a down-payment loan, I'm putting $5,000 on the table and getting $90,000 from a bank. If I'm doing home-buyer education, somebody gets qualified for a THDA loan. This means that our leverage is $21 to every $1 that we put in. All this expands our reach like crazy.

"Where our model was really heavily dependent on grant money before, now we unlock a lot more private money, so when I go talk to a lender, and say, 'Give me $25,000 to help me keep doing

The epiphany was that all the support United Housing had at that point was outside of Memphis.

> **"If there's five of us sitting around the table, and you buy the land, I bring the financing, you bring the roofing, you build the house, you bring me the customer, every one of us can look at each other and say, "'That wouldn't have happened if it wasn't for me'."**

this,' I can say, 'Look, we've done 150 loans with you worth $20 million; you're making money hand over fist because of what we're doing, and we're bringing you the customers that you need for CRA [the Community Reinvestment Act].'

"To knock that up to another level, we've been working with the five NeighborWorks organizations in Tennessee. Soon we'll have our first meeting in Nashville. We've been working on this for more than a year. The goal was to create a proposal to go to all of the foundations in the state of Tennessee. We'd fund a statewide loan pool for all five of our organizations to deliver loans on a statewide basis, and we're going to try to put together a $20 million pool, and we'll originate loans everywhere. It'd be to support the industry: to support the homebuilders, the home buyers, the real estate agents, everybody. All of the nonprofits would have access to our loan pool. We're asking them to put it in as a program-related investment, we're going to show them that they can get a return on their dollars and that we'll hand them back their $20 million, along with a little bit of interest. But we want to keep some of the interest. So what we're looking for now—it's a group of five organizations from Knoxville to Memphis—is to come up with a statewide pool that would benefit everybody.

"Working this way means that housing organizations in the area essentially get 500 percent credit on every deal. If there's five of us sitting around the table, and you buy the land, I bring the financing, you bring the roofing, you build the house, you bring me the customer, every one of us can look at each other and say, 'That wouldn't have happened if it wasn't for me, so I can take 100 percent credit for it. So we all get 100 percent credit for doing the house: that's 500 percent credit if there's five of us at the table. Then the flipside is, we've only got 20 cents in it too for every dollar. We've just shed 80 percent of the risk. So we can share the risk, and when things go wrong, they won't be going, 'Well, that GD Bolding did it.'"

Tim Bolding believes in payback being fair play, so he is now actively paying back PNE through facilitating its popular executive director learning circle.

Have you ever been forced to take a different direction like Tim Bolding? Share your story at feedback@npqmag.org. Reprints of this article may be ordered from store.nonprofitquarterly.org, using code 140303.

The Girl Scouts: *Uncharted Territory*

by Lissette Rodriguez

Many federated nonprofits are experiencing major shifts in structure and programming, and all are challenged by the need to maintain relevance, cohesion, and the prominent place they have traditionally held in the nonprofit sector.

In 1912, when Girl Scouts founder Juliette Gordon Low started the organization with 18 girls in Savannah, Georgia, she wanted to create an organization that would offer "something for the girls of Savannah, and all of America, and all of the world."[1] Today, Girl Scouts of the USA and its more than 300 local councils engage 2.7 million girls and more than 925,000 volunteers in the United States, and sister organizations serve girls in 90 countries. Reaching every girl, however, has become more complicated than Juliette Low could have ever imagined, and managing an organization that is one of the best known and largest in the country is an evolving challenge.

As the Girl Scouts celebrates its 95th birthday, the organization is undergoing a dramatic transformation, consolidating from more than 300 councils into 109. This restructuring is designed to address issues of efficiency, scale, competition, membership, and brand. The Girl Scouts are not alone; many federated nonprofits are experiencing major shifts in structure and programming, and all are challenged by the need to maintain relevance, cohesion, and the prominent place they have traditionally held in the nonprofit sector.

Federated organizations such as the Girl Scouts, the American Red Cross, the United Way of America, and the YMCA of the USA have also experienced major shifts in organizational structure and operating environment. In "Nonprofits: Ensuring That Bigger Is Better," McKinsey authors Maisie O'Flanagan and Lynn Taliento indicate that 16 of the largest 20 nonprofits in the United States operate as federations, which they define as a "network of local affiliates that share a mission, a brand, and a program model but are legally independent of one another and of the national office."[2] Federated entities have faced challenges not unlike those experienced by community-based organizations, but the impact is magnified by the complexity of a multisite system spread across the nation. Taliento and O'Flanagan describe how federations have encountered "donors—public and private—[that] are giving less and becoming more mobile, and this has promoted intense competition for money among affiliates. Donors are also making more demands to see results, leaving federations with the difficult task of persuading vast networks of affiliates to agree on how to evaluate and improve their performance. Meanwhile, controversies at the United Way of America and American Red Cross Disaster Services have underscored the risk of sharing a brand that is only as trusted as the least trusted affiliate." To address these issues, the Girl Scouts adopted the view that "change was needed in every area. Only a trans-

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"Everyone has to be a star in their game if they are to be successful. It's how we have to keep doing business in the future."

formation would allow the Girl Scouts to retain its position as the world's leading organization for girls."

Beginning in late 2004, under the helm of newly hired CEO Kathy Cloninger, the Girl Scouts engaged a team of business consultants to study the organization's operating environment and to make key recommendations about the structures, policies, and programs that would best serve the organization in the future. Cathy Tisdale, a vice president for council partnerships at Girl Scouts of the USA, sums up the findings. "The scan revealed that . . . the past was not entirely the bridge for the future." The McKinsey report has a similar conclusion and argues that "while the structure of most federations is sound, their management must be overhauled. Federations can offer significant advantages to their affiliates, but if poorly managed, they suffer from uneven performance among local organizations, costly administrative duplication, and cumbersome national offices that deliver insufficient value."[3]

The Girl Scouts suffered from many of these challenges, including the following:

- a stagnating membership base of girls and adult volunteers;
- substantial inconsistencies in programming from one council to the other, even in contiguous areas, due to varying levels of capacity, resources, vision, and leadership;
- substantial inconsistencies in levels of efficiency and effectiveness from one council to another, with redundancies in the management of facilities and the handling of fundraising, volunteers, and other operational matters;
- an outdated volunteer and philanthropic model that pitted councils against one another and barely tapped the organization's vast alumni network; and
- a brand known for popular cookies and stimulating camping experiences, but not for its impact on the lives of girls and communities.

As *NPQ* interviewed staff from the Girl Scouts' national office and with local councils, there was clear agreement on the need for change. Recognizing this need, the Girl Scouts made the choice to be proactive and bold rather than let the future hand each council its own fate. At the national level, the desire to grab hold of the brand and to deal with competition appear to be paramount driving forces in the creation of the new business strategy and consolidation plan.

Julie Murphy, the senior director of strategy at the Girl Scouts, says the organization tackled the issue by focusing on what was happening in the lives of girls. "What they found was that when Girl Scouts started, it was the only extracurricular and leadership option for many girls, but that is drastically different today," explains Murphy. "Kids have so many different options, and the businesses/organizations that are serving girls are very specific and have a target niche rather than a broad-based approach like Girl Scouts. For instance, we used to think that we did not really have competitors based on the number of girls we reached, but we learned that there is a national cheerleading organization serving a million girls. That is a competitor. So we really needed to ask ourselves, 'What do we need to do to reach and serve girls in this current context?'" Vicki Wright, a realignment project manager at the national office, adds: "The change is tough and it is difficult in many ways, but it is necessary. In the environment of nonprofits today and with the increase of nonprofits—which has skyrocketed in the last 10 years—everyone has to be a star in their game if they are to be successful. It's how we have to keep doing business in the future."

Clearly influenced by for-profit business thinking and practices focused on efficiency and performance, the national staff talked about how to transform the organization from "good to great"[4] and how to create change that would allow the Girl Scouts to expand its place among the most recognized brands and nonprofits in the country. "There is a great quote from Jack Welch [the former CEO of General Electric] that says something like, 'If the rate of change in an organization is slower inside the organization than outside, then the end is near,'" said one national staff member. "That is part of how we believe we need to do our work now and in the future."

At the local level, Girl Scout staff talk more about the desire and need for equity among councils and for creating greater alignment and less competition between the councils themselves. Conversations with CEOs and development staff from four local councils revealed broad agreement on the need for change and the consensus that revamping the system was necessary.

Diane Nelson, CEO of the Girl Scouts of

Eastern Iowa and Western Illinois, articulates this local perspective: "There were huge inequities in the system," she says. "We needed greater consistencies in how we managed and talked about our work, so this was the way that seemed to make the most sense." Deborah Hearn Smith, CEO of the Girl Scouts of Central Indiana, echoes that sentiment. "The biggest reason to pursue this change was the discrepancy in capacity," she says. "We had councils with multimillion-dollar budgets next to councils with budgets of less than $500,000. The differences in level of resources really affect programming, staffing, and volunteers, creating big differences in consistency and quality." Aretha Green-Rupert, the director of development at the Girl Scout Council of Greater Minneapolis, adds, "The realignment is about how people view the Girl Scouts and our desire to make sure that the Girl Scouts continue to be relevant in this community and this country," she says. "In this area, you had the council in Minneapolis and the one in St. Paul competing for the same resources, and funders feeling like the river is not a legitimate divide anymore."

As the Girl Scouts consolidate, it is also pursuing major changes in brand and programming. These changes are meant to alter the way local councils implement programs, to create greater consistency across the field, and to revamp the brand and elevate the profile of the organization. The changes include (1) restructuring the volunteer process to enable busy women to volunteer more easily and effectively; (2) creating a new leadership program targeted at both girls and adult leaders (in partnership with the Leader to Leader Institute and the Oxford Leadership Academy) to offer a more well-rounded leadership development program; and (3) creating mechanisms to track and disseminate program outcomes.

Other changes include a new fund development plan that will seek to capitalize on the nearly 50 million women who have engaged as Girl Scouts at some point in their lives and the collaboration with a national advertising firm to create a new branding strategy. As a result, the Girl Scouts has partnered with the Manhattan Toy Company to market the Groovy Girls, a new line of Girl Scout dolls. The goal of these projects is to reconfigure the entire system by creating a more streamlined approach. The organization hopes that the new model will yield greater efficiency and attract higher numbers of girls and adult volunteers as well as create broad appeal within the public and among donors by enhancing the brand.

At the helm of these projects, the national office engages local councils in a conversation about how the work should advance, and it makes programmatic and branding decisions that will have a lasting impact on local councils' work. In this way, headquarters has stepped further into the well-documented tensions between national offices and affiliates that are endemic to federated organizations. Federated organizations typically need to balance local councils' desire for autonomy with the national office's desire for consistency and centralization.

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According to a 1999 Aspen Institute research paper entitled "Governance of National Federated Organizations, the federated continuum stretches from loose associations with a set of member organizations and a great deal of autonomy to tighter affiliations in which the national offices exercise a great deal of control over local affiliates.[5] In the case of the Girl Scouts, the authors state, the organization operates in a way "in which member organizations' very existence is dependent on and extensively prescribed by their relationship with the national organization."[6]

In an article from *Nonprofit Management and Leadership* journal entitled "Managing Multisite Nonprofits," authors Allen Grossman and V. Kasturi Rangan describe the dynamic between national offices and local federations as a central issue of division of governance, roles, and power. "The struggle to coordinate the work of the center and the affiliates is common in multisite nonprofits, with most facing an ongoing challenge to reconcile internal issues around power, responsibility, and accountability," they write. "As a result, critical management decisions often take inordinate amounts of time, energy, and resources."[7] This is probably why the Girl Scouts gave itself two years to devise a strategy and involve various levels of the organization in that process and then allotted nearly three years to consolidate.

While the Girl Scouts has sought input into how realignment would work, the reality is that all local councils will eventually have to comply with the board mandate to merge. As Tisdale explains, "the national organization holds the charter for each council, and councils cannot

The organization reports that half of its councils will have merged or begun the process by fall 2007, with most of the remaining councils to follow in 2008.

legally exist without approval from the national organization." According to interviews with national staff, however, the biggest issue related to the consolidation has been not whether the mergers should happen, but how. "With over 300 councils, you could expect there could be a continuum of reaction [to the consolidation]. By and large, councils could not hold out, and that is a reality," says Tisdale. "We have put out an enormous amount of information about why we are doing this and solicited a lot of input about how we should do it. And by and large, the data supports our direction. But then it becomes personal, and people wonder what they will lose as part of the process. And that is, undeniably, hard."

Given the structure, this tension is not something that can be eliminated altogether. But the challenge is to use these pressures creatively and fuel the system to greater achievement. Grossman and Rangan argue that multisite systems should not run from this tension but learn to manage it. "Headquarters should undertake actions to enhance system value and then sustain it, and affiliates should maximize local resources to enhance their credibility and increase their voice in the running of the system. In general, a healthy tension between the headquarters and operating units over the respective roles will emerge. The key for management is to develop a governance system that accommodates this tension in a constructive rather than a destructive fashion."[8]

This approach of involving local council staff, volunteers, and board members seems to have paid off for the Girl Scouts' realignment strategy. The organization reports that half of its councils will have merged or begun the process by fall 2007, with most of the remaining councils to follow in 2008. But a couple of councils have encountered bigger challenges that have brought their merger process to a halt. In July, the *Chicago Tribune* reported that two Girl Scout councils had pulled out of a merger process involving a total of seven councils. According to the article, "The two councils—Illinois Crossroads Inc., based in Lake County and serving part of suburban Cook County, and Prairie Winds Inc., in DuPage County—represent 56,000 Girl Scouts from 160 communities."[9] No specific reasons were given for the pull out, but the *Tribune* reported that Bonnie McEwan from the national office framed the situation this way: "They took a step back. They're not really happy with some of the decisions the other councils have made. To some extent this happens with a negotiation." While no other councils have pulled out of the process, it is clear that any system that seeks to reduce its size by two-thirds will enounter some pushback.

The four councils interviewed by *NPQ* were all engaged in the realignment process and offer a glimpse into their journey. Mergers are demanding processes, and the Girl Scouts' journey through realignment is no different. It probably helps to have the training and support of the national office and a network of sister organizations all going through the same thing, but these remain complicated organizational and legal processes with lots of people who want and need to have a say in what happens. "In one merger of four councils, there were 500 voting members [including board members, volunteers and staff] at the meeting . . . so at some of these things, the meetings are quite large and the whole process can involve literally hundreds of people," explains Vicki Wright of the national office.

Staff from the councils interviewed talked about the benefits and challenges of undertaking this work. On the plus side, the ability to choose the best of each council and to tap the resources and network of each community has been a benefit of the process. Lee Morriss-Mueller, whose Girl Scout Council of the Mid-South in Memphis is now engaged in a merger that will culminate in May 2008, says that taking the best from each organization has benefited all the merging councils. "We identify that we need people with a strong background for something specific, and one of the committees might say, 'Well, we have someone who has a strong background in that,'" explains Morriss-Mueller. "On its own, each council couldn't have mounted a broad-based number of people to help with this process, but between us we'll be able to have people who will be able to contribute much more."

Hearn Smith, whose newly merged Central Indianapolis Council will serve 40,000 girls in 33 counties, agrees that the benefits have already emerged. "A simple example is what we offered this past summer to girls," she says. "Before, most councils could offer one day-camp experience. Most girls had no choice in terms of Girl Scouting—just whatever that council could afford. This summer, the merged council offered

Some Background on Federated Organizations, by the editors

Of the 20 largest nonprofits in the U.S., 16 are federated nonprofits—local affiliates that share a mission, brand, and program model but are legally independent of each other and the national headquarters (as opposed to multisite nonprofits where the local affiliates are not legally independent).[1]

Top federated nonprofits by 2002 cumulative revenues:[2]

Organization	*Cumulative Revenue*	*Affiliates*
YMCAs	$4.27b	972
American Red Cross	$4.09b	940
United Way of America	$3.71b	1,400
Catholic Charities USA	$2.62b	179
Goodwill Industries	$2.05b	207
United Jewish Communities	$1.96b	156
Boys & Girls Clubs of America	$1.08b	3,300
Nature Conservancy	$0.97b	71
American Cancer Society	$0.82b	14
Habitat for Humanity International	0.75b	2,100
Planned Parenthood Federation of America	$0.69b	125
Boy Scouts of America	$0.67b	300
Girl Scouts USA	$0.66b	300
Volunteers of America	$0.65b	44
YWCA of America	$0.65	302
Easter Seals	$0.65b	90

1 http://www.mckinseyquarterly.com/Nonprofit/Nonprofits_Ensuring_that_bigger_is_better
2 Ibid.

Boy Scouts vs. Girl Scouts (2006), U.S.

Organization	*Traditional Youth Members*	*Registered Adults*	*Units (troops, etc.)*
Girl Scouts	2,665,332	913,428	236,000
Boy Scouts	2,868,963	1,129,951	121,530

Growth/Decline in Number of Youth Members

Year	*Girl Scouts*	*Boy Scouts*
1990	2,840,000	4,293,000
1999	2,749,000	4,956,000
2003	2,868,085	3,200,218
2006	2,665,332	2,868,963

% Change in Number of Youth Members

Year	*Girl Scouts*	*Boy Scouts*
1990–2006	-6.15%	-33.17%
1999–2006	-3.04%	-42.11%
2003–2006	-7.07%	-10.35%

Sources for Boy Scouts/Girl Scouts comparisons:
http://www.allcountries.org/uscensus/443_boy_scouts_and_girl_scouts_membership.html and extrapolations of data from Boy Scouts and Girl Scouts web pages; data not verifiable due to history of Boy Scout documented history of inflating membership numbers (cf. http://www.washingtonpost.com/ac2/wp-dyn/A45573-2005Jan28?language=printer).

While there are clear efficiencies and benefits that come from consolidation, there are inevitably downsides as well.

two residential camps—and for the first time ever—and several day camps with different themes. That is a direct result of the merger, and it could not have happened any other way."

Another anticipated benefit is the resources the program expects to attract. Diane Nelson, whose merged council will serve 20,000 girls in eastern Iowa and western Illinois, says her new council has already seen the impact in terms of fund development. "For example, John Deere is a huge corporation based near here, and we've never been able to capitalize on the fact that their headquarters is here; all of us were going to them for these small amounts of funding," she states. "Since the realignment, they have been very excited to partner with us, and through their support we are able to serve a larger swath of the community." Green-Rupert of the Minneapolis Council agrees. Her council, which will merge in October 2007, will serve more than 50,000 girls and engage 18,000 volunteers in more than 49 counties. "Serving 51,000 girls will mean this huge impact," she says. "We will be able to offer so much more varied programming, and that will also have so many more opportunities to reach new girls across the new vast region we'll be serving."

While there are clear efficiencies and benefits that come from consolidation, there are inevitably downsides as well. What happens to community involvement in a council serving 30,000, 40,000, or 50,000 girls? The council will still have satellite offices in various communities, but organizational control will now reside in a single board whose home base is perhaps hours away from a satellite office rather than in four or five boards in local communities. Even with board representation from these communi-

Will the results yield a stronger and more effective organization in the service of girls, or will the very strengths that have distinguished the organization be inadvertently sacrificed? We will have to wait and see.

ties, there will be diminished influence for everyone in such a large system. Hearn Smith explains. "Volunteers are starting to understand and experience the change," she says. "For example, before each of the five councils had an annual meeting, and those were usually planned by volunteers. This year there will be one annual meeting. For those volunteers not running each of their own meetings, [it] will be a challenge; there will be other opportunities to participate, but it will be different."

Another challenge will be the emphasis on consistency of practice, which all local councils identify as a need. But creating consistency needs to be managed such that it doesn't stifle local innovation and creativity. Morriss-Mueller says that the new emphasis on outcomes and program uniformity will likely be challenging for some volunteers.

"One of the things that we're being challenged to do that I think might cause some fallout is to be more outcome oriented and to be able to document our results," she says. "There are some people in our Girl Scout world that might say, 'I've been a Girl Scout leader for a few years, and now you're telling me that I have to complete these 12 sessions?' In the past, the great thing about being in Girl Scouting was we could do whatever we wanted, and that was fine. But now, with the new Girl Scout leadership development model, the expectation is that it'll be clear up front that we're going to complete this series or cycle of activities, and that'll be different for people, and that may be where people will say, 'I'm not comfortable with having that expectation.'" While the Girl Scouts is altering the dynamics of local control to standardize and document the program's achievements, the national organization must be careful not to deplete the very system that has, even with huge variations, created the local investment and national prominence that the Girl Scouts enjoys today.

In making these dramatic changes, the Girl Scouts has reviewed its history and the current context and tried to identify the steps that will secure its longevity and organizational affluence. In doing so, the Girl Scouts is not just altering its own organizational dimensions but also changing the way federations as a whole might look in the future. In his book *Images of Organization*, Gareth Morgan writes, "It is misleading to suggest that organizations need to 'adapt' to their environment, as do the contingency theorists, or that environments 'select' the organizations that are to survive, as do the population ecologists. Both views tend to make organizations and their members dependent upon forces operating in an external world rather than recognizing that they are active agents operating with others in the construction of that world." [10]

At the very least, the Girls Scouts has actively tried to adapt, altering its look, feel, and organizational DNA. Few nonprofits have taken on such a massive social experiment, and even fewer have done it in a planned and deliberate way, but has the Girls Scouts chosen the right set of answers? Was it concentrated on the most significant questions? Will the results yield a stronger and more effective organization in the service of girls, or will the very strengths that have distinguished the organization be inadvertently sacrificed? We will have to wait and see where these changes take the Girl Scouts, other federated organizations, and the rest of us.

Endnotes

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3. Ibid., p. 114
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Tenderloin Health: *Growing Pains*

by the editors

"The exterior of the whole place was covered in metal. You had to unlock metal fencing to get to the regular doors, and I thought, 'Oh my God, what is this?'"

Six years ago, Tracy Brown was hired as the executive director of the Tenderloin AIDS Resource Center (TARC). An agency with an annual operating budget of about $1.2 million, its public face was a storefront. The doors were open Monday through Friday from 9:00 A.M. until 5:00 P.M. And with three case management staff, it provided a drop-in center and case management services. At another location, TARC operated a 20-unit emergency housing facility. At the time of Brown's hiring, it had a medical partnership, which operated three days a week.

I Opened the Door . . .

"I tried to do my homework about the agency," says Brown, "and I'd heard that they'd had some financial difficulties. But the thing that interested me about it was the combination of the HIV and homeless focus and the fact that they really believed in hiring people from the community. I got my degree in community-health planning, and this way of working reflects my basic principles, where you have a community-health plan, and any- and everywhere you can, you have the community help to heal itself. I was really attracted to that, so I sent in my résumé.

"A few weeks later, they called me in to interview. As soon as I walked in the door, I was amazed. First of all, the exterior of the whole place was covered in metal. You had to unlock metal fencing to get to the regular doors, and I thought, 'Oh my God, what is this?'

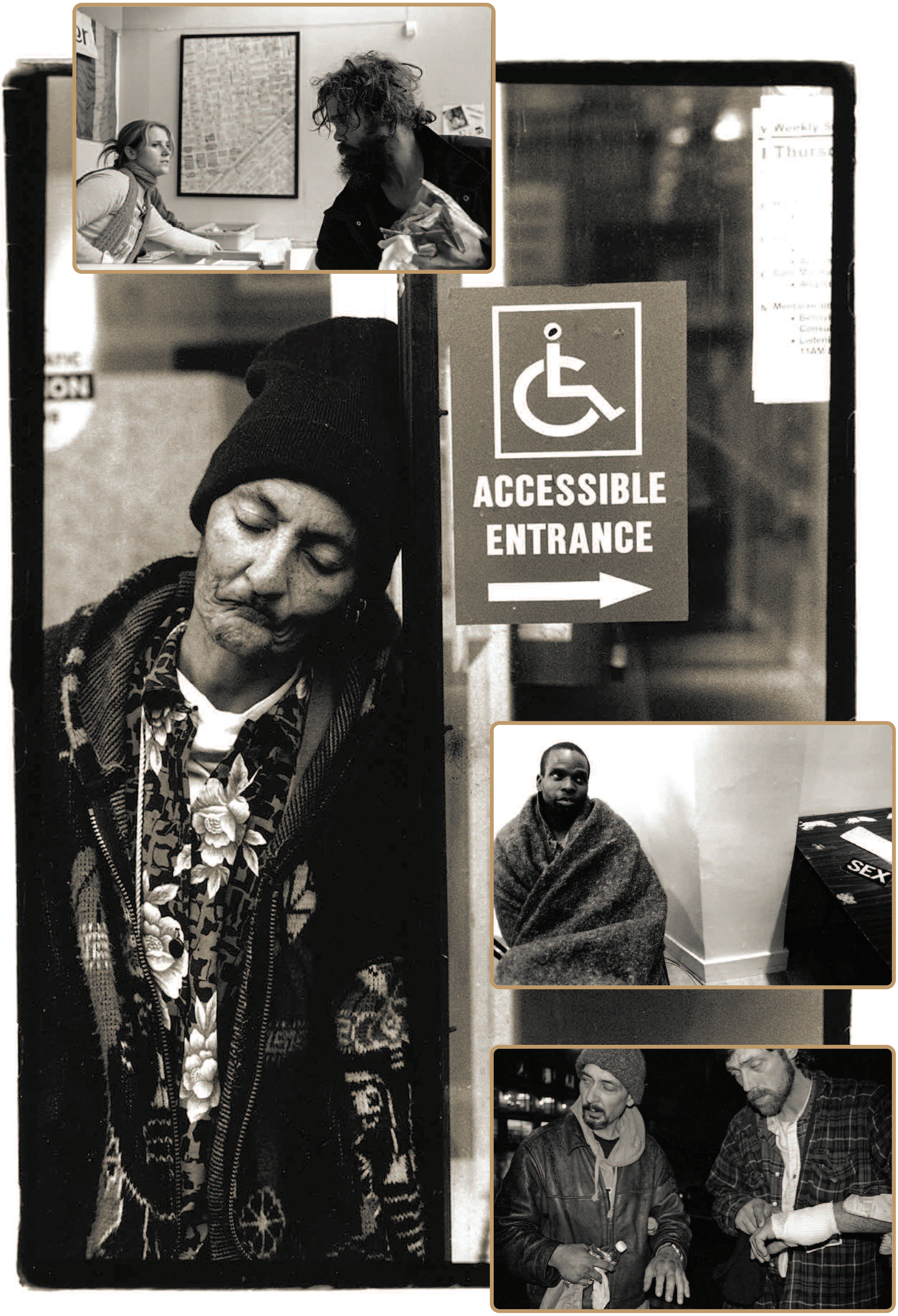
"Then I went into the main drop-in room, which used to be a nightclub, and the ceiling was still black from the nightclub days. None of the chairs matched, it was very, very grassroots. And the other side of what was originally two storefronts was actually going through renovation.

"Then a panel of board members and staff members interviewed me for about an hour. When I was finally selected as the candidate, they made me an offer, and it was much lower than what I had asked for in my cover letter. I said, 'Don't contact me unless you're willing to pay what I asked.'

"They contacted me anyway and made me another offer. 'Well,' I told them, 'that's just not good enough. Why did you call me in?' They confessed that they had lost the cover letter, and even though we worked it out, I began to understand that one of their concerns was that at my requested salary, my pay was going to be much more than that of line staff. When I saw what line staff were actually making, I agreed that the difference was unfair and suggested that instead of keeping my salary unreasonably low, staff compensation overall needed to increase—they should not have to live in poverty.

Toilet Paper

"When I came on, I realized that staff often



ACCESSIBLE
ENTRANCE
SEX

"When I came on, I realized that staff often brought their own toilet paper to the agency because it couldn't afford to buy its own. And because the staff was not only poorly paid but also supported the agency out of their own pockets, it had become beholden to its staff."

The result of a recent merger, Tenderloin Health is an $8.5 million organization that provides support and housing services for predominantly homeless individuals living in the Tenderloin neighborhood of San Francisco which covers approximately 60 blocks and about 10 percent of the city's population. It's dense and diverse, and it has the largest percentage of residents in the city who are poor as well as those living below the federal poverty level. It also has the highest incidence—at 27 percent—of residents living with HIV and AIDS.

Tenderloin Health has four sites, two of which are located within four buildings of one another. One site is open from 7:00 a.m. to 11:30 p.m. 365 days a year. The building houses the only pharmacy in the neighborhood. Tenderloin also provides mental health, substance abuse outpatient treatment, a dental clinic, HIV counselors, and a nursing case management staff that can reach out to those in SROs. It also operates three transitional and permanent housing facilities serving homeless, HIV and formerly incarcerated clients.

brought their own toilet paper to the agency because it couldn't afford to buy its own. And because the staff was not only poorly paid but also supported the agency out of their own pockets, it had become beholden to its staff."

The problem fed on itself. "People came and went as they pleased. My first week, I asked for a schedule indicating when employees worked, and they said, 'Oh, we don't have that.' I replied, 'Well, how am I supposed to know who's going to be here, and how are clients supposed to know?'

"After a few weeks on the job and asking for other things like that, people got scared. They kept saying, 'We're a family, we're a family.' And my response was 'Well, folks, this is a business. I still have the same values you have, and if we get our act together, we can actually get more resources to do more of what we're trying to do here. I'm not trying to change the values, and I totally believe in the mission. But we have to get our act together.'

"Employees were resistant to my urgings for discipline. 'No, you don't understand. This is how we operate,' they often told me. And I felt a great deal of resentment from the staff; in fact, some really *hated* me. Even those who hired me didn't like me. I was getting really direct, awful comments.

"In the first three or four weeks, I attended a fundraising meeting, and when I returned, the place was closed. I walked in and asked, 'Why are we closed?' Their answer was 'Well, we had an issue, and so we all decided to close down and talk about it.' I blew my stack."

Everything was informal, all processes were conveyed orally, and there were virtually no written policies.

A Run for Their Money

"The organization was already some 10 years old, and it had been on the verge of financial collapse twice. One of those times, another nonprofit gave the organization $50,000 to float it; in another instance, a board member put up $40,000. I had to make sense of the financials quickly, because I knew that the organization was in tough shape."

Brown knew that this financial stress might have been unnecessary because the organization had not tapped any direct federal or state grants for which it was likely eligible. "The Ryan White Care Act had been reauthorized and the population that we worked with was the precisely the kind of needy group for which the money was intended—poor and living with AIDS—so I knew there was an obvious way to emerge from the financial hole over time while also furthering the mission of the organization.

"But at that point, Tenderloin Health didn't have the capacity to apply or even identify that funds were available to it. This was, I remind you, a $1.2 million agency. All our funding came from the city, foundations, and a few community members. And the city knew things were challenging, but it was nonetheless willing to work with the agency because it knew no one else served the people who came to us.

"On top of all that, the bookkeeper had a big interest in bookkeeping but didn't have the skills. He was a lovely person—such a nice person—but I had to let him go within weeks of taking the job to hire a finance expert. On top of this change, I realized that the organizational debt was greater than I first believed and that another two staffers had to be cut as well. One was an unfunded staff position; the other was a manager that no one felt demonstrated the capacity for or need for their role. The other managers made that clear during a set of introductory interviews I did with them. But when I announced these cuts, all the managers were in an uproar and then stated that there was a need for the management role I had cut.

Revolting

"On that day, when I returned from lunch, they called me into a room to say that if I cut these people, they would walk out. So I called the board chair, and she replied, 'Oh, they have a history of acting like that.'

"'Well,' I said, 'Why didn't you tell me?' Prior to these cuts, I had called the board chair to meet with me, because I knew it was horrible news and didn't want to discuss it on the phone.

"Anyhow, the staff met again, came to me and said, 'We're all willing to take pay cuts so you don't have to get rid of these two people' 'That's unacceptable,' I replied. 'If you have to take a pay cut, I have to take a pay cut. I just started, and I'm not taking a pay cut—period. We're going to operate within our means, because I do not want the agency to be beholden to its staff. So two people are leaving here by the end of today. And if it's not these two people, this is how much money I've got to cut from personnel. You tell me whom you're willing to cut, because two people are leaving.'

"I let them make the decision so I could get what I needed and they could get what they needed. I understood that all of these changes represented major shifts in organizational culture, so I brought in a consultant to interview staff and teams without me to get another perspective. These interviews offered a lesson for me too. The consultant reported back to the staff, saying, 'I really believe in organizations that have a family feel to them.' I was like, 'what!?'

"I have to tell you, it was a turning point for me. I dug in. I told staff I had to have a schedule—period. And when it didn't happen, I said, 'You're not hearing me. Here is the schedule; fill it out.' I sent them an Excel spreadsheet, and said, 'And if you don't give me a response by next week and fill out your schedule, you will no longer have a job.'

"I told staff I had to have a schedule—period. And when it didn't happen, I said, 'You're not hearing me. Here is the schedule; fill it out.'"

Hatches Battened

"I embarked on eight intense months of finding potential and existing problems. Of course, no one does this kind of cleanup without some measure of fallout. The word on the street was how horrible I was. At times it didn't feel good, but it was my job. On its own, that was tough to take, but I also discovered that I couldn't count on the board to support me.

"About six months into my tenure, a whole bunch of staff went to the board and demanded that they fire me."

"About six months into my tenure, a whole bunch of staff went to the board and demanded that they fire me. The board chair began to engage them, and I said, 'Wait a minute.' By then, thank goodness, we had a grievance procedure. I said, 'Hey, they can't do this. There is a grievance procedure; staff has to follow it. They never came to me with any complaints in writing. They never let me respond to these criticisms, so you can't engage them yet.' We got into a battle about that and I had to say again, 'You do this, you will lose me.' Some of the other board members agreed with me, though, and called an end to it. When we spoke one on one, my message to the board chair was 'Here's the deal. You're not doing your job. Basically I've come in, and I'm the bad guy. And I'm willing to be the bad guy as long as you have my back. You can't do things like this again, because it's giving people mixed messages.'

"People started leaving. Horrible e-mails were being sent. They were giving other employees misinformation; they were screaming and hollering at our partners. In staff meetings they would scream at me; they were coming and going whenever they wanted. A lawsuit was filed.

"All this time, I was trying to make my way through our broken finances. It wasn't only that we were not pursuing grants that were obviously suited to us but that even when we did have a contract, we did not bill it out when we were providing the service. The city—the source of our funds—was clear: 'You have to close out 45 days after the end of the period,' and the organization still couldn't get the bills in. It couldn't do so, because everything was so oral, and lots of the service didn't have the appropriate documentation, so it was disallowed. There were no quality assurance procedures, no process.

"It took a couple of years to stabilize, and by that time we had experienced growth but we had also experienced an 80 percent turnover in staff."

Not Seeing Our Shadow

A year and a half into Brown's tenure, Tenderloin Health was completing its billing and documentation after having made staff reassignments and by building data collection systems, which the agency had not had previously.

Once Brown felt he could finally pick his head up from the internal strife and restructuring, he began meeting with AIDS organizations in the area. He had already worked on bridge building, but—always a good fundraiser—he now began actively sharing resource information. One of the organizations with which he shared information was Continuum HIV Day Services, which was four doors down from TARC and with which TARC had been somewhat competitive. It took time, but Brown found ways to collaborate. When Continuum experienced a leadership transition, it soon realized that it had lost significant ground. Meanwhile TARC had grown larger and stronger.

"Continuum's funding had been cut and their adult day-health program announced it was closing, and that the executive director was going to another agency. In their adult day-health program, they had to lay off 18 people. So three or so months later, I called their interim executive director, and said, 'Hey, would you be willing to meet and discuss a merger?' So they went back, met with their board, and thought about it, did their own planning process, and they agreed that they were moving forward [and] seeking a merger. We were on the top of the list; they interviewed us and two other agencies, and they voted to go with us.

"CompassPoint, the premier local capacity-building organization, helped to prepare us for what came next. Both boards created committees to go through the due diligence, and they came up with a merger plan. That took probably seven or eight months, and then when that was all worked out, they had separate audit firms audit the books, they did a legal review and gathered the paperwork they would need. The boards voted to proceed in February, and on July 1, the merger became real."

Brown says that the merging of the two cultures is still very much in process. All of this has occurred, of course, in a larger context of significant medical progress in AIDS treatment and a subsequent shift in community program models and funding designs. Brown, who has had some personal experience with being on the streets as a teenager, is enormously committed to making the system work as well as it possibly can for clients.

Share your phase-shifting story with *NPQ* at feedback@npqmag.org. Reprints of this article may be ordered from store.nonprofitquarterly.org, using code 140305.

When Continuum experienced a leadership transition, it soon realized that it had lost significant ground. Meanwhile TARC had grown larger and stronger.

Commentary: Thinking about Organizational Evolution

by Deborah Linnell

In 1972, Larry E. Greiner published an influential article on organizational life cycles in the *Harvard Business Review* entitled "Evolution and Revolution as Organizations Grow." In 1982, Susan Gross, Karl Mathiasen, and Nancy Franco of Management Assistance Group (MAG) took Greiner's approach a step further, proposing a life-cycle analysis for nonprofits. This was updated in a 1996 paper entitled "Organizational Life Cycles: Revisited." While understanding of the phases is evolving as people learn to recognize their patterns, for many nonprofits the original descriptions still hold true—especially the transition from the first to second stage as characterized in the Tenderloin Health case study.

According to the MAG paper, the first phase of nonprofit development, is characterized by the organization's intense focus on cause and mission. An informal organizational structure tends to link the parties involved and roles are interchangeable. There is a natural attention to outcomes—or the impact of the work—because the organization measures its success by the results of its work. The flexibility and informality of the first stage are critical factors in young and financially under-resourced organizations because they allow people to bring the full force of their personalities, passion, and creativity to bear. Small groups of dedicated people work "family style"—close-knit, protective, and sometimes dysfunctional.

The need for structure and systems, imposed internally (typically by new staff as the organization grows) or externally (by new funding sources) exerts pressure on the informality of the first stage and seat-of-the-pants management style of some founders. In the case of AIDS organizations there was a large influx of federal funding during the late 1980s and early to mid-1990s that created growth in programming and paid staff and an instantaneous need for financial and human resource and technology/information systems. In nonprofit life-cycle theory, the need for strengthening of systems is called the second stage. During this stage, boards of directors often hire managers/administrators/fundraisers in this stage as executive directors. These skill sets lend themselves to strengthening the organization, but these leaders sometimes do not have the distance or the people skills to help original staff who are used to the family style organization transition to a more structured organization. Their natural frustration with the chaos and resistance to change leads them to bulldoze.

These nonprofits typically experience turnover because of in-fighting and blaming of individuals as the staff and leader do not have the skills to move back from events and see the larger system of change at work. In some cases the management-oriented director cannot drive the "revolution" to fruition, the board intervenes and the pendulum swings back to a leader who is closer to the founder in style—and the cycle resumes. Many smaller, cause-related nonprofits circle in this particular cycle for years, never understanding the pattern at work.

Blind Spots in Organizational Change

No leader has one style all the time. Leaders who are self aware typically know their dominant leadership type and style as well as their strengths and blind spots. Seasoned leaders learn to compensate for the weaknesses or challenges of their style in a number of ways—by surrounding themselves with board members, staff, and colleagues who complement their strengths and weaknesses (a visionary executive director may partner with a detail-oriented deputy director or a second-stage manager who is strong on detail but less visionary might ensure that there is a way to build vision collectively with a representative group of people). Any nonprofit executive director may have to act in an authoritarian manner from time to time—but among leaders where this is more the norm than the exception, they need to take a hard look at why they favor this style.

Personal growth is important for all people—at least for those who have the privilege of time to reflect and learn. It is an absolute necessity for those who dare to lead. As self-aware as any of us thinks we are, there are always parts of our personalities and leadership styles to which we are blind. The very qualities that give people the guts to take the organizatioal reins and manage complex issues on behalf of important social missions often make it hard for leaders to see their blind spots. But this high self-confidence—especially when success as a leader adds to confidence—can create leaders that become "legends in their own minds."

Even humble leaders (and humility is an important attribute in a leader) often cannot see their blind spots. Society in general and many nonprofit structures emphasize leaders as in charge and less flawed than others (why else do they make more money?). This sets up a dynamic where it is all but impossible for subordinates to talk with a boss about the boss's strengths and weaknesses. If a staff person has the guts to actually name some blind spots—it is typically just the tip of the iceberg. So leaders have to go out their way to take time to reflect on their leadership style, ongoing performance, and their growth edge. Triaging information heard or formally gathered from colleagues, friends, and family can help leaders get a truer picture of themselves and their performance. An objective coach can help as well. All of this works well only if the "selective hearing" button is turned off and the leader is open to taking information in and using it.

Tenderloin Health

When you have saved an agency from self-immolation, it may be difficult to move away from the very characteristics that have made you effective. You have forged through the morass—fending off attacks in the name of order. But when has that approach run its course?

In the case of Tenderloin Health, without hearing from the staff who left in the first year it is unknown whether the level of crisis in the organization merited the control-and-compliance nature of the new executive director. Moving from a family-oriented first-stage organization to a second-stage organization (characterized by strong systems) is difficult and often characterized by this kind of turnover as staff (and even constituents) who are used to the informal style mourn the loss of what they consider "family" and choose to move on or are forced out for not being "professional" enough. Sometimes a founder is forced out and half the staff (and board) leaves with him. This growth period in the organization is typically rocky, with people tending to personalize and become obsessed with events—rather than seeing the larger pattern of necessary change at work. Brown did well to not personalize the running commentary on his leadership he heard the first two years, but the situation may have been less volatile if he had been able to help the entire system see where it was, where it was going, and coached the staff to be a part of the change process. But every situation is different and that may not have been possible.

Manager leaders who rescue a worthy agency from a disaster of its own making look good to boards and funders, and on paper: deadlines are being met, funding raised, risk managed. The growth edge for these leaders is to ensure that all of management is not for management's sake and "looking good" but is designed to lead to an impact that has meaning to constituents and to the community the nonprofit serves. Sometimes risk management obscures the kinds of risks that a nonprofit should be taking such as the following:

- listening deeply to the needs of constituents;
- managers and executive directors asking for constructive feedback and working to understand their blind spots;
- investing in research and development of cutting-edge programs based in community-defined need;
- designing supervision and performance evaluations based on impact and mission effectiveness (the big-picture goals, versus the details of management or line items in job descriptions); and
- opening governance from closed boardroom tactics to community-engaged governance (see *NPQ* Summer 2007, "Engagement Governance for System-Wide Decision Making," by Judy Freiwirth).

If leaders hired in the second stage to develop systems remain static, they in essence become "maintenance" directors, and their organizations, while functioning well on paper may become more focused on pleasing funders and regulators than facilitating board, staff, and constituents to be adaptive to the ever changing needs of clients and community including the "next dangerous edge of the work." Brown's last thoughts in the piece serve as testimony to his current focus and his willingness to share resources with competitors and collaborators and is promising. We wonder what will happen next.

Deborah Linnell has worked in the nonprofit sector for 24 years as staff person, executive director, board member, and as a consultant and evaluator for nonprofits and philanthropic organizations. She is currently the director of the Mission Effectiveness Program at Third Sector New England.

Coastal Family Health: *Built to Last*

by the editors

"The door itself was open. A desk was jammed against it, so I had to break through. When I did get inside, the mud was probably six or eight inches deep."

In mid-2005, with patients numbering more than 30,000, Coastal Family Health Center (CFHC) had developed into a complex operation. Its nine sites were spread throughout the Mississippi Gulf Coast in a mix of buildings and trailers. Providing medical and dental services, and with a mission to serve all seeking treatment without regard for ability to pay, CFHC was funded, as most community health centers are, by a mix of sources, including patient payments, private health insurers, and government grants. Their patients had their own complex issues—CFHC provided specialized services to those living with AIDS and to those without a home. Most of the center's patients were uninsured.

Under the leadership of CEO Joe Dawsey, Coastal was in pretty good shape. It was operating on a $10 million annual budget, and although it had only $500,000 in reserves, it owned all of its buildings. In 2004, 175 staff members completed 104,000 patient visits, according to records. Dawsey, who previously led a community health center in Alabama, was hired into the position five years earlier after the organization had started running a serious deficit. Most of the management team was at odds with the board and had left within a short period. Since then the organization has stabilized and expanded. One of the members of the board which hired Dawsey said that she had known for years that executive leadership was wanting at the organization. "We had had a number of lawsuits filed by staff," she said. "He brought fairness and order, and we have not had one since [then] that I can recall."

On August 27, 2005, Dawsey and other staff, left the administrative offices in Biloxi for the weekend. They were preparing to batten down the hatches for the coming storm, making sure that they picked everything up off the floor and covered the desks and computers in case the roof leaked. Dawsey also took some extra precautions like making sure he had contact information for key staff. He also backed up the practice management system (which included digitized patient files , such as billing information and payroll) off-site in two different locations. By early Saturday, however, he realized that if the storm were as strong as predicted, a loss in power could delay payroll. So he and other staff returned to the office to write checks. Then he went home to Mobile to wait out the storm.

Inconceivable Chaos

"The door itself was open," Dawsey says about his return on August 30, and he was unprepared for the damage he would find. "A desk was jammed against it, so I had to break through. When I did get inside, the mud was probably six or eight inches deep on the floor, and the furniture was just scattered everywhere. Everything

And it was not just the physical infrastructure of CFHC that was gone, the patient files and billing information had been destroyed in both the original and backup locations.

Background on Community Health Centers

Overall[1]	
Number of Community Health Centers in 2005	952
Number of CHC patients in 2005	14,133,103
Number of uninsured patients in 2005	5,623,377
Who's Served[2]	
Two-thirds of CHC patients are racial/ethnic minorities.	
Nearly 40% of patients are uninsured, only 14.8% have private health insurance, the remainder receive some sort of public insurance (Medicare, Medicaid, SCHIP, etc.)	
CHC Revenue Sources[3]	
Medicaid	36%
Section 330 grants (HHS)	22%
State government, local government, foundation grants	12%
Medicare	6%
Private insurance	6%
Self-pay	6%
Other federal grants	4%
Other	8%
Percent of Health Centers Providing Select Services Onsite[4]	
Professional Services	
General Primary Medical Care	100%
Prenatal Care	71%
Preventive Dental Care	73%
Mental Health Treatment/Counseling	74%
Substance Abuse Treatment/Counseling	50%
Hearing Screening	87%
Vision Screening	93%
Pharmacy	35%
Preventive Services	
Pap Smear	97%
Smoking Cessation Program	58%
HIV Testing And Counseling	91%
Glycosylated Hemoglobin Measurement,Diabetes	85%
Blood Pressure Monitoring	99%
Blood Cholesterol Screening	89%
Weight Reduction Program	76%

Background on Community Health Centers (cont'd)

Enabling Services	
Outreach	92%
Case Management	91%
Eligibility Assistance	89%
Health Education	98%
Interpretation/Translation Services	89%
Transportation	56%
Outstationed Eligibility Workers	40%
Health Centers Providing Selected HIV/AIDS Services[5]	
HIV/STD Risk Education Counseling	90%
Oral Specimen Testing	88%
Case Management	85%
Oral Swabbing	30%

Community Health Center Katrina Factoids[6]

- 40 federally funded CHCs in Louisiana and Mississippi served 408,000 patients in 2005.
- Hurricane Katrina destroyed 11 community health care facilities and damaged 80 others.
- Of nine acute-care hospital systems in Louisiana functioning before the hurricane, five were still closed as of February 2006 and the others were operating at only 20% of their pre-storm capacity.
- As of February 2006, three-fourths of New Orleans area safety net clinics were still closed and the remaining were operating at half capacity.
- A sample of adult Katrina evacuees in Houston immediately after the hurricane found that 33% had health problems or injuries as a result of the disaster, and of the evacuees, previously diagnosed problems included heart disease (9%), hypertension (23%), diabetes (12%), asthma or other lung diseases (12%), physical disability (16%) and cancer (1%).
- Louisiana's uninsured rose from 4% to 5.5%, with as many as 200,000 Louisianans losing employer-based health insurance.
- According to the Louisiana Primary Care Association, 80% of 19,300 evacuees treated were uninsured.

Endnotes

1 http://www.nachc.com/research/Files/state%20x%20key%20facts102006.pdf

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3 http://www.aoa.org/documents/Fundamentals-of-CHC.pdf

4 http://www.nachc.com/research/Files/USfactsheet.pdf

5 http://www.nachc.com/research/Files/HIVAIDS_Fact_Sheet2.pdf

6 http://www.nachc.com/press/files/katrinareport.pdf

had been ruined. In that building, all that was left were the top two shelves of the pharmacy. A couple of other staff people were there just standing outside. I don't know how to describe it except that they were in shock. Not just because of this, but because their own homes had been flooded. One of those people and I drove over to the Biloxi clinic and it was even worse. Water and mud and stuff was up over the top of it, and everything in that building was ruined. Then we went over to the Gulfport clinic, and the roof had been blown off. So we kept going to visit Vancleave, where there was some damage, but not as bad."

And it was not just the physical infrastructure of CFHC that was gone, the patient files and billing information had been destroyed in both the original and backup locations.

Dawsey considered it his first order of business to try to contact all of the employees, most of whom were without phone service for several days. Dawsey's own home phone worked for a few days before it went out, and he started to receive calls from staff members who had evacuated. "Just about all of them were doctors," he says. "They were all over the country." Whenever he heard from anyone, he asked those who had remained to make a record of the details so they could piece together a contact list. It took a month to track everyone down.

Extraordinary Commitment

While Dawsey was attempting to locate staff, the remaining board began to filter back into the area. At 73, Karlyn Stephens was the founder of the organization. Her family had not evacuated, having been through a number of previous scares. "It was me, my husband, my son, my daughter, my son-in-law, and the dog," she said. "The storm started getting really bad, and at some point we went to the second floor of the house, but then our neighbor's roof blew off and that knocked our roof off, so we swam for it" to an oak tree where everyone—including the dog—spent the next 10 hours clinging to the branches.

"It was loud and cold," she says. "We watched the house crumble, and we couldn't really talk to one another. We just had no idea what to expect next." Stephens's son, who is 45 and retarded, also has diabetes. "But he hung on," she says, and as soon as people came to their rescue, she headed to a shelter. But the shelter had no medication, so the Stephenses headed to the hospital to get Josh's blood levels tested. "We couldn't get the help," she says. "They were busy doing triage, and dead bodies were lying around. It was an unimaginable scene, but I knew I needed to get Josh the help he needed, and there were no pharmacies left."

The family decided to head to Alabama, then returned a few days later, and Stephens drove directly to Coastal Family Health. "My cell phone, along with everything else, was gone," she says. "Joe and the optometrist and a few others were there trying to organize things." It never occurred to Stephens that the center wouldn't rebuild, even with its massive challenges, and she was surprised when someone had asked the question.

Working with What You've Got

The skeleton crew at Coastal Health set to work opening up free care clinics wherever there was a safe site. Dawsey describes the process: "The first one we opened was Leakesville. They had a generator up there, and we opened it with one

The skeleton crew at Coastal Health set to work opening up free care clinics wherever there was a safe site.

"'There ain't nothin' left. Girl, there's nothin.' But there was something left; she was there working. I guess, it was just a relief for her to have a place to go."

practitioner and one clerk. The sheriff had to give us the fuel for the generator and for those employees so they could come to work. We just had to move fast and patch everything together. People started calling from New York, like the Children's Health Fund, [which] was volunteering to help staff a clinic site. We opened three more sites within the next week or so, but there was still no contact from the state or the feds. By the second week, we had five sites going—working with our reserves, contributions, and volunteers."

Iris Toche, a patient who received care at CHFC said, "After the storm, I needed my meds. So I went to where Coastal used to be, and of course that was just completely gone. It was all gutted out; there was nothing there. I called the open number they had posted, and they told us that they had relocated two or three blocks down the road. . . . Somebody had donated a trailer, and they opened up in that little trailer. So I went down there and got what I needed. . . .

"Of course it was the same old story: 'How did you do? Are you OK?' 'How are ya?' One of the ladies in there, she had lost everything. She said 'There ain't nothin' left. Girl, there's nothin.' But there was something left; she was there working. I guess, it was just a relief for her to have a place to go."

Dawsey says, "We were getting all kinds of donations as far as medicines and so forth." "Payroll was our only expense, because there was no place to buy supplies anyway. Finally, about three weeks later, we heard from the state and FEMA [the Federal Emergency Management Agency]. At one point, we were operating about 25 different locations, and we were not the only ones providing health care in the area. There was the Red Cross and the Salvation Army, and maybe a hospital in Kentucky would send a team down and set up a site, but there was no coordination whatsoever."

Stephens describes the first call to the Department of Health and Human Services, the organization's major funder. After hearing about the clinics' destruction, a contract officer told Dawsey that he supposed that meant CFHC wouldn't need as much money as previously. "Of course we let them know that was *not* the case and that we intended to take care of everyone who walked in the door"—or, rather, the tent flap. Coastal went on providing free care from

September through the following June out of trailers, tents, and in shared space.

Through all of this, a steady stream of patients found the center wherever it provided services. Donna Young is a self-described member of the "over-the-hill gang" living on fixed income. Young says when Hurricane Katrina hit, the office she used to go to on Division Street was completely demolished. "Everybody had nowhere to turn, and then Coastal came back real fast," she says. "They were working under extremely limited circumstances, but they managed to keep the doors open and got medicines and provided a lot of other help for people like me who didn't know where to turn."

The funding picture was continuously shifting, but Dawsey kept pushing on every front. In November, Dawsey says, he got a call from a state Medicaid contract officer, who let Dawsey know that a long-disputed bill to the tune of more than $900,000 was cleared for payment. "I was smiling through the mud! Then she said, 'The check should be cut Friday.' Well, then Friday, she called and said the person who was to cut the check was on leave. I was thinking, 'A state agency [has] only one person who can write a check?' But anyways, that kind of thing went on for five weeks. I kept calling her, and it was always something else. And then in the end, they denied owing us that amount. They actually said, 'Well, if you can prove that we owe it to you, . . .' They had found out that we had lost all of our records. So we had no way of proving anything."

In the wake of the storm, this was not the only officially delivered slap in the face to CFHC. Over this period, most of the center's financing came from new sources. In January 2006, CFHC got a new federal allotment, but insurance payments did not kick back in until 2007, almost two years after the storm. The organization received money from foundations and individuals, but the largest operating donation it received was from the Middle Eastern country of Qatar, a small but wealthy Muslim country, which gave a total of $3.4 million.

During the first year of rebuilding, Stephens says that the board, normally comprising 15 people, operated with a core of three or four decision makers. "I am usually a stickler for process," she says, "but Joe needed backup on the enormous numbers of decisions CFHC was

"Coastal came back real fast. They were working under extremely limited circumstances, but they managed to keep the doors open."

faced with. Thank goodness he's not someone who acts like a maverick; he's a consulter. So those of us who were there, we did it."

Attracting the necessary mix of resources to keep afloat in a confusing environment required that the organization be as high profile as possible not just in the region but across the country. Dawsey describes the center's best decision in the days following Katrina as that of involving volunteers. "You know, Hands On group, Project Hope, AmeriCares. There's several different groups, and I started working with these people who would come in and leave, and they would take the message back out. They would start meeting with other people. That was what I did: just contact the volunteers that would come down here, and they would take the message back out, call me back with different funders they'd found."

Meanwhile Dawsey has all of the problems that other health centers are experiencing only intensified.

Still Climbing the Mountain

As Dawsey describes the organization now, you hear exhaustion in his voice. He is, he admits, tired. Although CFHC has rebuilt the organization's information systems by installing a state-of-the-art health information technology system and is on good financial footing, the organization currently has six building projects underway. These projects, says Dawsey, are broadly overseen by him with the help of someone who would normally work as a facilities manager. He expects this reconstruction phase to take another 18 months.

Meanwhile Dawsey has all of the problems that other health centers are experiencing only intensified. Staff has built back up to 122 from the original 175, but recruitment is a major problem. Staffing may be more difficult in the storm-damaged Gulf region than elsewhere, but it is a system-wide concern. "The center director in Mobile called me this morning to say they are having a terrible time, because the hospitals are hiring all of the doctors, and he cannot pay competitive salaries. That is something all community health centers are going to have to face together."

Meanwhile the organization is having cash flow issues related to multilayered approval processes for federal payments that flow through state agencies. Considering Dawsey's past experience with the $900,000 bill that remains unpaid by the state, this truly requires a suspension of hard-won caution. "I don't even want to think about the possibilities," he says.

A Region Traumatized

And then there is what Dawsey refers to as the region's "mental health problem," which is not, he assures, confined to the patients. "I've had more complaints in the past three months than I have had in the past 10 years," he attests. "There is a lot that leads to this. People's expectations were raised when we were doing free care. They still expect to be seen on an entirely free basis, without paperwork and on an immediate basis, which is not always possible. But generally, I think that tempers are short on both sides—staff and patients."

Stephens describes the whole Gulf Coast region as "clinically depressed." She includes herself in that diagnosis, saying that it is much more difficult for her to keep things ordered in her mind now. "We are an area full of open wounds and still reeling from the injustice of the whole thing," she explains. But Stephens is as passionate as ever about Coastal Family Health Center's mission. "When I started organizing for the center in 1972," she recalls, "the area was first in the nation in infant mortality and last in life expectancy. The adult illiteracy rate was 48 percent, and there was little access to health care for low-income people "Health care should be a right in this country," she says.

She tells what is for her an iconic CFHC birthing story that began when a woman and her pregnant 13-year-old daughter, who was in labor, showed up at the door of the United Church of Christ mission she and her husband ran. "I actually thought the girl was retarded," she said. "She was in renal failure and when I asked her questions she just vaguely looked at me without answering. The mother had taken her to three doctors' offices and a hospital and they had been turned away at each place and the mother was in a panic. The only thing I could think to do was to have the mother take her to the hospital and refuse to leave. She was scared that they would arrest her, but I figured both the hospital and the cops would be too afraid of the liability issues if they did not pay attention. The girl did finally have her baby in the hospital and she and her baby came out healthy. I decided then that something had to be done and eventually part of that organizing produced Coastal Health."

Vision for the Future

In "Legacy of Disaster: Health Centers and Katrina One Year Later," the National Association of Community Health Centers reports that the states of Louisiana and Mississippi were ranked 49th and 50th, respectively, for health-care infrastructure. That shaky foundation was eroded yet further when some 6,000 physicians in the counties and parishes affected by Katrina were displaced, according to the report. Some 25 percent of these missing physicians had specialized in primary care. Before Hurricane Katrina, Mississippi was rated highest in the proportion of low-income people in the population and first in the nation in the percentage of adults with high blood pressure. It ranked second in the percentage of adults with diabetes. Now, of course, there are the heightened needs caused by stress, unemployment, and unstable living conditions—not to mention the respiratory problems that were caused by mold and demolition. What also hits health centers such as CHFC, according to Dawsey in an interview in Mississippi's Clarion-Ledger, is that the demographics are changing. "Pre-Katrina, the pediatric side helped balance out the uncompensated care, because most children have some kind of insurance. But now we don't get a lot of that business. The children have left."

A dedicated core of people never considered giving up at Coastal Family Health Center. Individuals—board members, doctors and other health professionals relocated in troubling numbers but Coastal Family Health had not finished its work and so it remains. In the context of the nation's health-care crisis, Coastal Health is critical in two ways, says Stephens. "First, we have to be here for people today and tomorrow, but also our ability to maintain and act quickly and effectively in the midst of all of this is testimony to the strength of community health centers as a cost-effective and flexible health network that can do what it takes to meet the community where it's at. The country needs to look at this as a model for the delivery of primary health care overall. We stand as a lesson and a model in the middle of the national health-care crisis."

Has your organization ever survived a disaster? Tell us about it at feedback@npqmag.org. Reprints of this article may be ordered from store.nonprofitquarterly.org, using code 140306.

Commentary: A Concentric Circle of Devastation and Displacement

by Rikki Abzug

Any organization exists within concentric circles of the stakeholders and environmental forces that act upon it, and upon which the organization acts. For any nonprofit organization, a shaky ring—whether it is a global crisis, a national economic downturn, governmental retrenchment, unstable local politics or climate, or even wayward board members or staff—can lead to service and security disruption. When a crisis impacts a series of these concentric rings, the impact on the core organization may well become amplified. This is part of the story of CFHC.

The first crisis Joe Dawsey faced was the innermost organizational facilities crisis: Hurricane Katrina happened most immediately to the infrastructure of the organization. The devastation continued in waves emerging from that center. Crisis came from the missing and displaced staff, and then from the missing and increasingly re-located board. The local community, devastated as well by the storm, could offer few resources, at the same time, supplying more pressing issues of concern. The local government and the Feds, disbelieving, then stymied, could offer no relief. Not only was help from that circle not forthcoming, further pain was inflicted when previous contracts were violated. A crisis of any of these rings would have brought hardship on the organization. Cascading crises in each meant that response and recovery would have to start again at the core.

The good news for Coastal was that its CEO and the board remained committed to the organization's mission against a backdrop of widespread and often personal disruption and suffering. That "core" inner circle was able to keep the organization functioning with makeshift facilities and tremendous resolve to service both old and new demands for assistance. With a solid core, the organization is trying to rebuild relationships to the outer rings. As it does so, Coastal would be well served by evaluating how dependent it has to be on the circles furthest from its core.

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The Ultimate Question

by Mark A. Hager

For three board members, MAF was their first experience sitting on a board of directors.

Setting: The regular monthly meeting of Metro Arts and Film's governing board. Attending: Laurel, board president; Jackie, executive director; 15 board members.[1]

LAUREL LOOKED WARILY AROUND THE ROOM. If she could change history, she would never have agreed to become the president of the board for Metro Arts and Film (MAF). Over the past 18 months, following a board request that founding Executive Director Chris McKinley resign, meetings had become especially trying.

Laurel scanned the faces of the board members as they chatted among themselves, waiting for the meeting to begin. During the past year and a half, MAF's struggles had taken a toll, and several of the old hands looked drained. Laurel was tired too. When Chris resigned, six of his loyal board supporters had left with him, and Laurel had spent what seemed like hundreds of hours recruiting eight new members needed to bring the board to its full complement of 16.

Laurel circulated among the group, seeking out the four members for whom this was their very first meeting. Each thanked her again for hosting a get-acquainted lunch earlier in the week to talk about MAF and its board. Laurel thought it was only fair to let the new members know what they were in for. After all, for three board members, MAF was their first experience sitting on a board of directors. She moved to the head of the table, and a quick check of her watch confirmed that it was time to call the meeting to order. Laurel made a few welcoming remarks and introduced the four new members. She turned to the executive director, Jackie, and asked for her report.

"Last week I planned an upbeat report on the health and future of Metro Arts and Film," Jackie began, "but I'm afraid I'm not going to get to talk about any of that tonight." She was visibly rattled. "I'll cut right to the chase. Yesterday morning I got a letter from the State Arts Board. They've decided to cut their support to MAF by 85 percent."

No one interrupted. "Those of you who were at last month's meeting remember our extensive review of balance sheets and budgets. Peter, was it you who said that MAF's position was 'fragile'?"

Peter, a board member and CPA, looked up with surprise. "I'm sure what I said was something like, 'difficult, but sustainable.'"

For the benefit of the new board members, Jackie explained that MAF relied heavily on private foundations and government grants for

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PHOTO © MOODBOARD / CORBIS

“The writing is on the wall. It seems to me that the best thing to do is to close down Metro Arts and Film.”

operating expenses, including long-standing support from the state. In some years, MAF had managed to balance its budget, but in one year alone, it had also run a deficit of $70,000. The accumulated deficits now equaled the organization’s cash reserves of $300,000. When Jackie finished her review, no one spoke. Some of the board members were visibly bored.

Jackie cleared her throat as if to begin anew. “After I got the letter, I called the State Arts Board to find out what the problem was. I had a hard time finding someone who would talk to me. But when I did, all they would talk about was their own budget cuts.”

Again, no one spoke up. One of the board members took a call on his cell. Eventually a new member motioned for recognition. “Any chance that we can get some new grants to make up for these cuts?”

The board’s oldest and most experienced member, Mrs. Eisenbarth, a longtime arts supporter now in her late seventies, spoke up. “I’ve seen this before,” she said. “When a donor like the State Arts Board takes its funding away, you know other funders are going to pick up the signal. We don’t have to wait to learn that the State Arts Board’s decision is going to influence what we receive from other funders as well. This seems to be a vote of no confidence in us by the State Arts Board.”

For the next few minutes, most of the board members sat quietly in their seats. Two of the newer members talked softly with those around them. Everyone looked deflated except, curiously, Peter, who had been a member of the board for only a year and had taken on the responsibility of helping to prepare financial reports. In recent months, he had warned the board that gradual declines in MAF’s government grants meant that contributions accounted for a decreasing proportion of the organization’s income. Tonight he did some quick figuring and, looking around the table as he spoke, stated that the new cuts actually reduced MAF’s operating budget by less than a fifth. “This news is undoubtedly serious for operations and for some of our staff, but no reason for gloom and doom,” he concluded. Over the past year, the board had come to rely on Peter’s expertise. His comments left the group unprepared for what happened next.

Jackie stood up. “I lay awake thinking about this for a long time last night,” she said, “and I talked to Laurel at some length this morning. The writing is on the wall. It seems to me that the best thing to do is to close down Metro Arts and Film. We just aren’t going to have the resources to keep it going.”

Their attention suddenly focused, the board members reacted to the news in a variety of ways. Some stared blankly at the sheet of financials, some talked animatedly among themselves, and others talked over one another as they tried to ask Jackie questions. Laurel was struck with the irony that she had never seen such energy among the MAF board. She was also surprised at her impression that many members actually seemed cheerful. Laurel wanted the discussion to run its course and was hesitant to take the floor again.

“Let’s take a break,” Peter interjected. “I see Cokes on the credenza back here, and I’d like a breath of fresh air.” People slowly moved to the back of the room and into the hall, leaving Laurel alone as she mechanically shuffled through papers. She saw that the new board members were walking out together and congratulated herself on the lunch she had hosted for them two days before. To help her explain the organization’s history, she had also invited Eric and Jonathan, each in his second three-year term as a board member. Both had supported Laurel’s recruitment of new blood to fill the vacancies produced when several members of the old boys’ network had angrily resigned the previous year.

Setting: A popular Metro City restaurant for business meetings two days prior to the board meeting. Attending: Laurel, board president; Jonathan and Eric, members of the board for several years; and four board members recently recruited by Laurel.

Once the group ordered lunch, Laurel began by explaining that MAF was a product of Chris McKinley’s vision to establish a multifaceted arts organization in Metro City during the late 1980s. MAF’s goals were to provide instruction in filmmaking, still photography, videotaping, and emerging recording mediums. By the late 1990s, MAF was a well-established part of the Metro City arts community. Chris was happy with the projects he had created and saw little need for changing the formula. The success of the program led to a large grant from the National Endowment for the Arts. The sudden addition to the budget led to a rapid expansion of the size and scope of the programs. MAF had three programs: exhibition, education, and equipment rental. Since each area targeted different clientele and was funded by different combinations of fees and grants, each exerted unique financial pressures when the federal grant ran out and the funding environment began to change.

"I remember those times," Eric said, his fork in midair. "We were on top of the world while we had the NEA [National Endowment for the Arts] grant, but then we weren't able to fund the programs at the same levels when the money ran out. We expected to just raise more money, but funders started saying, 'Look, we're not giving to organizations like yours anymore. We're giving to homelessness programs and other social services that can really help people.' The arts just weren't able to make their case."

Jonathan jumped in. "When I began to realize that we were in trouble financially, Chris kept talking about expanding more. 'We're going to get big,' he said. 'We're going to start a school. We're going to join up with the university. And if they aren't interested in joining hands with us, then we're just going to build our own gigantic facility.' Amazing. The man dreamed big."

"And we didn't challenge him on it either, Jonathan," said Laurel. "We were listening to him building his castle in the sky and thinking, 'This sounds good. Maybe this will work.' Don't you remember?"

"Yeah, I remember," replied Jonathan. "I don't know why I didn't say something at the time. Looking back, it seems so dumb."

"Don't beat yourself up too badly," Eric chimed in. "Chris ruled the roost around here, and the board members at the time didn't ever try to make him do anything any differently from how *he* wanted to do it. I'm not sure we knew whose organization it was then: Chris's or the board's. In situations like that, when tough decisions have to be made, who makes them?"

One of the new members asked why Chris had resigned. After all, Chris had founded MAF, and the arts community in Metro City associated him with it.

"There were lots of reasons, I'd say," Laurel replied hesitantly. She and Chris had been good friends, and the circumstances concerning his dismissal conjured bitter memories. He had asked her to take on the presidency of the board two and a half years ago, and because MAF had been her only volunteer activity for many years, she accepted. Even now, she had a lingering feeling that she had betrayed Chris.

"He had a very strong personality," said Jonathan. "We used to have a very good relationship with North End Community College, and one of its instructors taught the college's film classes on-site at MAF. That was a very good setup for us, because we were able to use revenues from the college to cover a lot of fixed expenses. But Chris clashed with the instructor, tried to treat him like he was an employee of MAF instead of an instructor at the community college. There was a fight, and we never saw North End again."

"Yeah, that was a big deal," Jonathan added. "But Chris didn't always work well with the MAF staff either. The best idea I ever heard was Eric's recommendation that the board bring in an organizational consultant to see where the problems were. I had assumed that things went pretty well on a day-to-day basis, but none of us were really in touch with that. The employees apparently thought Chris was pretty controlling and hard to work with most of the time."

Eric took up the story. "We actually did get a consultant in there to talk to the staff. The part of the consultant's report I remember said that MAF was like an alcoholic or dysfunctional family: no predictability, the parent blowing up, lots of secrets, and lots of blaming and punishment."

Eric and Jonathan smiled wryly at one another, remembering the board's reaction to the consultant's report. Eric and Jonathan had been in the minority of board members who had taken the consultant's report seriously. At that time, the board was dominated by a group of men who were fiercely loyal to Chris and had full faith in his ability to run the organization. "They were all a generation older than we are," said Jonathan, "and thought we didn't know much because MAF was the first and only board we were on. They discounted the consultant's report as staff jealousy. It was weird. The report had all kinds of good recommendations, but nothing ever happened."

Even now, Laurel had a lingering feeling that she had betrayed Chris.

When Chris submitted his letter of resignation, six of his seven supporters on the board resigned as well. With them went about $30,000 in annual gifts.

"Things came to a head a year and a half ago," Laurel said to the new members. "Chris went on sabbatical, took an extended trip to Europe, and an assistant took over as temporary director. She began educating the board about the personnel and program cuts that were required if MAF were going to survive. But she couldn't get the board chair to listen, so one morning she took me out for breakfast and just laid it on the line that the staff had all sorts of grievances against Chris. They viewed him as unrealistic in his goals. She said to me 'Look, here's the bottom line. *This* expense has to go, *this* expense has to go, *this* expense has to go,'" recalled Laurel. She sighed. "I'm not a manager; I'm just a board member."

"We did what we had to do," said Jonathan. "Even if we pushed harder on some issues than people were ready for."

Moving her lunch plate to one side, Laurel crossed her arms and sat back in her chair, remembering the details and feeling it was her story to tell. "In November the assistant director, who has since left, persuaded the board chair to ask Chris to interrupt his sabbatical and fly home to sit in on the board's financial review of programs. The assistant director said that without Chris's blessing, the changes wouldn't stick when he returned from his sabbatical. Anyway, Chris flew home to attend a special board meeting."

Laurel frowned as she remembered her confrontation with her old friend. "A couple of us met with Chris before the meeting. He wouldn't listen to the assistant director as she laid the problems right out there in front of him. I finally said, 'Chris, you've got to understand that I think the board is going to vote in agreement on these things. And you've got to get a sense of reality about where we are right now.' And his response was, 'Well, then, we ought to get us some new board members.'"

"I didn't challenge Chris, and neither did the assistant director, and neither did anyone else," Laurel told the new members. "It would have been like insulting a family friend. In the actual board meeting, Chris listened quietly to the assistant director's suggestions, neither endorsing nor criticizing them. Later, everyone agreed that the meeting had been a 'big nothing.'"

"Not totally," added Eric. "That meeting really crystallized some of the younger members' attitudes toward Chris. Jonathan and I were determined to get the board to vote on whether Chris should continue as executive director, and we went to work recruiting some allies." When the board met again in December, Eric, Jonathan, and three other members requested that the board review Chris's performance and consider dismissing him.

"That December meeting was a bad one, too," said Laurel. "That was a terrible meeting, because there were people on the board who were really close friends of Chris's—and they were furious. But in the end, I had to do what I felt was right, which was to vote for him to resign. I felt that he was not helping MAF and that if he wasn't there, there was a chance for the organization to survive. But there was no chance if he was coming back, because more than half the staff had told me that they were prepared to resign if he stayed. It was him or them. It was a close vote, but the board ultimately asked Chris to resign." When Chris submitted his letter of resignation, Laurel explained, six of his seven supporters on the board resigned as well. With them went about $30,000 in annual gifts.

One of the new board members changed the subject. "Well, I met with Jackie, the current executive director, the other day," she said cheerfully. "I understand that she was located through a national search. She seems very nice. How's she doing?"

Laurel shrugged, and smiled. "I think she's doing fine. I like her a lot." Jonathan nodded his head in agreement.

"I'm not so sure," Eric said carefully. "She seems pretty competent, but she's been here six months, and in my opinion she's not a turnaround artist. MAF needs somebody with a little bit of fire right now. She may know about filmmaking and running a small organization, but I think she may be in over her head as director of MAF. We need to grow and change. I don't know now how she'd respond if something really bad, something unexpected, happened."

Laurel left the table to pay the check. "You know," Eric said to the new members, "I've heard through the grapevine—I'm on the staff of State Senator Middleton—that the State Arts Board has its eyes on Jackie. They're looking to see if she can revitalize MAF. If she's not able to be the kind of leader we need, I'm afraid about what they might do."

Setting: Resumption of the regular monthly meeting of the governing board of MAF.

As members were settling themselves in their chairs after the break, Mrs. Eisenbarth seemed particularly agitated. "Why is it that I never feel as if I know what's going on around here?" the older woman asked pointedly. "I'm also on the board of the Metro Arts Center, and the trustees there are always involved in the projects that are going on. In fact, the staff says we do too much and sometimes ask us to get out of the way."

Laurel felt as though her leadership was being questioned, although she knew that relations between MAF's staff and its governing board were no different now than in the past. Chris had run MAF with very little oversight from the board, and the board had always seemed to like it that way. But this was not the approach recommended when Laurel attended a Metro University seminar for board presidents of nonprofit organizations. She was surprised to find that most of the presidents knew a lot more about the internal workings of their organization than she knew about MAF. Since this was the only board that Laurel had ever served on, she assumed that all boards played a distant, advisory role. Although she emerged from the seminar inclined toward a change in the MAF board role, she was still unfamiliar with the details of the organization's daily operations.

Laurel took a deep breath and replied confidently to Mrs. Eisenbarth's question. "We may not have been involved enough in the past, and maybe that was wrong, but we've got a big decision to make right now," she said. As she observed the faces around the room, she suddenly felt sure that a decision to close would be the right one. "I think we should make a motion for the dissolution of MAF."

"I think we should make a motion for the dissolution of MAF."

"Close MAF? Why?" demanded Peter, clearly baffled. "I've been a student and client here for most of my adult life. We can't just close. There are a lot of people who rely on the services we provide. Chris brought us through a lot worse crises than this!" Before joining the board, Peter had seen the organization from the perspective of a client. MAF had been the springboard for his avocation as a film editor, and he felt a responsibility to stand behind what he still perceived as "Chris's organization."

Although Peter didn't say so, he blamed

“This isn’t a question about where we are now,” said Jonathan, quietly but forcefully. “This is an issue about where we’re going to be in six months.”

Jackie for the current state of affairs. When the board had narrowed down its candidates for the job of executive director, he had argued that the main problems facing MAF were maintaining legitimacy in the community and staff morale, not finances. If the board could hire someone with charisma to revitalize the staff and win over its funders and other supporters, the organization would be fine. Although he had been happy with Jackie at first, he had become increasingly disappointed with her lack of visibility and her bean-counting approach to running the organization.

“This isn’t a question about where we are now,” said Jonathan, quietly but forcefully. “This is an issue about where we’re going to be in six months. If we don’t close now, we’ve got to face the prospect of continued cuts during the year as our grants run out. We’ll have to trim the staff, run more deficits, and then probably be forced out of business with our creditors holding the bag. No, if we’re going to stay respectable on this, we need to plan an orderly closing now.”

Peter persisted. “We aren’t in trouble financially. Look at the summary balance sheets that Jackie gave us earlier. Our reliance on the State Arts Board and the NEA has been decreasing steadily since we got our first big grants in the early 1990s. And look at our revenues from programs. Our service revenues are now by far our largest source of revenue and won’t be affected by these government cuts. Plus, we’re paid up on all our bills. Our long-term debt is to our own cash reserve. The only people we really owe money to is ourselves.”

Peter could see that most of the board members didn’t understand the details of MAF’s financial situation. To them, a debt to the cash reserve was still a debt—and a big one at that. Peter also sensed that the dreary mood, emanating most strongly from veteran board members, had little to do with money. He sensed that they were exhausted by MAF, particularly the events surrounding Chris’s resignation and the protracted search for a new executive director.

Jackie was the only one with an answer to Peter’s objections. “We’re getting good money from our programs, Peter, but those programs aren’t self-sustaining. We need our grant from the State Arts Board to keep our programs operating at their current levels. Our equipment is getting old too, and it won’t be long before program cuts will cause those program revenues to take a dive.”

“Yes,” said Eric, agreeing with nothing in particular. “If we try to float this now without the support of the State Arts Board, we’re just going to frustrate the funding community and burn out the last bit of credibility MAF has. Some of our programs can still survive if we give them the opportunity to survive on their own. Closing the organization isn’t really that bad. In some ways, it died when Chris left. If we do it right, MAF’s mission can live on through other organizations.”

Jonathan spoke directly to Peter. “You’ve not seen the things we’ve seen, Peter,” he said. “This place needs a fresh start.” Jonathan shifted his gaze to Laurel. Quietly but directly, he said, “I move for closure of MAF.”

Peter was confused. “Why didn’t you say these things a year ago before we went to all this trouble to find and hire Jackie?”

“I don’t know,” said Jonathan, sheepishly. “Maybe I should have. But I didn’t see these cuts coming.”

Peter turned to Laurel. “And why have you gone to all this trouble to recruit new board members?” he asked. “This is a setback, but is it bad enough to make us throw away all that hard work, and so suddenly, without thinking about it more?”

“I don’t know,” said Laurel, now unsure of herself. “But I think so.”

The discussion continued for about an hour, during which Peter questioned all the rationales for closing. He proposed an amendment to the motion, including options to hire a new director to spin off autonomous programs, but no one supported him. After Jackie left the room and the board entered an executive session; a member asked if anyone in the room—he looked suggestively at Peter—was willing to become acting executive director and see MAF through the crisis. No one responded. Peter reiterated that the motion to close was too sudden and far too limiting.

When it appeared that all the arguments had been voiced, Eric called for a vote on Jonathan’s motion to close MAF. Laurel looked at her watch. It was 10:15. She suddenly felt very tired, and she wanted to go home and tuck her children into bed.

Postscript

At a regularly scheduled board meeting for which closure of the organization was not an agenda item, the board of directors of Metro Arts and Film voted to close. Peter, the outspoken former client who had been on the board for one year, cast the only dissenting vote.

Consistent with Eric's vision, many of MAF's programs were able to spin off on their own. The board and staff of MAF worked in their last days to nurture their programs and listen to the complaints of their clients and students. Six months after formal dissolution, 225 people attended what one staff member referred to as a "public hanging." In this public meeting organized by MAF, artists and students took the opportunity to berate the board. Peter publicly questioned the board's decision to close the organization. After a year had passed, MAF had liquidated all assets, paid most of its bills, and transferred its programs. By that time, even Peter had come to believe that closure was the correct decision.

Lessons Learned

The case includes a number of warning signs for any otherwise healthy nonprofit organization. The first is the *influence of a domineering founding director* whose imprint on the organization is so strong that it becomes difficult to identify where the director stops and the organization begins. While founding directors often exhibit unusual commitment to an organization, they also tend to exclude staff involvement and downplay the role of a board of directors. That was clearly the case with MAF.

The second theme, related to the first, is a *board that is largely uninvolved* with the job of advising and governing an organization. The original board was an old boys' club comprising Chris's well-connected friends. The board didn't have a nominating committee for its president: Chris simply asked Laurel to take the role of president when the previous president resigned. For many nonprofit organizations, that would have been unacceptable.

A third element that defines MAF's situation is an *inability to manage change*. Change comes hard to organizations, and it can be dangerous. That is, too much change too soon can cause an organization to relinquish all the connections and competencies that took years to build up. Still, failure to adapt to environmental

After a year had passed, MAF had liquidated all assets, paid most of its bills, and transferred its programs.

If dissolution of an organization best serves the community's well-being, then its board should not hesitate to close it.

Nonprofit Autopsies

Metro Arts and Film is one of 229 nonprofits that researchers in Minneapolis and St. Paul followed during the 1980s and early 1990s. The purpose was to study the life and times of a representative group of organizations, including some that had closed. Of the 229 that began the study, 74 no longer existed at the study's end. Some merged, some moved, and some converted into other kinds of organizations, but half simply died. On the other hand, most of the deaths were anything but simple. Detailed discussions with board and staff members of 31 closure cases taught us that the death of even a simple organization was often the result of a complicated web of reasons.

Many of these closure stories can be found in a book chapter titled "How Nonprofits Close: Using Narratives to Study Organizational Processes."[2] We took each of the closure stories and distilled them to their essential events. The simplest closures could be distilled to three events; the most complicated included as many as 26 contributing factors. Metro Arts and Film—with its "founder's syndrome," infighting, a weak board, and funding cuts—boiled down to 22 contributing events. These precursors, which may take shape in various combinations, are listed below:

- Decreasing pool of volunteers
- Waning commitment to mission
- Decreased funding sources
- Displacement by competing organizations
- Expansion of operations
- Staff defection
- Client defection
- Low board or staff capacity
- Mission completion
- Program failure
- Program success
- Internal conflict
- Formalization of procedures
- Downsizing
- Financial crisis
- Hiring or recruitment of new personnel
- Receipt of new grant or contract
- Divestment of assets
- A lack of public need for services
- Government restriction of activities
- Tarnished image or reputation
- Merger
- Waning social movement
- Joining of new members
- Key manager dismissed
- Lack of change
- Commitment to a new board direction
- Board vote to disband
- Community demographic shifts
- Acts of God

change—particularly change that makes old missions and procedures obsolete—is a sure path to extinction.

The fourth element is a *lack of leadership*. Successful organizational change into a new order usually requires a transformational leader. Instead of managers who continue to move organizations along historical paths, new leaders must transform the organization and forge new paths. The difference between transformational leaders and "transactional" managers lies in the scope of their aspirations and their ability to evoke large-scale change. Jackie does not appear to have been the transformational leader the organization required to survive.

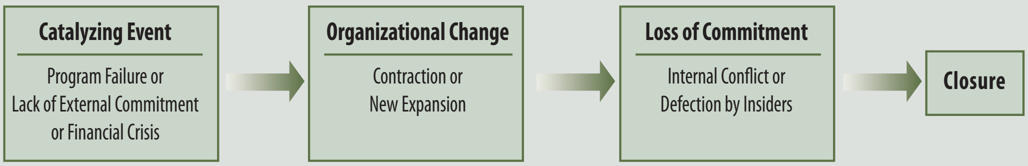
The fifth theme is *a new mission of "survival,"* which takes the place of the service mission. The board could have kept the organization on life support a while longer, and some still argue that it could have survived in a new, streamlined form. Most likely, however, it would not have been able to keep faith with its creditors.

The sixth and perhaps most compelling characteristic is *a board that tires of struggling with the organization* and allows its fatigue to drive its decisions. This was a young and largely inexperienced board of directors. Few members had the kinds of positive experiences with MAF that might have motivated them to search for alternatives to keep the organization afloat. When board members fail to establish their commitment to an organization or if they lose faith in organizational mission, the organization is emptied of its spirit.

Organizations that contribute value to a community have an obligation to that community to continue to provide their services. But if dissolution of an organization best serves the community's well-being, then its board should not hesitate to close it. If an organization no longer meets its goals effectively, it should step aside to allow other organizations to pursue that end.

The organization could have taken a variety of steps to try to perpetuate MAF. The board could have made a commitment to work closely with staff to raise new funds for programs. The organization could have sought a new director

Events Leading to Closure



Now, if your organization has experienced one of these hallmark events, it's not necessarily cause for alarm. After all, some of these events happen in all organizations, and not all are bad. Who doesn't want program success or new members? But just as eating a doughnut can be a positive event in the day for most of us, eating too many over time can hasten our demise. It isn't the doughnut by itself, mind you, but the doughnut is one element in a complex series of events that might send us to our ultimate reward.

Put another way, no single isolated event is definitive in the life story of a given nonprofit. The external environment, the combination of organizational events, and the way that management reacts to these events are what lead a nonprofit to any particular point in its life history, including its death.

In the case of Metro Arts and Film, its domineering founder assembled an uninvolved board, which led to stagnant programs, which led to conflict with the board, which led to dismissal of the founding executive director, which led to the loss of funders, which led to image problems, which led to a drained board, which led to a closure decision. And that is just one path of events in the complexity of the Metro Arts and Film closure story. We know from the preceding case study that there were others.

Why do nonprofits close? The complexity of the relationship between events, and the fact that these events rarely play out the same way within any two nonprofits, makes this question difficult to answer definitively. Nonetheless, we found that about a third of our cases could be explained by this general model: (see above).

In some cases, important and necessary nonprofits closed because they ran up against a series of problems from which they could not recover. Nonprofits need to learn from these events so that they can avoid a similar fate. But at the same time, not all closure stories are sad ones. Some organizations closed when they had completed the task they set out to do. Some closed when they became obsolete in some way, with new organizations emerging to take on community issues in more appropriate ways. Although the loss of a single organization may affect the dreams and livelihood of individuals in the community, the most important thing is that a community maintains a stable of vital and relevant nonprofits. Some turnover is healthy and inevitable.

Although the decision was unpopular with the artist community, the local media ultimately applauded the board's decision and its success in perpetuating MAF's programs in the wake of the organization's dissolution.

or hired an assistant director who had the transformational capacities required to invigorate the organization. However, retrospection is somewhat unfair. Although the decision was unpopular with the artist community, the local media ultimately applauded the board's decision and its success in perpetuating MAF's programs in the wake of the organization's dissolution. The members of MAF's board were aware of the options available to them and, overwhelmingly, voted to close.

Endnotes

1. This case is a fictionalized account of events at a real organization in the United States. Names of people and organizations have been changed to protect the identity of the organization.
2. Beth M. Duckles, Mark A. Hager, and Joseph Galaskiewicz, "How Nonprofits Close: Using Narratives to Study Organizational Processes" in *Qualitative Organizational Research*, K.D. Elsbach (ed.). Greenwich: Information Age Publishing, 2005. This chapter, as well as other published research on the topic of nonprofit decline and closure, is available at the author's Web site (http://mark.hager.home.att.net).

Have you ever participated in closing an organization? Share your story at feedback@npqmag.org. Reprints of this article may be ordered from store.nonprofitquarterly.org, using code 140307.

ONE DC:

A New Chapter in Community Development in the Nation's Capital

by Sonya Behnke

"ONE DC helps residents utilize their power as citizens of a democracy in order to ensure justice and fairness remains part of the system."

OVER THE PAST DECADE, THE SHAW neighborhood in Washington, D.C., has been the beneficiary and the victim of a burning-hot real estate market. During the first half of the twentieth century, the Shaw neighborhood on the U Street corridor was home to a vibrant African-American community. But with the end of segregation, many residents of Shaw moved to newly opened housing markets, changing the complexion of the neighborhood. After the assassination of Martin Luther King Jr. in 1968, civil unrest also damaged the area, compounding years of neighborhod disinvestment and government neglect. As Marty Mellett of the Community Development Support Collaborative says, Shaw "became kind of a dingy, divey neighborhood."

As with many neighborhoods across the country that have similar histories, a reinvestment has taken place over the past 20 years; gentrification has taken hold in parts of the neighborhood and, as Mellett says, "put enormous pressure on low-, mixed-, or no-income folks trying to stay in the neighborhood." As a result, not only has affordable housing become more sparse and increasingly difficult to fund, but rising property prices have also pushed out local entrepreneurs in favor of "safe" rental bets like Starbucks.

For low- and middle-income people to continue to have a stake in Shaw, the neighborhood needed more than a strong housing development organization, it needed an aggressive organizing presence. ONE DC, an offshoot of Manna Inc., was established—originally as Manna CDC—to take on this role, supplementing and adding new energy and resources to the work of existing groups working to improve the Shaw neighborhood.

In 2006, ONE DC branched off from Manna Inc. to become its own independent organization. ONE DC differentiated itself initially through its focus on Shaw, distinct from Manna's citywide development activities, though later ONE DC also went citywide, but with a greater focus on community organizing, while Manna Inc. continued to focus on its original mission to buy, renovate, and re-sell properties to low-income families, providing them with housing support services, including homebuyers education, financial literacy, and savings programs.

Reverend Jim Dickerson, chairman and founder of Manna Inc., says that ONE DC has helped change the balance of power at the negotiating table. "ONE DC helps residents utilize their power as citizens of a democracy in order to ensure justice and fairness remains part of the system."

SONYA BEHNKE is a fellow at Georgetown University's Center for Public & Nonprofit Leadership.

Today, ONE DC's experience with the realities of gentrification has already begun to serve the organization in other areas of the District where its cooperation and expertise has been solicited. The organization is now a part of the Barry Farm Community Coalition, which is moving forward with a community planning process to organize residents who may be forced to relocate. ONE DC's work will initiate a training program to prepare and help residents benefit from this development through good jobs, affordable housing, and other community enhancements.

Barry Farm represents an example of ONE DC's programmatic focus on "community benefits agreements" in facilitating resident participation in the process to dispose of and develop public lands around a METRO (subway) site in the Shaw neighborhood. With ONE DC's help, residents got a seat at the table in determining what would happen to these sites, resulting in affordable housing commitments on new condo and rental units, set-asides of retail space for locally owned businesses, and a contribution of $750,000 to a community fund controlled by members of ONE DC's Equitable Development Initiative.

A Separation, Not a Divorce

The IRS has not yet granted ONE DC 501(c)(3) status, thus the organization's future funding is uncertain. But ONE DC's transition to an independent organization has otherwise been marked by relative ease. This may be because its parent organization, Manna Inc., is itself the byproduct of a successful spinoff. In 1982, Manna Inc. separated from For Love of Children (FLOC). The idea behind Manna Inc. was one of "offering housing and support services for lower-income families who need them as the key to breaking the cycle of poverty." Marked by blight and disinvestment, Shaw was a natural location for the organization.

By 1996, Manna Inc.'s in-house staff had grown to include construction workers, architects, marketing specialists, organizers, developers, housing counselors/educators, and others. The organization had clearly outgrown its modest office space in Shaw, and it relocated to a nearby northeastern location.

In the course of expansion, Manna Inc. activated a small subsidiary CDC, known as Manna CDC, to retain a connection to the Shaw community and to ensure funding from sources that required CDC status. Mellett explains that on several levels, establishing Manna CDC in Shaw and moving Manna Inc. made sense. "The CDC could do the work beyond affordable housing," he says. "This included everything from equitable development and workforce development work to organizing and economic development work."

The reason for the initial split of Manna Inc. and Manna CDC was not just geographic. Dominic Moulden, who was a project manager at Manna Inc., agreed to become the first executive director of Manna CDC only on the condition that the organization would be allowed to operate in a way that was "people centered and focused on organizing rights." ONE DC approached development in a more integrated way than did Manna Inc., and it focused on building power among those who were vulnerable to being driven out of their neighborhood economies. Manna Inc.'s approach was to help lower-income people build assets to preserve economic and racial diversity of neighborhoods subject to gentrification.

ONE DC approached development in a more integrated way than did Manna Inc., and it focused on building power among those who were vulnerable to being driven out of their neighborhood economies.

Well known for his collaborative style, Dickerson initially did not see an inherent conflict between these two approaches. But as Manna CDC began to secure its own funding base and solidify its programs, differences between the two organizations began to mount. Dickerson recalls how growth and diverging goals prompted change. "To keep our organizations as one, with the same board governing both, would not have given either one of us the room to focus on our missions and to grow as we both needed to," he says.

Of course, the idea of a break between Manna CDC and Manna Inc. required adjustment. Larry Kressley, the former president of the Public Welfare Foundation (which supported both organizations), notes that "like many parent organizations, it was more difficult for Manna Inc. to let go than it was for Manna CDC to move on." In the end, though, Manna Inc. supported transition and created conditions for success. "There was not a rush to do it," says Reverend Dickerson. "It was a step-by-step process because we wanted them to succeed."

Manna Inc. and ONE DC have tried to prevent territorialism and infighting.

Some Background on Community Development Corporations by the editors

The number of community development corporations (CDCs) increased from 2,000 in 1991 to 4,600 in 2005 according to *Reaching New Heights*, the fifth national community development census of the National Congress for Community Economic Development (NCCED), released in 2005.[1]

Cumulative housing production of 1,252,000 dwelling units, cumulative industrial and commercial space of 126 million s.f., and cumulative job creation of 774,000, self-reported by the CDCs responding to NCCED census (plus some extrapolations by the authors of the census report) since the first NCCED survey in 1988 (through the end of 2004); there is no certainty whatsoever that these numbers do not include duplications.

The median staff size of CDCs was seven full-time and three part-time staff.

Nearly one-fourth of the reporting CDCs in the NCCED census described themselves as faith-based.

Living Cities (National Community Development Initiative) cities with "larger (CDC) industries with fair-to-strong local reputations for quality"—Washington DC, New York City, and Cleveland; "smaller (CDC) industries with fair-to-strong local reputations for quality"—Portland OR, Seattle, Baltimore; "larger industries with weak-to-fair local reputations for quality"—Los Angeles and Miami; and "smaller industries with weak-to-fair local reputations for quality"—Columbus, OH and Dallas, TX.[2]

Causes of CDC failures, downsizings, and mergers:

Contextual factors: changes in local housing markets (weakening demand for CDC-owned or managed housing or increasing acquisition prices in strong markets); growth in number of CDCs (leading to increased competition for limited public, foundation, and private resources); changes in city policies (leading to cutbacks in funding for CDC-sponsored developments); intermediaries and other funders pressuring CDCs to take certain actions; and lack of local support groups known as trade associations; lack of trust among CDCs;

Organizational factors: breadth of mission (organizations with narrow missions more vulnerable to changes in community needs and funding priorities); overreliance on a single source of funding; internal management problems (inadequate cost control and accounting systems, etc.); lack of staff or board capacity (and turnover of executive directors and experienced staff); communications problems between executive directors and board and between directors and funders; lack of community support for CDC activities.[3]

Endnotes

1 http://www.ncced.org/documents/NCCEDCensus2005FINALReport.pdf

2 http://www.urban.org/UploadedPDF/310638_ChangingSupportSystems.pdf

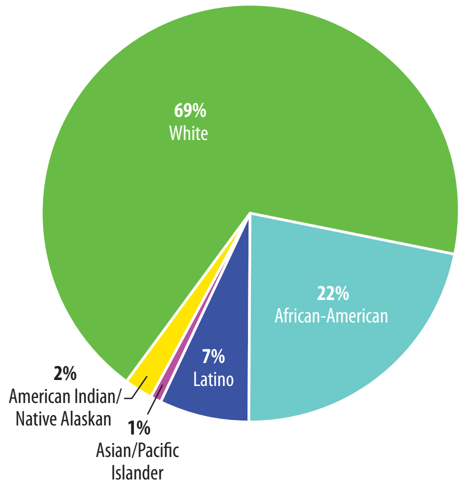
3 William M. Rohe, Rachel Bratt, and Protip Biswas, Evolving Challenges for Community Development Corporations (January 2003: University of North Carolina at Chapel Hill) http://www.ppnd.org/pdfs/cdcreport.pdf)

Source for graphs on next page: http://www.ncced.org/documents/NCCEDCensus2005FINALReport.pdf

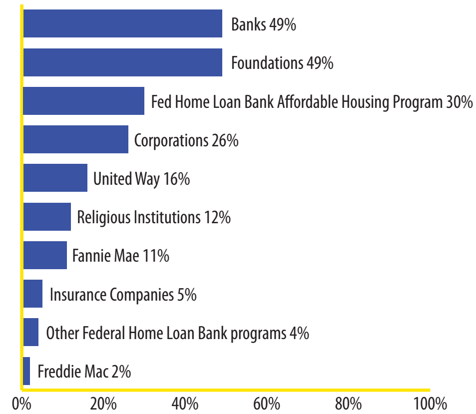
Still, the spinoff of ONE DC had consequences that could have spiraled into financial turf wars had the participants been different. Instead Manna Inc. and ONE DC have tried to prevent territorialism and infighting. Moulden says, for example, that Manna Inc.'s request to retain the rights to the Manna CDC name was a "mistake" that, as he sees it, has already caused ONE DC to lose a major government contract worth nearly $300,000 and that could cost the organization "a couple of hundred thousand dollars a year." This is an example of the operational complexities of spinoffs, a small glitch that neither party foresaw, much less intended, but being addressed through a transition agreement where funds sent in to Manna CDC are turned over to ONE DC by Manna, Inc.

But with Manna Inc.'s help, ONE DC has found a workaround. Many foundations and donors that won't give to ONE DC because it lacks 501(c)(3) status *will* write checks to Manna Inc., which in turn passes on the funds to ONE DC. This way, large donors can still make tax-free donations, and foundations that give only to 501(c)(3)s can still make grants. ONE DC has also maintained the majority of Manna CDC's substantial individual donor base as part of its "transition agreement" with Manna Inc.

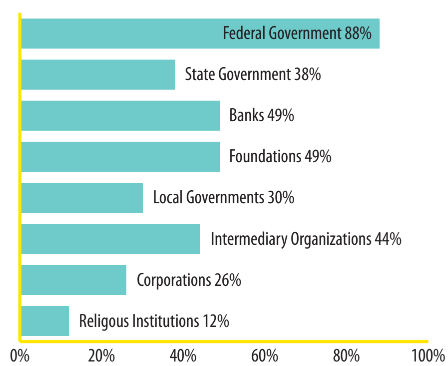
CDC Executive Directors



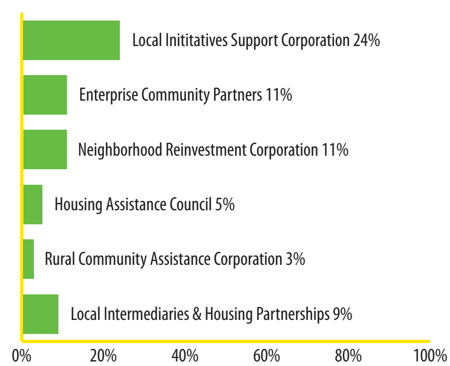
% of CDCs Receiving More Than $50,000
from Nongovernmental Sources



% of CDCs Receiving More Than $50,000
from the Following Sources



% of CDCs Receiving More Than $50,000
from Intermediary Organizations



ONE DC Gets *Its* House in Order

Now that ONE DC is independent, it is attempting to establish systems and incorporate governance practices to prevent growth from becoming its undoing. The organization, for example, has laid out criteria to evaluate new projects. Among the criteria for selecting projects is that the approach be made not by ONE DC but by the residents and groups that request its presence. The project must also demonstrate the potential to provide ONE DC with sufficient economic resources to support its operations.

In the short term, ONE DC has managed to garner a good deal of foundation support. Moulden is happy to report that "more groups actually give us money now than they did under Manna CDC" and that the branching off allowed each organization to clarify its goals. ONE DC has also gotten positive feedback from organizations like the Public Welfare Foundation and Fannie Mae. "We get a good deal of funding," says Moulden, because "no one else in D.C. uses the type of tactics that we do." Indeed, ONE DC was lucky enough to receive a foundation grant of almost $250,000 specifically for transition-related expenses—a rare but critical grant to ease the organization through the transition.

Long-term concerns, however, include an increase in ONE DC's budget to nearly $850,000 (roughly $300,000 higher than its budget as Manna CDC) because of the need for additional staff members. To keep the organization on steady footing, Moulden estimates foundation support will need to equal nearly $600,000, and the organization will need to garner individual donor support as well. By virtue of its origins in Manna Inc., ONE DC benefitted from Manna's infrastructure and seed money, but since the

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Is the ONE DC model a striking new venture into uncharted community activism, or is it a resurrection of the originally intended goal for community development corporations?

organizational separation, ONE DC has been dependent on raising its own funding, receiving financial support from Manna only in the form of Manna's generous debt forgiveness on a business venture (a Maggie Moo's ice cream parlor) spawned by ONE DC.

Other problems have cropped up as well. Staff turnover, for example, has been difficult. Within the past year, four staff members moved on to other jobs and several new positions—such as senior organizer, associate director, director of organizing, and membership director—have been added. ONE DC's permanent staff now focuses solely on being "community organizers." With an eye toward future multiethnic community organizing, ONE DC has hired a diverse staff, three of whom are Spanish-speaking and whose backgrounds range from Nigerian-American to Irish-Colombian.

Only five members strong, the board of ONE DC will have no fundraising responsibilities. All current members have strong connections to the work of ONE DC and to the Shaw community, and the organization ultimately hopes to expand the board to nine members. To assist in building the financial capacity of ONE DC, Moulden says that the organization will create a five- to seven-member advisory committee. Each year, committee members will work with the board to set fundraising goals for the year.

ONE DC's initial success is not considered a guarantee for the future. Some worry that though its mission and tactics work, the attitudes of some other nonprofits as well as foundations, government officials, and those in the private sector could undercut the organization over time. "In this city, success can be the worst thing that can happen to you," Reverend Dickerson says. "You get the most press when you fail, and you won't have many people cheering for you when you succeed."

And indeed, the transition of Manna CDC to ONE DC may not seem like "good news" to everyone. Turf issues with some other nonprofits, for example, could make ONE DC's work an uphill battle. "We don't need to be warring over turf, money, public or private resources, race, geography," Dickerson says. "We don't need to all be the same, but we could all benefit from each other to serve our communities better. The question now is, Can we align our goals?"

ONE DC's ongoing endeavor to ensure that residents get a seat at the table will undoubtedly be its most formidable challenge and, if it succeeds, its greatest strength. And as Moulden says, how much ONE DC accomplishes and how far its reach extends will "rely on people," no matter which side of the table they sit on. But there is no blueprint for success—and conceivably several roads to failure. "There are no textbooks on how to make this work," Dickerson says. "It just takes the right mix of people."

A New Chapter or an Epilogue?

Is the ONE DC model a striking new venture into uncharted community activism, or is it a resurrection of the originally intended goal for community development corporations to mobilize neighborhood residents and shape control over the development of housing services and justice in their communities. Indeed, if successful, ONE DC's "new" model may turn out to be a reaffirmation of the old but neglected purpose of all CDCs.

By the same token, most CDCs have drawn their strength and vitality from their connection to, and guidance from, neighborhood residents. ONE DC has evolved from an affiliate of Manna Inc. to an independent, neighborhood-based CDC and now to a footloose, multi-neighborhood—and perhaps even multicity—organizing effort. That transformation merits watching.

This evolution may render ONE DC more vulnerable. Other organizations may react adversely to ONE DC as an "outsider" invading their turf to organize the unorganized. And there is a more basic question about whether ONE DC's organizational model is sustainable. If the organization is no longer a neighborhood-based CDC, could it become a smaller, weaker rival to non-neighborhood-based organizing groups?

So while it is clear that ONE DC is an organization in transformation dedicated to a mission of preserving racial and economic equity through an organizing model emphasizing "popular education" and resident-led policy advocacy, the ultimate form and potential future emerging from this chrysalis is difficult to accurately discern.

What does it take to make a spinoff work? Share your ideas at feedback@npqmag.org. Reprints of this article may be ordered from store.nonprofitquarterly.org, using code 140308.

Individual Donor Trends

by Valerie Reuther

As I write this article on trends among individual donors, I am reminded of the quote "The best qualification of a prophet is to have a good memory." It's not that things don't change in individual giving; it's just that a lot also remains the same. These interviews suggest that there may be times when the excitement of noticing something new leads analysts or proponents of a certain kind of philanthropy to paint with too broad or vivid a brush.

The Generation Gap

Carol Pencke has her finger on the pulse of what donors are funding and how, particularly regarding social change. Not only does Pencke have 30 years of experience as an active donor; if she joins your board, she knows to bring her Rolodex.

When asked about the philanthropic trends she's observed, Pencke makes what she admits is a "gross generalization" about donors with earned income versus those with inherited wealth. According to Pencke, the new generation of donors under the age of 40 has made its fortune in business, and these philanthropists view nonprofits as businesses. They are less concerned with organizational mission and values and more concerned with budgets, salaries, work plans, strategies, and tactics.

"I grew up, as did the older donors I work with, during the civil-rights movement," Pencke says. "We were taught to be part of a movement and to work collaboratively. The donors of my generation with inherited wealth ask more

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> “Younger donors have more of a project focus. . . . The project pieces are more dynamic for them,”

touchy-feely kinds of questions—questions about mission, values, who’s involved. Younger donors were brought up with the entrepreneurial model that says an individual can change his or her life.” As a result, these younger donors often look for some stellar project or individual to fund that will propel things forward.

Rick Johnson, the executive director of the Idaho Conservation League, echoes these observations. Johnson does conservation work in a resource-rich and politically conservative state. He sees younger, entrepreneurial donors with “a certain element of real or perceived sophistication about how we do our work,” he says. “This comes from their experience in business. I am meeting with people younger than I am—people in their thirties and forties. The younger donors want to be players. They want to be engaged in the philanthropic work. They want me to understand that they are paying attention.”

In addition to asking more detailed questions, many younger donors are more interested in funding specific projects, not simply institutions. “My older donors are giving to the organization out of habit and respect for history. The younger donors have more of a project focus. . . . The project pieces are more dynamic for them,” observes Johnson.

Eve Tai, a major gifts officer with the Nature Conservancy of Washington, agrees. Tai sees the difference in the way older and younger donors act as a function of experience. “Our older donors know how philanthropy works,” she says. “They have been members for 20 years, and they have fewer questions. They trust the institutions like ours. . . . When you talk about the younger philanthropists, you are talking about people who got wealthy because they are driven. They made the money in businesses where information is key.” Tai also observes that whereas many older donors care about a particular place or project, younger donors bring together lots of interests. “For example, they want to see things that involve not only conservation but also community and sustainable economies. They are more holistic in their concerns, so their information needs increase.”

Lisa Karl, the associate director of major gifts at AmeriCares, agrees that donors differ by age and profession. “I am working with donors in the finance sector who behave similarly to donors in technology," she observes. "They want to understand how effective you are and how you measure the organization's success. They want concrete numbers and other measures of success." Karl elaborates, "We measure success in terms of pounds of medicines delivered, but some funders want to look at disease patterns in areas before and after our project started. . . . Some donors want to know how we are working to eradicate the problem—reducing poverty and increasing health-care infrastructure—in the countries we work in."

Karl also notes the challenge of satisfying a major donor who wants to be involved in a particular project within an organization. Those in the nonprofit sector can trade stories of donors who want to use their skills in helping with child care when what the organization really needs to do is upgrade its software or better yet, of donors who want to facilitate an organizational restructuring when an organization has already done one.

Is There Really a Trend?

Despite these observations, the general consensus among interviewees is that even with a new generation, donor involvement has changed little over the years.

Lisa Byers, the director of OPAL Community Land Trust, sums it up. "Most donors don't want to be involved." Byers's organization works to create affordable homes on Orcas Island in Washington State. Her board is made up of a mix of high-income major donors and low-income residents of OPAL housing communities, plus others—who support the mission. "We recruit board members who are the right fit: the right mix of decision maker and doer for the organization," she says. "The major donors don't exert any more influence than other board members. I attribute that to our consensus-[based] decision making, which comes out of our commitment to people of all economic classes having an equal voice."

Funder and artist Kat Taylor, who is involved with the Women Donors Network based in Menlo Park, California, is clear. "My job is to be a sculptor," she says. "I can't sit on committees. I don't want to be on a board. I want to be in the studio." But Taylor acknowledges the delicacy in being an at-arm's length funder. "Money has power. I am

Even with the advent of a new generation, donor involvement has changed little over the years.

"The most important thing is to sit down face to face with donors. It builds the relationship."

figuring out how to give support and let the money flow." She recognizes that as a funder, she has a one-step-removed perspective. "I am a witness. I see myself as valuable as a question holder."

At Corporate Accountability International, the organization's leadership has worked to get its donors more involved. Since voluntarism and donations have always been linked, there is nothing new about this approach. Recently, one major donor offered to host a house party to raise money. Of the five women who attended, two became volunteers; one in the office, and the other as the volunteer assistant to the recruitment and training director.

Somewhat contrary to the trends noted earlier, however, Kelle Louaillier, Corporate Accountability's executive director, says that younger donors are more eager to get involved at that level than are older donors. "The older donors want to teach you about good nonprofit governance and how to make money off the money they give you," she says. "The younger ones want to be involved in advising on the program and helping to implement plans."

In her forties, Kathryn Gardow also fits the description of a "younger entrepreneurial donor:" those who have made money in the technology and finance sectors and now follow their passions and give away money. Gardow's husband has done well in the high-tech industry and the couple is giving away more money than they ever thought they would. But Kathryn doesn't feel a need to be involved with the groups she funds, and most of the donors she knows don't take an active role in the organizations they fund. Kathryn and husband make their funding decisions largely based on personal connections.

And like many donors, Kathryn has pretty low demands when it comes to reporting. "I don't want much," she says. "I don't read it. I don't go on a lot of Web pages. I do like getting reports that say, 'This is what we did and what we accomplished.'" Tai of the Nature Conservancy sees the same with her donors. "Many donors ask for very little. What they really value is seeing you and seeing the work."

It's All about Relationships

Robert Stoll, a major donor and political fundraiser in Oregon, agrees. "I like an annual report followed by one-page newsletters," he says. Stoll goes on to articulate commonly voiced ideas about the importance of building old-fashioned relationships with donors. "The most important thing is to sit down face to face with donors. It builds the relationship. You have the donor's attention for longer than it takes to read your letter or take your call, and so you can share more information."

For several years, Byers and Louaillier have made a practice of visiting donors. As a result of that face-to-face contact, both have seen relationships with donors deepen and donors' questions grow more sophisticated. Over time donors understand the basics of the program and come to focus on the longer-term organizational vision and purpose. Louaillier sees her long term-donors as caring more about the longevity of the organization. "They want to know how we are building the institution for long-term sustainability. I have been visiting some people for long enough that they are asking me, 'Why haven't you asked me for an endowment gift?'"

Louaillier sees these institution-building questions as part of a trend. As conservatives have stayed in control of federal agencies, progressives have begun to understand the importance of building progressive institutions. They are making more serious investments in the organizations that will become the mainstay of a progressive movement. "To many donors, building progressive institutions means a deeper level of giving and involvement," she says.

Finally, Pencke is a major advocate of using search engines like Google to find information on donors. But she warns that too much time spent on Web research without corresponding face-to-face time with donors crosses a line. "I know people who are creating massive tomes on donors and never going to talk to the donor in person," she says. "The heart of the matter is writing the letter, visiting the donor, making the case, and asking for the gift. Google doesn't change that."

Valerie Reuther is a consultant who works with social-change organizations, teaching them how to raise money from individuals. She also facilitates strategic planning and board development.

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FUNDRAISING EMPORIUM

Navigating the New Audit Standards

by Kate Barr

As audit committees and boards of directors are meeting to review audit reports for 2006, alarm bells are starting to ring about surprising new criticism about the quality of internal controls. For many organizations that have had uneventful audits in the past, a new accounting standard—officially known as Communicating Internal Control Related Matters Identified in an Audit, or SAS 112—has from one year to the next put them on notice that the good practice of the past is no longer sufficient to earn the auditor's approval.

Auditors have always considered the quality and sufficiency of internal controls as a component of an audit. When weaknesses in internal controls are observed, audit firms are more likely to highlight organizational shortcomings by submitting a management letter to an organization's board of directors citing weaknesses and recommending action. With the greater stringency in standards of SAS 112, nonprofits are scrambling to understand the implications.

Indeed, it's not that the quality of nonprofits' internal controls has changed, but rather the standards by which they are evaluated. By providing more guidance on weaknesses in internal controls, the new standard accomplishes three goals: (1) it provides new definitions and terminology to identify internal control weaknesses; (2) it allows auditors less discretion in identifying weaknesses as significant or marginal; (3) and it requires that auditors apply more stringent standards that consider combinations of weaknesses as well as quantitative and qualitative factors.

In effect, more stringent standards have raised the bar for nonprofits' financial staff. Previously many small and medium-sized organizations received management letters citing segregation of duties as a weakness, the new SAS 112 letters use more forceful language, even in describing internal controls that are essentially the same as those from the previous year.

It's not that the quality of nonprofits' internal controls has changed, but rather the standards by which they are evaluated.

But SAS 112 doesn't mean that you should rush to fire your finance director or make excuses to your auditor about how hard it is to manage a small nonprofit. Board members, executive directors, and finance staff need to learn about these new standards, understand how they will be applied to the organization, and make thoughtful decisions about how their organization will respond.

The New SAS 112 Standards

The American Institute of Certified Public Accountants (AICPA), the national professional organization for CPAs, issues auditing standards to provide definitive standards for all audit engagements. Applying these standards is not optional for a CPA firm conducting an audit, although some interpretation and judgment is always required. In May 2006, SAS 112 took effect for audits of financial statements whose years end on or after December 15, 2006.

While the standards were issued in May, many members of the accounting industry didn't fully understand the significance of the new rules until later that year, when the AICPA issued additional guidance. This delay explains in part why so many nonprofits have been caught by surprise. Audit firms that serve nonprofits had little time to prepare their clients for the new standards before the year-end audit season began. Further, because these standards are new, audit firms are still developing their approach and internal benchmarks. Different firms still demonstrate inconsistencies in application, though these differences may diminish as nonprofits receive additional training.

The new statement "establishes standards and provides guidance on communicating matters related to an entity's internal control over financial reporting identified in an audit of financial statements." The statement defines terminology related to control effective-

To understand these rules, here are some definitions, as paraphrased from the AICPA statement:

Internal control. The process of internal control is designed to provide reasonable assurance that an organization's assets are safeguarded, that operations are managed effectively and efficiently, and that financial reports are reliable. Internal controls vary according to organizational size, complexity, and management structure. Auditors are not required to test internal controls, but if they observe any weaknesses during the course of the audit, they must follow this reporting standard.

Reliable financial reporting. Reliable reporting requires that statements conform with Generally Accepted Accounting Principles (GAAP). This definition is central to many of the concerns that application of SAS 112 has raised.

Significant deficiency. This determination of internal control weaknesses replaces the "reportable condition" concept used in the previous standard. This is known as a "level one" finding, identifying weaknesses that *could* result in problems with controls over financial operations or transactions and financial statement reliability that would not be prevented or detected. The common "segregation of duties" finding—which is triggered when an individual has control over more than one aspect of a financial process —will often fall into this category.

Material weakness. A material weakness is a "level two" finding and indicates a more significant weakness of the same controls, concluding that a *material* misstatement of financial reporting would not be prevented or detected. (Keep in mind, however, the term "material" is always subject to interpretation. According to the New York State Society of CPAs, materiality refers to the "Magnitude of an omission or misstatements of accounting information that, in the light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would change or be influenced)."

ness, provides detailed guidance on evaluating the severity of any weaknesses, and outlines the required reporting of any identified weaknesses that auditors must provide to management and "those charged with governance." Internal control weaknesses fall into two categories: significant deficiency and material weakness.

Application of the New Standards

At root, the new standards increase the likelihood that control deficiencies will be identified and reported. It also places additional fact-finding burdens on auditors, who must now consider a wider range of factors, including the organization's ability to generate financial reports that are in compliance with GAAP. According to the accounting firm PricewaterhouseCoopers, the new definitions make it far more likely that more control deficiencies will be considered severe.

Nonprofits can predict the likelihood of some level of finding by considering two things. First, if your audit firm previously issued a management letter describing internal control weaknesses or reportable conditions and your organization has not made significant changes in how it conducts its financial operations, expect the same finding but with the new terminology applied.

Second, assess your ability to apply GAAP to financial transactions and reports. Think about your internal year-end financial reports.Does your nonprofit correctly report the following information in your year-end financial reports according to GAAP accounting rules: receipt and release of temporarily restricted funds, in-kind contributions, accrued expenses, and depreciation? If you previously relied on auditors to provide adjustments for these items, be prepared for a finding of a material weakness control deficiency.

Small nonprofits often rely on auditors to complete their financial statements. A hot topic of debate is the impact of SAS 112 on the role of an auditor in drafting financial statements. Some contend that since the standard requires an evaluation of an organization's preparation of reliable financial reports, an organization can't meet this standard if auditors draft GAAP financial statements. Others argue, however, that having an auditor draft financial statements does not create a control deficiency, but it may be the result of—or provide evidence of—a control deficiency.

This may seem like hairsplitting, but in many audits the distinction proves crucial. Some auditors have insisted that a client nonprofit must prepare the entire financial statement in GAAP compliance, including footnotes, in order to "pass the test." Other auditors have determined that as long as an organization has the expertise and ability to prepare GAAP statements, the question of who prepares a financial statement is less important. But fundamentally, the standards make clear that auditors cannot fill in for organizational shortcomings; they cannot be a component of internal controls or a "compensating control" for existing weaknesses. Regardless of whether your auditor prepares some adjusting entries, the new standards convey that an auditor's role is to test and verify the information provided by an organization and issue an opinion—not to calculate and produce financial statements.

What's the Impact?

Now that SAS 112 has raised many organization's attention on audits, directors and boards are asking whether they should make an effort to "comply" with SAS 112. But the question isn't whether to comply, but rather to determine your organization's best path given the new standards. Consider SAS 112 a test of your organization's financial statements and internal controls and decide the grade level the organization wants or needs to earn. Is an A important to you, or is a B acceptable? In turn, a management letter serves as an indication to management and the board about the effectiveness of internal controls. To get an A, financial statements must be prepared in full compliance with GAAP by the organization or by contracted advisers other than the auditor.

Take the example of Helpful Services Inc. (HSI), an $8 million social service agency in Minnesota. HSI's chief financial officer is a CPA and has a well-qualified finance staff. Preparing complete and accurate drafts of all financial statements and footnotes takes additional time, but the CFO invests the effort to meet the highest standard. With this level of financial reporting quality, there are no SAS 112 letter or findings related to reliable financial reporting.

Consider SAS 112 a test of your organization's financial statements and internal controls and decide the grade level the organization wants or needs to earn.

For a smaller organization, however, achieving an A might require extraordinary effort or extra costs. Consider South End Youth Center, which has a $1 million budget. SYC has an experienced, part-time accountant who is not a CPA. In previous years, the audit process went smoothly and earned compliments from auditors. SYC has always relied on its auditor to provide a few adjusting entries to record depreciation and in-kind contributions. Auditors also prepare the financial statement drafts and footnotes. This year, SYC received a SAS 112 letter citing a material weakness in financial reporting. The auditor explained that the audit preparation was similar to that in previous years, and the deficiency finding was not severe. SYC earned a B for SAS 112, but anything less than an A will result in a deficiency finding. In the future, SYC's board will consider whether the additional costs of increasing staffing or hiring additional expertise adds enough value to its financial operations.

But what about a C or a D? Not every deficiency should be accepted with a shrug. In the case of Lakeview Arts Center, for example, the auditing process has never gone well. Lakeview has grown to $1 million in budget, but the organization continues to enlist an administrative assistant for bookkeeping who relies on past practices to decipher entries and doesn't have professional training. No entries are made to classify restricted funds or releases, capitalize new fixed assets, record pledges, or reconcile accounts receivable. This results in uneven financial reporting, badly prepared audit schedules, and major adjusting entries. In this case, the material weakness finding is well deserved. Lakeview's unreliable financial statements have impact on a board's and management's ability to monitor progress and make decisions. In this case, a management letter will report a material weakness and describe the severity of the reporting problems and adjusting entries. Lakeview's board and management should take action to improve reporting quality by training staff or hiring outside expertise. And these efforts will likely just earn the organization a B next year.

SAS 112: Significant Deficiencies and Material Weaknesses

The difference between a significant deficiency and a material weakness can best be described as one of magnitude. The following examples are simply that—examples, not precise outlines of deficiencies—but they provide guidelines for understanding these categories and potential reporting problems under SAS 112.

Sample findings of significant deficiencies in internal controls under SAS 112:

- An organization demonstrates a need for better segregation of duties because one individual receives the bills, generates and mails the checks, and enters the payment in the accounting system. This allocation of duties represents a deficiency, even though a different person may sign the checks.
- An organization's donations and payments are received and opened by one individual, with no additional oversight and no log sheet of funds received.
- An organization has inadequate, but not material, documentation of expense reimbursements.
- An organization lacks written procedures for carrying out financial functions.
- During the course of the year, an organization's general ledger accounts, such as accounts receivable, are not reconciled.
- An organization fails to follow its own accounting policies, such as requiring two signatures on checks.

Sample findings of material weaknesses in internal controls under SAS 112:

- An organization prepares its financial statements without applying all required accounting standards. As a result, an auditor has to make adjustments to correct the statements for entries, such as depreciation or restricted funds releases.
- An organization fails to identify material errors in its financial statements.
- Rather than a board chair or treasurer, an executive director and a direct report approve ED's expense reimbursements, raising concern about fraudulent expenses.
- An organization fails to identify or address fraud by a senior management employee or board member.
- An organization lacks segregation of duties, whereby one staff member does everything, from mailing pledge reminders to opening mail, making deposits, keeping accounting records, receiving and reconciling bank statements, and preparing financial statements.
- An organization makes adjustments to intentionally change financial statements, such as entering a hoped-for pledge as income to improve the year-end picture.

Managing Under SAS 112

To begin working with the new standards, the first step is to communicate them to your treasurer, finance committee, and board of directors. The last thing you want is to be surprised when the audit report is presented. Second, consult with your auditors before they arrive to begin audit fieldwork for SAS 112, and discuss how you will communicate with each other about internal control findings during the audit. Then, once management and board members are familiar with the basic standards and terminology of SAS 112, it's possible to assess your organization's level of performance with a self-rating. After deciding what grade you would give the organization, discuss whether an A is important and which resources your organization needs to achieve that grade. Whatever the findings, there are always ways to improve internal controls and the quality of financial accounting. This is the ultimate goal of the new auditing standards and an important one for any nonprofit that purports to be a steward of donors' and supporters' funds.

Kate Barr is executive director of the Nonprofits Assistance Fund in Minneapolis, Minnesota.

To comment, contact us at feedback@npqmag.org. Reprints of this article may be ordered from store.nonprofitquarterly.org, using code 140310.

The Charitable Tax Exemption Is about More Than Efficiency

by David A. Brennen

Efficiency is often used as a proxy for discussing nonprofit charity effectiveness, but such ostensibly objective measures can limit any true understanding of charities' potential. Although efficiency is the hallmark of many theories of charitable tax exemption and is sometimes useful, the conceptual framework falls short as a way to judge a nonprofit charity's worth or legitimacy.

I would argue that the role of a nonprofit charity is to build contextual diversity in society and to continuously seek inclusion and justice. This role is a basic facilitator of the nation's democratic ideals. But facilitating justice may sometimes require that charities disrupt current norms and even act inefficiently. The third sector, as it is sometimes called, is supposed to continually recreate "the commons," or provide for public benefit. And clearly, this focus on collective benefit doesn't serve the best interest of individuals; it serves the public at large or a disenfranchised minority.

This discussion proposes a concept called "contextual diversity" as an alternative understanding of the charitable tax exemption. The concept is based on two theoretical constructs that better fit as justifications for the charitable tax exemption and for the value of nonprofit work in general: (1) law and market theory and (2) critical race theory.

From Efficiency to Collective Value

The premise of traditional economic analysis is that efficiency leads to wealth maximization. It is all about exchanging value for value. In the for-profit sphere, this commonly emerges as a quid pro quo. I give money, and I get something of comparative value in return.

But the output of nonprofit charities is not always immediately quantifiable, and so the shorthand for efficiency among charities is "no waste." Taken to extremes, this idea is counterproductive and ends up squelching the real value of the sector.

By the same token, the charitable tax exemption is not simply a financial "free pass" from the obligation to pay income tax. It must be based on gained societal value. Some theorists have posited economic justifications for nonprofits' tax-exempt status, such as the cost savings of providing services that benefit the public.

But this doesn't get at the heart of the charitable sector's true value in society. The many benefits that flow from the work of charities often have nothing to do with efficiency. Noneconomic benefits include social justice, fairness, equality, political authority, and other normative principles. Still, these noneconomic consequences provide benefit because they are essential to the economic health of society and because they create contextual diversity.

Law and Market Theory

Thus, efficiency is a useful concept but also a highly insufficient indicator of nonprofit charity effectiveness. Professor Robin Paul Malloy of Syracuse University has developed law and market economy theory—which addresses the relationship between law, markets, and culture—and the construct offers a better fit to explain nonprofit charity value. The premise of the theory is the need for collective, sustainable wealth formation rather than the maximization of individual wealth. According to Malloy, collective, sustainable wealth formation necessarily involves inclusion, diversity, and creativity, which is more in keeping with the traditions of the nonprofit charity sector.

Malloy echoes a similar theme as that advanced by Nobel Prize–winning economist Amartya Sen; efficiency and individual wealth maximization are inadequate measures for assessing *social* well-being. Malloy explains the market as a place of value formation in which real value emerges from the continuous process of human exchange. He argues that the process of sustainable wealth formation is difficult to measure in traditional efficiency terms, because it relies on creativity and on the dynamic nature of inclusive, diverse patterns of human exchange.

According to Malloy, efficiency is grounded in the static notions of habit, convention, and continuity. Creativity, on the other hand, is far more dynamic and grounded in notions of unproven potentiality. Creativity is by nature indeterminate, habit-breaking, and convention-challenging, and it relies on transformational relationships that permit the discovery of something new. While economic efficiency is certainly relevant in market theory, it cannot account for the process of creativity.

Since it cannot be observed directly, creativity can be examined only by looking contextually at the communities that foster it. As Malloy explains, "One must identify the types of communities which, by ethics and social values, tend to foster *diversity, experimentation, and unconventional networks* and patterns of exchange." These communities embrace inclusion and diversity and think about the market process in broader terms.

Even in for-profit markets, emphasizing efficiency at the expense of creativity is a no-growth strategy. Markets need to seed creativity to stay viable. And creativity happens when diverse ideas collide and fuel one another.

The business of many nonprofit charities is to develop new and diverse approaches to social issues. Some of these approaches necessarily fly in the face of convention. But that is the point of contextual diversity; when nonprofit charities act as disruptive forces, it's a good thing for civil society. Differing interpretations of a problem or situation lead us to question preconceived truths and pro forma ways of knowing a thing. Contextual diversity promotes other ways of understanding and the protection of nonmajoritarian interests.

In this way, charitable activity can be understood as a representation of particular values. In some contexts, for example, charitable activity means fulfilling a public purpose for those truly in need and carries no pejorative connotation. In other contexts, however, charitable activity denotes a paternalistic propping up of subordinated, lesser people. But regardless of how we view the motivations of philanthropy, we cannot understand charitable activity only in light of sheer economics; it's also about contributing to the public, social good.

Critical Race Theory

If contextual diversity is important to collective sustainable wealth development, inclusion of groups that are now largely excluded is critical. Critical race theory provides an additional lens through which to understand the power of contextual diversity and is characterized primarily by its opposition to three mainstream beliefs: (1) that color-blindness will eliminate racism; (2) that racism is the function of isolated acts, not a systemic problem; and (3) that racism can be addressed apart from other forms of societal injustice such as sexism, homophobia, or economic exploitation.

One of the central concepts of critical race theory is that race is a social construct—an idea. Racism is a societal invention, not an organic phenomenon. Critical race theory asserts that race itself is contextual. As law professor Kimberlé Crenshaw explains, the theory posits that racial identities are intersectional and that racial minorities' vulnerability to discrimination is a function of specific intersecting identities.

Malloy's law and market economy theory shares many attributes with critical race theory in terms of challenging traditional law and economic analysis. Both law and market economy theory and critical race theory reject the primacy of efficiency as a metric. Malloy's challenge to efficiency comes from a market perspective, while critical race theorists challenge efficiency from an equality perspective.

Professor Malloy, for example, asserts that creativity, not efficiency, is the primary source of wealth creation in the market. Similarly, critical legal scholars explain that racism is not just a problem of individual choice but the result of a systematic condition of racial subordination. Thus, both law and market economy theory and critical race theory reject the notion that legal structure should be based on the calculus of individual choice; it should focus the diversity of societal structures that create the circumstances leading to the choice.

Another fundamental idea behind these two frameworks is that markets are not objective or neutral avenues of exchange; they are the product of human practice and culturally informed values. In fact, law and market theory suggests that the scope of charitable activity is naturally diverse, dynamic, and transformative. Charitable activity may be consistent with or run completely contrary to established public policy as currently conceived.

As defining frameworks for the nonprofit charitable sector, critical race theory and law and market economy theory view nonprofit charities as change agents, especially on issues involving social justice—a central role of the sector. They can effect change through the sometimes inefficient process of including nonmajoritarian voices into public dialogue, creating contextual diversity. Insisting on efficiency as a primary measure of nonprofit charity legitimacy can only squelch the purpose of the sector.

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David A. Brennen is a professor of tax law at University of Georgia School of Law.

What's in Podcasting for Nonprofits?

by Scott Williams

The distribution of audio and sometimes video content over the Internet—also known as podcasting—began largely as an extension of standard text blogging. By late 2004, podcasting had staked out much the same ground as blogs: a scrappy, informal audio alternative to mainstream media.

The mainstream media, however, was quick to pick up on podcasting's potential as an inexpensive way to provide audio content via the Internet. Podcasting now describes content generated by various sources, from presidential candidates to National Public Radio, Rush Limbaugh, and ESPN, as well as the thousands of amateurs who record their enthusiasm on politics, cooking, sports, and all manner of topics.

For better or worse, nonprofit organizations tend to lag behind their for-profit counterparts in experimenting with new technology, and podcasting is no exception. In mid-2005, when Corey Pudhorodsky began his *501c3Cast*—a podcast covering nonprofit issues and technology—there was no content aimed at nonprofit organizations, and almost none produced by nonprofits. Two years later, few nonprofits podcast, but Pudhorodsky thinks that eventually the medium will become "as integrated with [nonprofits'] communication plan[s] as their direct-mail or public relations notifications."

Pudhorodsky sees podcasting as a medium uniquely suited to nonprofit organizations. "One of the essential things about working in the nonprofit sector is that you have to be a good storyteller," he says. With podcasting, "you have that voice that's telling your story. You can tell when someone gets choked up telling a story, and you can hear the background noise when you're recording on-site."

On the whole, podcasting is an easy medium for nonprofits to access. Podcasts are easy to produce, and the costs—at least for now—won't greatly exceed the staff time devoted. *(For more on the technical steps of producing a podcast, see the sidebar "Recording and Production of Podcasts" at www.nonprofitquarterly.org/section/930.html)*. On the other hand, return on an even minimal investment in podcasting can be difficult to measure, and with strapped staff and an increasing focus on outcomes, few organizations have made a commitment to the medium; the tipping point for sector-wide acceptance still seems far off.

Internal investment in podcasting is even rarer than the podcasting itself. Of the four podcasts discussed in this article, only one has received a large organizational commitment; two others are essentially donated. While this might suggest a trend, it also demonstrates that podcasting is open to those with the classic nonprofit combination of more desire than dollars.

The wide range of podcasting content, format, and aesthetics creates an opportunity for an organization of any size to find a niche that suits its communication needs. Authenticity and a good story can offset shaky production values and a less-than-professional sound. At the same time, it is a simple matter to have your podcast listed on iTunes and other directories, where—at least in terms of access—you are on equal footing with the largest commercial sources.

Nonprofit organizations involved in podcasting demonstrate a range of means and ends. Some organizations, such as World Vision or the Sierra Club, repurpose material recorded for radio. Other organizations podcast panel discussions, press conferences, and other live events.

Here we look more closely at four organizations that produce original content exclusively for the Web. Even among this subgroup, the differences are striking. With its *Speaking of Sex* podcast, Planned Parenthood of Western Washington has pursued an alternative channel for content that the mainstream media would not be willing to air, with a format similar to that of traditional radio. The Central North Carolina Chapter of the Multiple Sclerosis Society views its podcast as a way to expand the reach of programs to people whose illness may prevent them from coming to the chapter's physical location. Its style is more informal. Volunteer San Diego uses its podcast to open a window on the work of the organization and to diversify its tools for recruiting new volunteers. And when opportunities arise, First Book enhances the content of its Web site and blog with audio material.

Speaking of Sex

Speaking of Sex is a 20-minute podcast produced roughly twice a month by Planned Parenthood of Western Washington (PPWW). Its male and female cohosts, Nathan and Malaika, have worked together as educators for PPWW and bring a natural chemistry and comfort with the subject matter. The podcast covers a variety of topics and types of content, including person-on-the-street interviews, on-location recordings, phone interviews with celebrities and researchers, and music.

> **Recording for Multiple Devices**
>
> The term *podcasting*, which combines *broadcasting* and *pod* from the Apple iPod, is catchy but misleading. You don't need an iPod or other MP3 player to listen. In fact, somewhere between 45 percent and 80 percent of podcasts are listened to on computers rather than portable devices.

The format of *Speaking of Sex* is that of professional radio, including a 90-second newsbreak at the beginning of each episode that covers current issues and action alerts when listeners are most attentive. The professional sound is no accident: producer Brian Cutler, who is also the development officer for community relations at PPWW, has a background in commercial radio.

The goal of *Speaking of Sex* is to create a credible, entertaining podcast that provides education and advocacy to those who need it most but who may not know it. Podcasting allows PPWW to have frank, natural discussions about sex without worrying about the content limits of traditional media channels.

From the beginning, *Speaking of Sex* targeted a national audience, particularly in the 18- to 30-year-old age range, which research suggested was the core audience for podcasting. (Though the Arbitron/Edison Internet and Multimedia Study 2007 shows a more even distribution of ages among those who have listened to a podcast.)

Speaking of Sex was facilitated by a strategic plan—also known as Vision 2025—from PPWW's national chapter, Planned Parenthood Federation of America, which set out a goal of using cutting-edge technologies to disseminate information about reproductive sexuality. PPWW's vice president of education and training used this strategic goal to help leverage the podcast launch. In July 2005, the organization established a committee to study the

Audio versus Video

Given the more recent explosion of video over the Internet, some believe that audio content has already become obsolete. Video certainly has advantages over audio programming of acceptable quality and is far easier and cheaper to produce than an equivalent audio segment.

Both PPWW and Volunteer San Diego want to experiment with short video versions of their content, though they are likely to supplement rather than supplant their current audio podcast.

At the same time, podcasting faces hurdles in its ability to distribute the content to those who listen to talk radio. Some studies indicate that users don't like the process of getting podcasts onto an MP3 player and find it daunting. Playing podcasts in your car poses similar challenges. So the medium may well be waiting for its breakout technological advances, with its second-class status only augmented by the competition from online video.

However, for most organizations, podcasts have value over video because producing an audio program of acceptable quality is far easier and cheaper than producing an equivalent video segment.

possibility of podcasting, and the first podcast was released in August 2006.

PPWW has seen its podcast download numbers grow considerably—from 44 in October 2006, to 500 in November and December to 1,000 in January 2007 and 1,500 in February. The Planned Parenthood Federation of America now links to the program as well, which has resulted in even higher download numbers.

Speaking of Sex is a high-input podcast. PPWW invested about $2,500 to buy software, microphones, a mixer and flash recorder, and so forth (it already had the computers it uses to edit the show). Cutler estimates that on average each show takes 25 hours to produce, including a review phase by an approval panel (with representatives from Planned Parenthood's medical, public affairs, and marketing departments), which evaluates an outline before the podcast is recorded and listens to the final show. So far, *Speaking of Sex* has been funded largely by a single major donor, who is recognized by name at the end of each show. The national federation now provides financial support as well, and PPWW is seeking additional individual donor support.

In March 2007, PPWW received an Affiliate Excellence Award in media affairs from the Planned Parenthood Federation of America for *Speaking of Sex*.

Multiple Sclerosis Society

The Central North Carolina Chapter of the Multiple Sclerosis Society serves a large geographic area in central North Carolina. The organization's constituency comprises those affected by MS, a disease that causes vision and/or mobility problems. Podcasting has provided a means to make the work of the chapter accessible to a broader segment of its core constituency and to reach more people under the age of 40.

The chapter's podcast is about 12 minutes long. Content varies from show to show, sometimes including newsletter items, interviews with researchers, and interviews with people living with multiple sclerosis.

In accordance with its goals, the chapter is pleased with its current audience numbers, which stand in stark contrast with those of *Speaking of Sex*. The chapter sees 50 to 100 downloads almost immediately after posting each show, with an eventual total of 150 to 200 downloads. Live programs usually draw 25 to 50 people, and the podcast numbers represent a considerable broadening of reach with a low level of investment.

The podcast is part of the public relations and outreach services that Altyris Advertising provides for a nominal fee, and the program is produced and hosted by John Mims, vice president of communications for Altyris. The advertising agency has a studio in-house where most of the podcasts are recorded, though Mims says that the chapter makes a conscious effort to create an informal tone for the podcasts. Mims believes that too slick a sound would repel listeners.

According to Mims, his agency's work on the podcast would cost the chapter about $300 per episode if it paid the full costs. The chapter does some of the work—scheduling the interviews, for instance.

The Central North Carolina Chapter was the first chapter of the National Multiple Sclerosis Society to offer a podcast.

Volunteer San Diego

Appropriately enough, the Volunteer San Diego podcast is produced and hosted by a volunteer: Brent Shintani, who is also a member of the organization's board. Inspired by the *501c3Cast*, Shintani recorded a demo and presented it to Executive Director Sue Carter in mid-2006. Carter liked what she heard, and the podcast launched that August.

The podcast usually features interviews with volunteer team leaders and those served by volunteers and is often recorded on-site. The program has a relaxed, conversational tone and little formal structure. This conversational feel is a bit deceptive, however. Shintani spends approximately two hours editing each program, cutting speakers' hesitations and hmms and resequencing the interviews to emphasize the most compelling parts.

"Brent makes volunteering accessible," says Carter. "He's showing that it's just ordinary people like you and [me], . . . and they're talking about how they're making an important difference in the community."

The podcast is part of a broad effort to use technology as well as traditional

methods to engage volunteers. "Some people want to have all the instructions written out and sent in an e-mail," says Carter. "Other folks want to talk to a staff member on the phone. Other people want that real-life sense [of] what it is like from the volunteer's eyes. . . It's like styles of learning: this is another way to give people who have different approaches to volunteering a way to get involved."

The podcast is posted roughly twice a month; most of the programs are five to six minutes long, though some are as long as 10 minutes. Volunteer San Diego sees about 100 downloads per new episode, and the organization continues to get hits on older episodes as volunteers look for information on specific opportunities.

The organization says that the podcast is the only one it knows of that is produced by volunteer centers in the Hands On and Points of Light networks.

While the program is produced externally and at little cost to the organization, Carter has oversight, and the entire staff is engaged in presenting ideas for programs. Carter sees the arrangement as entirely consistent with the organization's modus operandi: the staff engages volunteers, then volunteers add value; had the podcast been added to the duties of existing staff, the show would not likely have been feasible.

First Book

The First Book blog contains updates—activities, thoughts, synopses of children's books, and sometimes guest posts from published authors—about the First Book, a nonprofit organization dedicated to exposing low-income children to reading. First Book occasionally offers a podcast of interviews with authors on its blog, a setup that has allowed the organization to take advantage of recording opportunities without being tied to a schedule for producing content.

According to First Book web manager

Clarissa Peterson, the organization records these interviews using a recording feature of its conference call service and posts them essentially as they are recorded, with only the informal beginning and end edited out. First Book does spend time prior to the calls making arrangements with the authors and/or their publishers, and preparing questions, but the time is not accounted for separately, and the recording and editing time is accounted for as part of time spent enriching and maintaining the Web site.

Getting Started

If you're ready to begin podcasting, *501c3Cast*'s Pudhorodsky suggests that you start by making a plan about the story you're going to tell and the content you'll include. Then record some practice episodes and get feedback. Practice is essential; it takes time to find your voice and rhythm. And get in touch with other podcasters—especially members of the nonprofit sector—who can share their knowledge. You don't have to reinvent the wheel.

Most of all, he says, "Make sure that it's fun too. Don't get on a podcast and record your voice just for the sake of doing a podcast. People still listen to podcasts because they're a form of entertainment. . . . Get something that people are looking forward to listening to."

Don't be afraid of the technological issues either, he advises. While some tech knowledge is useful in getting the best sound and delivery, you can learn as you go or get help.

You can also look for external help in creating a podcast: enlist an ad agency that wants to add pro-bono work to its portfolio or a "virtual volunteer" who has a passion for your cause and the technology.

As your podcast evolves, you may encounter creative differences with others: "In any media effort, you will find that there are style and taste issues to be addressed," says Brian Cutler of the *Speaking of Sex* podcast. "There will be disagreements." Expect these conflicts, and be ready to work through them.

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ARNOVA Abstracts

ADVOCACY

Buller, Siri Mielke (2007) Lobbying and political restrictions on § 501(c)(3) organizations: A guide for compliance in the wake of increased IRS examination. *South Dakota Law Review* (52 *S. D. L. Rev.* 136).

The article reviews the laws on lobby and political activity, using as illustrations the fights in South Dakota over gay marriage and abortion. The author concludes that "For nonprofit organizations that wish to take advantage of their opportunity to influence legislation, it is advisable to make the §501(h) election and to benefit from the concrete guidance that the option provides."

ARTS

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"Evaluates support for the arts in eleven cities, including Philadelphia. Suggests using cultural institutions for economic development and neighborhood revitalization, and recommends the establishment of a central agency to coordinate cultural affairs." [Foundation Center, Pub Hub abstract]

COMMUNITY DEVELOPMENT

Brown, Prudence & Leila Fiester (2007) *Hard Lessons about Philanthropy and Community Change from the Neighborhood Improvement Initiative*. Menlo Park, CA: William and Flora Hewlett Foundation, 81 pp. Available at http://foundationcenter.org/gainknowledge/pubhub/

"Examines the results of the Neighborhood Improvement Initiative's efforts in the San Francisco Bay area and provides a wealth of suggestions about how others can learn from the project's shortfalls." [Foundation Center, Pub Hub abstract]

GIVING & PHILANTHROPY

Briers, Barbara; Mario Pandelaere & Luk Warlop (2007) Adding exchange to charity: A reference price explanation. *Journal of Economic Psychology* 28(1): 15-30.

"Charities often request donations while offering a near-worthless token, like a key chain, in exchange." This paper shows that "To the extent that the suggested reference price is low enough, exchange requests lead to more compliance than simple donation requests. However, our results indicate that, when accompanied by specified amounts, simple donation requests result in even better compliance rates than exchange requests."

Coady, Margaret (2007) *Giving in numbers*. New York, NY: Committee to Encourage Corporate Philanthropy, 30 pp.

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Using a sample of 254 participants to test the empathy-altruism hypothesis from social psychology, the authors measure "the impact of gender, homosexuality, promiscuity, and drug use on donor cognitive situational empathy, emotional situational empathy, and altruism" They find "there are prevalent negative attitudes that prevent individuals from holding true feelings of empathy for [persons with AIDS]."

LEADERSHIP & GOVERNANCE

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With a sample of 1,051 survey responses from CEOs and board chairs of 713 credit unions, the author finds that "board development practices lead to more capable board members, and the presence of these board members tends to explain board performance."

MARKETING

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Based on 118 responses from a two-phase self-administered questionnaire (in Australia) the authors conclude find support for "the notion that both commercial entities and non-profit organizations can benefit from a branding alliance" and "provides empirical support relating to reactions to brand alliances between a non-profit organization and a commercial business in terms of how original brand attitudes, familiarity of original brands and perceived brand fit impact on evaluations."

Laidler-Kylander, Nathalie; John A. Quelch & Bernard L. Simonin (2007) Building and valuing global brands in the nonprofit sector. *Nonprofit Management and Leadership* 17(3): 253-277.

"In addition to providing nonprofit leaders and managers with a better understanding of brand-building activities, imperatives, and best practices in the field, this article outlines the opportunities and threats associated with the valuation of nonprofit brands."

Royd-Taylor, Lyvia (2007) Cause-related marketing: A new perspective on achieving campaign objectives amongst fast moving consumer goods. *Strategic Change* 16(1-2): 79-86.

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THEORY & RESEARCH METHODS

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"The work described in this report first provides suggested core indicators for 14 categories of nonprofit organizations and then expands the notion of common core indicators to a much wider variety of programs by suggesting a common framework of outcome indicators for all nonprofit programs."

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The Take-Away

by the editors


Once Upon a Time
by Ruth McCambridge

Once Upon a Time
by Ruth McCambridge
Long range planning, once favored by funders as a blanket approach to addressing a nonprofit's management issues and helping it to chart its course, is less in vogue these days. Our environments are so volatile that those organizations that are skilled at faster planning and evaluation loops will prevail. Still every good nonprofit should have some constants—mission, principles, and goals—and an understanding of how to find and judge the variables in any given situation in order to stay on track. And who could have known that individual will would play such a large part in making it all work?

United Housing: That's United, Not Unitary!
by the editors
There are many demands and expectations on nonprofit housing developers. At United Housing serving communities in West Tennessee, a perfect storm arose with all of these factors in play plus the sudden termination of a large and essential foundation grant. The executive director of United Housing found himself having to reinvent the organization in some ways by significantly altering and adding to its business lines. The United Housing story is about transformation of an organization as well as the executive director himself from something of a go-it-alone developer to an effective collaborator bringing private financing, government agencies, and other nonprofits into an affordable housing dynamic.


The Girl Scouts:
Uncharted Territory

The Girl Scouts: Uncharted Territory
by Lissette Rodriguez
As the Girl Scouts celebrates its 95th birthday, it is undergoing a dramatic transformation, consolidating from more than 300 councils into 109. This restructuring is designed to address issues of efficiency, scale, competition, membership, and brand. Many federated and multisite nonprofits such as the Girl Scouts, the United Way and the American Red Cross are experiencing major shifts in structure and programming, and all are challenged by the need to maintain relevance and cohesion and by their desire to retain the prominent place they have traditionally held in the nonprofit sector. The article provides an overview of the restructuring strategy of the Girl Scouts and examines the benefits and possible downsides of this type of large-scale reorganization.


Tenderloin Health:
Growing Pains

Tenderloin Health: Growing Pains
by the editors
It's probably more common than not when an executive director takes the helm at a nonprofit and uncovers a dynamic that gives new meaning to the word *dysfunction*. At the Tenderloin AIDS Resource Center in San Francisco, the executive director found himself running an organization that resembled a dysfunctional family, with staff coming and going at will, watching funding opportunities slip by, and facing financial collapse. Fixing this kind of nonprofit family dysfunction isn't simply a matter of instituting new business management systems, but of remaking the organiza-

tion's culture from top to bottom, a story recounted six years later by the director, who succeeded in resurrecting this vital resource in the Tenderloin neighborhood.


Coastal Family Health:
Built to Last
by the editors

Coastal Family Health: Built to Last
by the editors
What does it take to pick up and continue after surviving a major disaster? Coastal Family Health Center did just that and in fine form according to interviews with some of its patients. After losing nearly all of its buildings and worse, all patient, medical, and billing records plus a large part of its staff those remaining pulled together and returned to work with a renewed purpose, depending on grit, goodwill, and most importantly on the core of support among its board, staff, and clients who proved to be the most valuable asset in this recovery.


The Ultimate Question
by Mark A. Hager

The Ultimate Question
by Mark A. Hager
How does a board know when to call it quits and how does it go about fulfilling its responsibility to those it serves? This case reveals the manifold complications that lead to a board asking about whether it should close the organization's doors.

ONE DC: A New Chapter in Community Development in the Nation's Capital
by Sonya Behnke
Nonprofit housing developers and community development corporations (CDCs) struggle between many identities: developers of affordable housing versus instigators and organizers of community civic mobilization, organizations focused on specific neighborhood geographies versus "footloose" groups addressing issues wherever they emerge, regardless of their neighborhood roots. The conscious transformation of Manna CDC, from its origins as a development arm of the well known and successful Manna nonprofit housing development group to a neighborhood-based CDC in Washington's Shaw neighborhood to a citywide development and organizing group—ONE DC (Organizing Neighborhood Equity)—is the story of one CDC's evolution and a mirror to the questions and challenges being faced in the world of nonprofit community economic development.

Individual Donor Trends
by Valerie Reuther
What relationships do individual donors want with the organizations they give to? Fundraising veteran Valerie Reuther interviews donors and finds a range of engagement styles from the more traditional hands-off donors to those who want to more actively engage with organizations on issues and strategy.

Navigating the New Audit Standards
by Kate Barr
New accounting standards have caught many nonprofits and their accountants unprepared. The new standards may affect your organization's audit and leave you with an opinion that identifies weaknesses where there were none previously. Barr walks readers through the new standard and suggests how nonprofits can begin working with them.

The Charitable Tax Exemption Is about More Than Efficiency
by David A. Brennen
Does a nonprofit tax exemption exist simply to encourage more efficient service? According to the author, those who view the exemption primarily through this lens miss the real value of the sector, which is a diversity of perspectives brought to bear on social problems as well as the experimental activity and resulting creativity that address society's most pressing concerns. Law and market theory and critical race theory provide two different perspectives on how this additional value is generated.

What's in Podcasting for Nonprofits
by Scott Williams
What is a podcast and why would a nonprofit be interested? Not all organizations should be, but some nonprofits are using podcasts to reach audiences in new ways, resulting in a cost-effective new communication channel. Looking at how four nonprofits use this medium, the author shows why and how nonprofits can determine whether podcasting is right for them. This story also includes a Web special sidebar on the steps for creating your own podcast. It is available at: www.nonprofitquarterly.org/section/930.html.

Executive Director Surprise
by Phil Anthrop
As it enthusiastically pursues new funding and greater efficiency, a nonprofit finds itself being driven by funders who only want to help make the organization more effective, much to the chagrin of the executive director, who finds herself making the speech of her life.

Classifieds

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Could Gibbons have seen this coming? Could she have headed it off? Did she wish she had an employment contract that guaranteed a severance payment?

The Going-to-Scale Capacity Building Plan had its start as one of several organizational assessments offered to grantees of the Mammon Foundation. Just one year earlier, Venture Communities was a highly regarded $3-million-a-year social-service and housing organization with a stable board and staff.

As part of its Going-to-Scale Nonprofit Capacity Building Initiative, Mammon program officers had informal conversations with several longtime grantees. For Venture Communities, it was a chatty coffee shop meeting between Gibbons and Brent Schreiber of the Mammon Foundation.

"Leeza, you know Venture Communities is amazing. You have really built a great organization. When I think about when you were still in that gray house on Franklin Avenue! I have to tell you that the Mammon Trustees think Venture is positioned to make the next major step up, you really are. And the foundation would be willing to make a much larger long-term commitment—probably three times what you have been getting. The trustees have learned that solid business planning is a key to success, so first we would want to see Venture Communities and its board go through a visioning process. If this is something you think Venture would be interested in, Mammon would pay for it."

From what seemed like a casual start, the Mammon Foundation underwrote a one-year consulting engagement by Attilla & Associates, based on a metrowide Mammon Foundation plan the Venture Communities' board and staff knew nothing about.

The Mammon Foundation's fourth-generation board members had excitedly embraced the ideas of social entrepreneurship and nonprofit capacity building, especially its new chair Poe Ridley, the 26-year-old grandson of legendary patriarch Vance Ridley.

Poe Ridley looked at the broad landscape of nonprofit and voluntary organizations in Baltimore—many of which had been started and/or supported by his family for years—and saw low pay, inefficiency, and duplication. "Never have so many people worked so hard with so much compassion and had so little to show for it than in the social sector of the greater metro area" was a frequently cited quote from the Mammon Foundation chair. "You deserve more, and so do we."

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That was the start of Mammon's ambitious reform effort, which was well received by metro-area nonprofits. Ridley told community organizations that they deserved reliable general-operating support, better salaries, and money for capital; they just needed sensible business plans, and the rest would follow. And if they were interested, Mammon could help with that too.

The key to young Ridley's strategy was a master consulting arrangement with Attilla & Associates, charged with implementing the Going-to-Scale Capacity Building Initiative with 11 different metro organizations. Rumors of forced mergers and mission changes were circulating, but still only rumors.

The October 15 community presentation at Catharsis House had been greatly anticipated; separate teams of five management staff and six board members had been working for months and would present their reports. Both staff and board had worked closely but independently with Attilla & Associates, which Gibbons found odd, but the consultants had given her management team so many planning and research tasks that she hadn't given it much thought.

Now, as she stood next to her board chair and acknowledged the applause, she saw Ridley and Mammon Foundation trustees and staff in the back row. In a much firmer voice, with a sense of conviction that made it clear she wasn't going anywhere, Gibbons said, "And Lori, as long as I have the floor, let's pause this agenda, so I can ask the good people here: how much do you really know about the Mammon Foundation?"

In a word, Gibbons's performance at Catharsis House was *cathartic*. Gibbons was a natural at handling audiences, and she spent the next hour leading a group discussion using Attilla & Associates' own charts to create a network map of the Mammon Foundation's connections and interventions—which was not a pretty sight.

Eight months on, the metro situation is more interesting than ever. Gibbons is long gone from Venture Communities but seems happy enough. She now runs a nonprofit called the Philanthropy Project, which has as its idealistic mission the reform of philanthropy. Needless to say, without the support thus far of the Mammon Foundation.

Phil Anthrop is a consultant to foundations in the G8 countries.

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Executive Director Surprise!

by Phil Anthrop

Philanthropy seems to me to have become simply the refuge of people who wish to annoy their fellow creatures.
—Oscar Wilde

In the painful vein of help gone horribly wrong, the roots of this story can be said to lie in good intentions—good intentions, plus the tendency of foundations to pathologize (and sometimes euthanize) their grantees.

On October 15, when Venture Communities Executive Director Leeza Gibbons walked into a presentation by consultants hired by her organization at Catharsis House (the headquarters of Venture Communities in Baltimore, and a community landmark); her eyes were red and she looked shell-shocked. More than 100 community leaders and foundation representatives buzzed in the main room after hearing the recommendations from a six-month board committee on social ventures. Gibbons had just been told she was being let go.

Lori Rock, Venture Communities' new board chair, stood at the front of the room next to a screen, beaming. "The board just met with our great executive director, Leeza Gibbons, who—let me just say—is a fabulous nonprofit manager with a great future. We have just presented her with a plaque honoring her eight years of service, and I'm pleased to announce that we have awarded her, and the four great staff who have been on Leeza's management team, stipends to attend an executive management program at Stanford University's Center for Social Innovation." As Rock glowed, Gibbons looked sick, and her management staff in the second row seemed confused.

"I'll bet you'll learn a thing or two about time management at Stanford; you will be sorely missed!" the smiling chair joked. "I know this seems sudden, but the new executive committee was so excited about these changes, we couldn't wait to get going. Stepping in to continue Leeza's work will be a hard act to follow, so for six months we'll have an interim director, Lenore Berisha."

Leeza stood up slowly and said, "Could I say something?" looking as though she had swallowed a raw onion whole, her eyes teary and pleading.

Leeza stood up slowly and said, "Could I say something?" looking as though she had swallowed a raw onion whole, her eyes teary and pleading.

There was an uncomfortable pause; clearly this part wasn't planned, and everyone looked at Rock.

Suddenly, the projector turned on and began displaying a PowerPoint slide:

VENTURE COMMUNITIES
GOING-TO-SCALE CAPACITY
BUILDING PLAN:

INTERIM DIRECTOR LENORE
BERISHA DURING SIX-MONTH
REORGANIZATION

BYLAW CHANGE RIGHT-SIZES
BOARD TO FIVE

SOCIAL ENTRPRENEURSHIP
RETREAT

FINALIZE SALE OF CATHARSIS
HOUSE TO BUILDCO LLC.

The security guards picked the same moment to bring in boxes containing the personal items of the management team and set them before the ousted staffers. Gibbons spoke in a quavering voice like a hostage forced to tape a confession. "I just . . . want to say that . . . I'm grateful for the opportunity. . . . I know that Venture Communities will do great. . . ."

Rock began applauding during Gibbons's next pause, and the whole room rose in a standing ovation, led by the board that 10 minutes earlier told her she was through.

Continued on page 79