Welcome

Welcome to the Spring 2007 issue of the Nonprofit Quarterly, on the realities of nonprofit finance. When we last addressed this topic we had firmly established that there indeed are significant differences between the finances of nonprofits and businesses. In this issue we look at more of the patterns and variables which are powerful determinants in nonprofit finance, but which are often unrecognized by managers.

The first article in this cluster is on a topic we have been thinking about for some time: the function of "slack" in an organization's budget. It is not unusual to examine the budget of a nonprofit with an annual expenditure in the tens of millions and find it completely "house poor," its overhead kept minimal, as if the contracts that support it, its facilities deteriorating, and information systems outdated. Author Woods Bowman offers you a test to look at your organization's level of financial health and agility.

In our interview with Richard Brezovec, executive director of National Center on Nonprofit Enterprise (NCNE), he discusses, among other things, the variable of the "transaction costs" that accompany each funding source, walking us through the impacts of these costs on organizations.

The third piece was one we kept hearing people talk about: that the mix of funding sources was related to an organization's size and age. They referred to the concept as "the U-shaped curve." After a little investigation we found research that had been developed by the Bridgegon Group that looked at the budgets of two types of organizations and found that they tended to start with a few funding sources, move to many, and then return to a few types as they grew in size. The auditors do not claim that their research is conclusive but propose the model as an evolutionary pattern that nonprofits may be following.

Of course, there is much more in this issue as well. We have two wonderful pieces on conflict of interest. A few months ago we asked our readers to send us their conflict of interest policy statements and an indication of how they were approaching the topic with their boards and within their organizations. Did they just have the policy and have board members sign-off or was the discussion more active than that? Mel Gill, a researcher from Canada had just finished a study of his own on this topic and volunteered to make sense of the contents of material we got back from you. Rick Cohen, our national correspondent also contributed to this topic with a survey of nonprofit conflicts in the more送往 but informative. As Mel comments, there is a large grey area in this one, but when you slip over to the dark side and are exposed, you must certainly wonder if you strayed out of the shadows.

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THE NONPROFIT QUARTERLY
Doing "the Right Thing" Serving Immigrants

Dear Nonprofit Ethicist,

What are the ethical and moral obligations of nonprofits to serve people who have entered the U.S. as undocumented immigrants? Many nonprofits will not be reimbursed by funding sources—public or foundation—for undocumented immigrants and the child is a citizen but its parents are undocumented immigrants. Is an organization obligated to serve the whole family or is it all right to serve just the child?

—Wanting to do the Right Thing

Dear Wanting,

The Ethicist has been waiting for this one. If he could award a prize for raising the most important ethical question to confront the nonprofit sector since the civil rights movement of the 1960s, he would give it to you. Not every nonprofit works with immigrants, but those that do are on the ethical frontier of today. A short step from your issue to clear social services providing sanctuary to immigrants trying to avoid deportation and, to public officials struggling to cope with anti-immigrant laws.

Permit me to raise the broader question: How is it that you are not dealing with your ability to carry out your mission? If the issue is just one of money, then by all means, your organization has an obligation to provide services and to rebuild its finances to raise the necessary funds. But these efforts might be unsuccessful, so it is first necessary to ask whether the organization is acting in the best interests of all the people it serves? Educate your constituencies about the possibility of short-term adverse consequences and mobilize them in support of your policy of long-term reform.

The question of whether to obey an unjust law has been the subject of much writing since Thoreau’s famous 1850 essay. Dr. Martin Luther King Jr. wrote in 1963: “I am convinced that a organization with evil is as much a moral obligation as it is cooperation with good.” This column has space for only a brief elaboration.

Civil disobedience is a last resort. Even if a law is unjust, proceed with caution, because respect for the law is (or should be) engrained in all codes of ethics. One should consider: Are there alternatives? Has it already been tried? Why not try them first?

Obviously, requiring immigration laws would have a lasting impact, as it is incumbent on those citizens with a legal immigration laws to fashion a just alternative to that majority can endure. Dr. Martin Luther King Jr. understood this articulated his position in various speeches and letters.

As in the case of all ethical choices, one must openly acknowledge one's actions, socially defined and the consequent -knowing that they are to be unforeseeable. People willingly went to jail for civil rights. With hindsight, a reappraisal from that era is an honor of devotion.

When I tried to reason with her about the ethics of her actions, she would have none of it.

This is really confusing me. I believe she owes the agency 1175, which is the difference between the original offer and the final package. What do you think?

—Upset

Dear Upset,

Back up. It is customary for organizations to exclude staff members and their families from groups of chairman and executives. Such a policy is likely to be effective in the board of directors and the executive committee. Moving on: if the CFO said she would pay for it out of her own pocket, she should pay for it. That was the task on which decisions were made. After the task "research" and "validation" doesn’t cut it.

Dear Non-profit Ethicist,

An elderly donor, who had a long-term relationship with the organization, was targeted as a potential planned gift
prospect. The goal was to interest him in donating his very expensive house (valued at $5.5 million) as part of a bequest to benefit the regional office. The donor was indeed interested and a cultivation process began where I had the lead responsibility. He was particularly interested in seeing the funds benefit the state wherein he resided.

On most of the initial visits the president of the organization accompanied me, and then in the latter ones because quite close to the donor and conducted regular visits independently. All seemed fine until the final closing of the donation. With the president from the national office present, the donor explicitly asked me to assure him that the gift would be to benefit his home state. I assured him this was my understanding and promised his intent would be honored.

Upon leaving, the president was furious with me, saying that he intended the gift to go to the general endowment of the organization and not, to make grants within that particular state as we had been communicating to the donor throughout the cultivation process. I was stunned and said that was not my understanding. The end result was that the gift did indeed go to the endowment with very vague wording that the specific state would be served. I knew enough about these types of transactions to know that the language should have indicated that the funds were limited to use in that state. The donor, based upon my assurance that day, signed the documents my organization prepared.

The donor is in very poor health, and I have had a close relationship with him for the past seven years. Every time we have discussed his gift subsequent to that meeting he seems to be quite pleased that he has left a legacy for his state. I struggled with the option of revealing this to him but eventually decided not to as it seemed to be a way of destroying the joy he had in making this gift. I was unsuccessful in having the language revised to honor his intent. What could I or should I have done in this situation? I’ve subsequently resigned from this position, as I did not feel confident that I could assure donors their intentions would be honored.

Nonprofit Organizations

Dear Dr. Bender,

I am writing to ask you to consider an alternative approach for handling your situation. I have been working closely with the organization’s leadership to address the donor’s concerns and to find a resolution that aligns with the donor’s intentions.

The Ethicist's Rule #14A: Never promise anything that is not in your power to deliver. It is crucial to ensure that all agreements are clearly communicated and documented to prevent misunderstandings.

Correction

The Maryland Association of Nonprofit Organizations (MANO) noted an error in the fall 2006 article regarding MANO's review of the ethical standards of CHIMES. MANO points out that CHIMES had not been certified as compliant under MANO's Standards for Excellence program. MANO had begun a review of the organization's financial practices, which was a number of MANO's by-laws after seeing news reports about CHIMES in the Baltimore Sun. The CHIMES Foundation resigned its membership rather than respond to MANO's request for information.

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Dark & Light Matters in the Nonprofit Universe
by Jon Pratt

Editors' Note: While the media, researchers, and nonprofits use some impressive numbers to describe the nonprofit sector, NPQ remains uncomfortable about how the scope and size of the nonprofit sector are defined. Jon Pratt takes on this subject, examining the implications of these oft-cited numbers.

Getting the Numbers Right

...widely accepted that 83 percent of the mass of the universe consists of dark matter—galaxies that create gravitational fields but are invisible to astronomers and astrophysicists. In the nonprofit world, the invisible dark matter consists of the smaller organizations, the nonprofit sector, and the IRS—invaluable, unincorporated, so small they are not required to file IRS forms—as well as the 350,000 religious congregations exempt from filing requirements. How many are there? The number is currently unknown but will soon become more knowable.

Unlike virtually any other industry in the United States, nonprofit organizations lack reliable or timely access to economic performance information. While the Departments of Commerce, Agriculture, and Labor collect statistics on specific industries, the economic activity of nonprofit organizations is tracked once a year through IRS Form 990, filed four and a half months after the end of the fiscal year and tabulated on a national level a year or two later.

Jon Pratt is the Executive Director of the Minnesota Council of Nonprofits and Contributing Editor to the Nonprofit Quarterly.
The new Nonprofit Almanac 2007, prepared by the National Center for Charitable Statistics at the Urban Institute and based largely on IRS Form 990 filings, provides a comprehensive update on the size and scope of the nonprofit sector, including these facts:

- In 2004 the United States had 1,413,708 official tax-exempt nonprofits, or organizations for every 24 Americans, a ratio that is lower than any except the United States, Australia, and Canada.
- These organizations had revenues of $1.4 trillion and assets of $5.0 trillion.
- Among the total, 845,323 were IRS Code 501(c)(3) public charities, and 183,698 were 501(c)(4) private foundations.
- 54,203 (6.6%) of the 845,323 recognized public charities do not report to the IRS, leaving 791,120 "active" filers.

These 546,200 nonprofits represent the unknown matter. No one knows how many are still active or whether they did much after receiving their 501(c)(3) letters from the IRS. (The July 1, 2005, fee increase for filing the Form 1023 application—which costs most organizations between $600 and $750—may decrease the number of hopeful but never-quite-alive organizations more than about this three-fold.)

These numbers, however, create a misleading impression. The concept of the nonprofit sector, in which a disparate group of organizations (from food pantries to Harvard University) are described as occupying the same section of the economy, sharing a common set of tax exemptions and common social capital-building relationships can be deceptive. Hospitals, for example, account for 50 percent of the total financial activity of the nonprofit sector. And, while combining the small with the large is a common strategy in government relations, especially when demonstrating the negative effects and costs of government regulation, it can be a poor gauge to measure the standing of one's own nonprofit relative to others.

Sometimes a single sentence will combine descriptions of local food pantries and neighborhood organizations with the aggregate numbers: 1.4 million charities, 8.3 percent of all wages and salaries paid in the United States, and $1.5 trillion in assets. These figures could lead some members of the public to conclude that local charities and neighborhood organizations must not be so needy after all.

It is interesting but not particularly useful to know that your organization is one of 1.4 million organizations with nearly $3 trillion in assets. Instead, for many boards and managers, the most useful comparisons are those involving "similarly situated organizations": nonprofits belonging to the same family of activities, resting in the same geographic location, and having the same size and revenue type. (A tool created to conduct such an analysis was provided in "Financial Strategy Tools: Cohort Analysis," Nonprofit Quarterly, Spring 2006.)

Categorizing the 1.4 million organizations along these lines indicates the number of counterparts that the majority of NPQ readers actually have: that is, the 200,000 social service, community, arts and culture, legal, civic, and environmental organizations with more than $50,000 in annual financial activity. This could be called the "nonprofit wing" of the nonprofit sector: those organizations most reliant on charitable contributions and individual participation and the least likely to hold their assets in securities.

The Nonprofit Almanac 2007 shows that the nonprofit sector is continuing to grow and has passed its "biggest nonprofit ever" in 2001, based on financial activity, public charities reporting $1.000 billion in revenue (up from $763 billion in 1990 and $638 billion in 1994). As always, Though, average tends to obscure the picture and fail to account for the dominance of the largest organizations (i.e., the light matter).

Shrinking Nonprofit Universe: 2010
The biggest revelation of the true size of the dark matter is the horizon: a new federal "Are the lights still on?" requirement. Organizations are in the process of being informed of this requirement via notices mailed to their last known address. Every public charity with annual financial activity of $25,000 or less must now file an annual financial report electronically with the IRS that discloses the following:

- the organization's legal name;
- the organization's mailing address;
- the organization's Web site address;
- the organization's taxpayer identification number;
Changes in the State of our Finances

Individual donations. The Center on Philanthropy at the University of Indiana finds that individual giving generally tracks the ups and downs of the S&P 500. "Pandemics are reporting a fairly stable giving environment," says Patrick M. Rooney, director of research for the Center on Philanthropy, in a press release about the center's semiannual "Philanthropic Giving Index." "Nearly 50 percent of funders surveyed reported that the economy was having a positive impact on giving," he said. "This is probably tied to the robust stock market conditions. However, about 30 percent of funders said the economy was negatively impacting giving. The result likely will be a year-end giving season that is similar to last year."

Nonetheless, in 2006, total year-end individual donations will be lower than in 2005 due to the lackluster absence of a tsunami or Katrina-scale disaster (some have noted that bad news is always good news in financial markets). Starke's highly public commitment of 85 percent of his Berkshire stock to the Gates Foundation went down as the largest philanthropic gift in history and generated hopes that other superwealthy might follow suit. Unlike other large-scale donations, which have gone to foundations or universities, the Starke gift targeted low-income individuals mostly outside the United States.

The field for individual contributions is crowded and not restricted to charitable organizations. The 2008 presidential and congressional campaigns are already taking shape, and for the first time the presidential race will reach the $1-billion level. Political campaigns are aggressive fundraising efforts, with candidates fishing in the same stream as public policy, advocacy, and social change organizations. In some instances, as reported by the Campaign Finance Institute, organizations have developed campaign umbrellas with 501(c)(3), 501(c)(4), 501(c)(6), and 527 arms, of which the latter two are explicitly political instruments that can raise and distribute funds for charitable or political purposes as the need arises.

One long-sought incentive contained in the Pension Protection Act of 2006 permits individuals to roll over up to $100,000 from an individual retirement account directly to a qualifying charity without recognizing the assets transferred to the qualifying charity as income, but this provision will expire at the end of 2007. Should it be renewed? "Universities and community foundations were therollover's most enthusiastic supporters," it's too early to know exactly how the benefits have been distributed among types of organizations and taxpayers, but the campaign for renewal has already begun. While it is intended to benefit charitable giving overall, the beneficiaries also assume responsibility for the campaign overall, the beneficiaries also assume responsibility for the campaign donors. Upon death, there is a perception that the United Way system is becoming a less relevant and more variable funder of urban services. Counting an additional $80 million raised for Katrina-related relief, the aggregate fundraising of United Way campaigns reached $88.9 billion in 2005-2006, up from $82.1 billion in 1996-1998, but a net reduction over the
Legislatures are hearing more demands that they address education, transit, health care, and rising higher-education costs and are more receptive to tax increases as part of the response.

decade corrected for inflation. Even without the Katrina funds included, United Way total revenue raised from all sources for the current year support case by nearly 3 percent between the 2003-2004 and 2005-2006 campaigns. Excluding major gifts, planned giving, corporate sponsorships, initiative giving, and government grants, the increase was much more modest, a bit under 1 percent. But focusing more closely on the workplace giving component—the United Way’s traditional source—this accounted for well under half of total revenues amounting to $8.5 billion during the 2004-2005 season, significantly below $8.56 billion in the 2001-2002 campaign season. Participation rates of employees of companies with United Way campaigns have declined from 38 percent in 2000 to 20 percent in 2005. The United Way is increasingly seeing its biggest fundraising growth in high-net-worth individuals and corporate and institutional donors, reflected in its reported 41 percent increase in major gifts and 28.5 percent increase in corporate sponsorship revenues between 2004-2005 and 2005-2006.

Foundation grants. The 10 percent loss in foundation assets between 2000 and 2002 caused the first decline in foundation grants paid out in 20 years. The Foundation Center estimates that foundation grants rose 5.5 percent to an estimated $33.5 billion in 2006 (though inflation-adjusted giving in 2005 remained below the 2001 peak) and that projected growth in 2006 giving was likely to be small. Nevertheless, after-inflation foundation grant dollars have more than doubled since 1990.

Many foundations’ recent asset reduction experience increased their cautiousness about their allocation of funds. While they are obliged by federal law to make expenditures equal to 5 percent of the value of their assets and are occasionally under both internal and external pressure to exceed this, they now have a strengthened will to resist.

Looking Forward: Government Support

A shift in public opinion, A Pew Research Center for the People & the Press survey found that 66 percent of the American public thinks that the United States is more politically polarized than in the past, and 71 percent express a strong desire for political compromise. Three-quarters say that they like political leaders who are willing to compromise, compared with 21 percent who see this as a negative trait. One of the clearest indicators of this new public is the fact that all but one of the initiatives that sought to limit the power of government were voted down, including limits on the judiciary, term limits, tax and spending limitations (such as the Taxpayer Bill of Rights), and major tax and revenue cuts.

Shift in control. After six years of retrenchment and tax battles in state legislatures and in Congress, the 2006 election changed party control of Congress and tipped the balance in state legislatures. Democrats now control legislatures in more states than at any time since 1964, including majorities in both chambers of the legislature in 23 states. Republicans control both 15 states, and 11 states have split control.

The tax cuts of 1995-2000 and “new taxes” pledges that triggered budget and service cuts of 2000-2005 seem to have run their course. Legislatures are hearing more demands that they address education, transit, health care, and rising higher-education costs and are more receptive to tax increases as part of the response. Not mentioned here is the third and largest revenue source for nonprofits, program service fees. The fees earned for nonprofit services, such as tuition, counseling fees, tickets for arts performances, and so forth. The distribution of program service fees shows a heavy tilt to the largest entities, especially health care and higher education, and also to the largest organizations in each activity area.

While the largest entities absorb the lion’s share of the funding, the nonprofit wing of the nonprofit sector, including the smallest organizations exempt from filing, are not directly inhibited in their ability to attract modest amounts of resources. For the larger spinoffs and supporters of the work undertaken by nonprofits, it is worth examining whether the current patterns of distribution are dictated more by habit, social network, and economic process that by community impact or need.

Endnotes

Organizational Slack
(or Goldilocks and the Three Budgets)

by Woods Bowman

Think of slack as the financial aspect of organizational capacity.

Organizational slack is an important concept in the management literature, but you won’t find it mentioned in articles on nonprofits. It has several definitions, but all boil down to extra resources or resources held in reserve. The difference between a hand-to-mouth organization and a vibrant one is slack. Think of slack as the financial aspect of organizational capacity.

Nonprofit commentators write about capacity as if an organization can’t get enough of it, but slack (financial capacity) has a dark side. Too much slack can distort priorities, erode managerial discipline, and encourage wastefulness, especially high salaries. I will emphasize the positive aspects because I believe that most nonprofits do not have enough slack, but I caution that it is possible to have too much of a good thing.

A Primer on Slack

Nobel laureate Herbert Simon (1947) disparaged the economic assumption that decision makers seek to maximize utility, profit, or anything at all, arguing that maximization requires more information than ordinary mortals are likely to possess or could even process if they had it. Instead, he proposed that decision makers stop short of that elusive goal when they reach a sat-
A cold organization is frail, unable to adapt to changing needs of its constituents, unable to invest in training and new technology, and unable to take advantage of opportunities.

A standard metric of short-term available financial capacity is working capital, which is current assets minus current liabilities. Current assets are uncommitted cash and cash equivalents, inventory, and receivables. Working capital is the measure of the financial health of an organization. It is the difference between current assets and current liabilities. A high working capital indicates that an organization has enough cash on hand to meet its short-term obligations. A low working capital indicates that an organization may be in financial trouble.

The second form of financial capacity is recoverable, or “absorbed,” by the organization. This is the amount of money that can be recovered from the sale of assets. This includes the value of equipment, buildings, and other assets that can be sold. A high recoverable capacity indicates that an organization has enough assets to meet its financial needs. A low recoverable capacity indicates that an organization may be in financial trouble.

The third form of financial capacity is available, or “bankable,” by the organization. This is the amount of money that can be obtained from loans or other sources of financing. This includes the amount of money that can be borrowed from banks, foundations, or other lenders. A high available capacity indicates that an organization has access to sufficient funds to meet its financial needs. A low available capacity indicates that an organization may be in financial trouble.

In summary, financial capacity is the sum of working capital, recoverable capacity, and available capacity. A high financial capacity indicates that an organization has the financial resources to meet its financial needs. A low financial capacity indicates that an organization may be in financial trouble.
Too much financial capacity can support waste, high executive salaries, lack of discipline, bored investing, and lack of innovation—with top executives pointing fingers. Periodically, some organizations that have the greatest capacity to do research, experiment, and innovate are restrained by their wealth. "Don't mess with success," could be their motto.

Fromkin and Forming (2003) analyzed CEO compensation in over 15,000 nonprofits in relation to organization size, managerial performance, and free cash flow. They define the latter concept in terms of liquidity, which is what I call available financial capacity. They use statistical techniques to hold two of those three variables as well as industry constant while measuring the effect of the third on CEO compensation.

They find that CEO compensation is positively related to organization size (measured by value of physical assets and total program services), but not related to managerial effectiveness (measured by overhead ratio and dollar growth in donations). CEO compensation is positively related to free cash flow (measured by liquid assets—expenses ratio) and the size of an organization's investment portfolio in relation to its total assets. However, after controlling for organization size and managerial ability, the effect is not large. Human service organizations were the only ones where organization size and managerial performance significantly outweighed the effects of free cash flow and portfolio size on CEO compensation.

It is easier to say how much financial capacity is too little than to identify the threshold where it becomes too much. The idea that a point exists where financial capacity passes from being merely large to being excessive is based on the observation that people and organizations tend to lose their edge when they are saturated. It need not happen to everybody. Warren Buffett is as sharp today as when he was a mere millionaire. For a nonprofit, the secret of continued success lies in its board. If its board is self-serving and keeps the best interests of its clientele in mind, a huge financial capacity need not create problems.

Goldilocks and the Three Budgets

Every nonprofit has a culture of budgeting. This is probably saying too much, since everyone has some idea of what an organization in the early stages of development. One board member was arguing for austerity based on the organization's relative youth and her own natural fiscal conservatism. Another challenger said "that's scary thinking. We need to have abundance thinking here!" In some cases these two orientations do not get resolved—one simply wins out over the other. This can result in an organization's starv- ing itself or, alternately, readiness to build its asset base almost as a mission goal in and of itself.

Without knowing it, the board members were arguing about the appropriate level of financial capacity. As we have seen, both too little and too much are bad—for different reasons. An optimal amount of financial capacity must lie somewhere between (Norton and Gulati 1997). Organizations fortunate enough to operate in this financial environment are the "just right" nonprofits.

A careful analysis of an organization's financial capacity should include a study of its financial statements (see A Primer on Scorecard on page 10), executive compensation, and administrative staffing. The sidebar to the right ("What's Your Financial Capacity Quotient?") provides a non-scientific, rough and ready measure of financial capacity quotient for readers to assess whether a detailed analysis would be worth the time and effort. Persons with a good working familiarity of an organization should be able to complete the scorecard without having their armchair to hunt for old financial statements.

The highest possible financial capacity quotient is 5; the lowest possible quotient is 0. A "just right" organization has a score positive. The best way to understand how this scoring system works is to examine three alternative hypothetical scenarios. Obviously an organization with a +3 quotient on the first scenario is in hot water and one with a quotient of -3 is not. The following examples are in the middle of the pack.

Scenarios. I. The revenue of a large human services organization consists of 30% restricted government contracts, 30% individual donations, 35% program service income, 10% restricted grants, and 5% investment income. It ended three straight years with a surplus (+3), including one of 11% (+4). It has a line of credit but never needs to use it (+1). It won a top honor as an administrative assistant position (+1). The probability of staying sharp, even if it has a very large financial capacity, but it will need an I&D program to keep its performance measures updated.

The figure in the last two years represents the approximate rate of inflation over the past three years. It is not possible to say exactly how much I&D and training an organization should do without knowing something about its mission and its business model, but one can say that all organizations should be doing some of each on a regular basis in order to keep up with inflation.

The Adjusted Financial Capacity Quotient should be approximately zero. A negative subtotal on the first scorecard and a score of -2 or more negative on the second indicates good work is probably unsustainable at its current level.

What's Your Financial Capacity Quotient?

To find out whether your organization is too little or too much, fill in the scorecard. In the number in parentheses after each statement is the score for that statement. Write it in the line that introduces the statement. The score for a false statement is zero. A statement that achieves financial capacity earns a positive score; a statement that indicates impaired financial capacity receives a negative score. The highest possible financial capacity quotient is 5, the lowest possible quotient is -5. Right organizations have positive scores. Be careful answering questions about surpluses and deficits; they should be based only on unrestricted amounts, including reserves released from restrictions.

* Item 13 costs more than most people think, but an organization with financial capacity should be able to finance it easily. An organization with a performance budget based on measurable outcomes

<table>
<thead>
<tr>
<th>Item</th>
<th>Description</th>
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<tbody>
<tr>
<td>1.</td>
<td>The CEO or CFO has a budgeted contingency account. (+1)</td>
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<tr>
<td>2.</td>
<td>Unrestricted income from investments is greater than 10% of annual budget. (+1)</td>
</tr>
<tr>
<td>3.</td>
<td>Restricted revenue is greater than 1/3 of budget. (-1)</td>
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<tr>
<td>4.</td>
<td>Within the last three years the organization:</td>
</tr>
<tr>
<td>5.</td>
<td>had a unrestricted surplus in every year. (+3)</td>
</tr>
<tr>
<td>6.</td>
<td>had at least one unrestricted deficit greater than 10% of revenue. (-1)</td>
</tr>
<tr>
<td>7.</td>
<td>had at least one unrestricted deficit greater than 10% of revenue. (-1)</td>
</tr>
<tr>
<td>8.</td>
<td>was refinanced to a line of credit, or was raised a higher borrowing limit. (-1)</td>
</tr>
<tr>
<td>9.</td>
<td>did not use its line of credit. (+1)</td>
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<tr>
<td>10.</td>
<td>borrowed to the maximum on a line of credit. (+1)</td>
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<tr>
<td>11.</td>
<td>cut general administrative positions. (+1)</td>
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<tr>
<td>12.</td>
<td>added general administrative positions. (+1)</td>
</tr>
<tr>
<td>13.</td>
<td>Financial Capacity Quotient: items 1–12 (range: -5 to +5)</td>
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The critical issue is how an organization uses its financial capacity. If your organization has a quotient above zero, then fill in the short scenario below. These are things that organizations should be doing because they reduce risk and improve service quality, but not all organizations can't. Not ones have no excuse for not doing all of them. "Just right" organizations should be doing at least some of them, so their score should be near zero. The item scores are negative because they cost financial capacity, but that is part of life's sacrifice.

13. The organization has a performance budget with measurable outcomes. (-1) 14. The program service budget increased every year. (+1) 15. The program service budget increased every year. (-1) 16. The program service budget increased in years when total income decreased. (-1)

Within the last three years the organization:

16. made a major investment in new technology. (+1) 17. increased its research and development budget by more than 10%. (+1) 18. increased its fundraising budget by more than 10%. (+1) 19. increased its fundraising budget by more than 10%. (+1)

**Adjusted Financial Capacity Quotient:** items 1–19 (range: -9 to +9)
financial capacity quotient for this organization is +5. It is back in the black.

Scenario B: The revenue of a small arts services organization consists of 10% ticket sales, 10% individual donations, and 10% grants (+1). It had deficits 3 out of the last three years (+2), and one was larger than 10% of its budget (+1). It used its line of credit (+1) and had to cut one administrative position (+1). Its financial capacity quotient is -5. It is cold.

Scenario C: The revenue of a small arts organization consists of 89% ticket sales, 10% individual donations, and 10% grants (+1). It had no endowment, but it ended each of the last three years with a small surplus (+1). It uses its line of credit occasionally (+1) and added one administrative staff in group sales (+1). The financial capacity quotient for this organization is +2. It is neither cold nor hot. It is "just right."

The second scorecard determines whether financial capacity is working or not. When this score is added to the first, the Adjusted Financial Capacity Quotient: should be near zero. Look at the three budgets again.

Scenario A: The hot organization's revenue increased three years in a row, and it increased its program service budget each year (+2). It invested in new technology (+1). Its Adjusted Financial Capacity Quotient: is +3. It has capacity to do more.

Scenario B: The cold organization is not in a position to keep program spending constant when income goes south. It cannot do much R&D, training, or investing in new technology.

Scenario C: The small arts organization probably could afford to do one or two of the items 18 through 18, but not all. It chose to increase its production budget (+1) and invest in technology (+1). It is neither hot nor cold. With an overall quotient near zero, it is a "Safe Right" organization and would probably use additional capacity wisely.

The Financial Capacity Quotient is designed to challenge organizational denial and complacency and to give all organizations a "to do" list. If you are a cold organization in denial, the Financial Capacity Quotient will point out what you can improve. If you are a complacent hot organization, the Financial Capacity Quotient will show you how to put your financial capacity to work. Now, go to it!

References

Reprints of this article may be ordered from store.nonprofitquarterly.org, using code 166013.
Transactional Analysis, Nonprofit Style
An Interview with Richard Brewster

Groups that sought to diversify seem to cross another threshold and begin to concentrate on one type of funding, which may provide up to 85% of their income. Some believe that this is driven, at least in part, by transaction costs.

One archetypal response to this ceiling can be to grow through geographically dispersed affiliates. But another response is for organizations to try to bring work to scale through collaborating with organizations to try to act as more than the sum of their parts.

Costs and Benefits of Fund Diversity

NPQ: Do you think there is a "U-shaped pattern" in the way organizations are funded over time? Can you describe it?

Brewster: As William Foster’s article on page 35 in this issue indicates, most nonprofits start out with one or two sources of funding. From there many tend to diversify. The reason for this, of course, is to increase the money the organization has to work with and to decrease its risk.

Eventually the same groups that sought to diversify seem to cross another threshold and begin to concentrate on one type of funding, which may provide up to 85% of their income. Some believe that this re-concentration is driven, at least in part, by transaction costs.

NPQ: What do you mean by transaction costs?

Brewster: Transaction costs include those costs that are over and above the directly attributable costs of fundraising: the costs of administering a particular type of funding (meeting reporting requirements, for example); the costs of developing systems to support fundraising and administration; the time spent by the executive director and key staff in building relationships with potential funders; and the time and attention of program managers, who may be forced to act differently as a result of a particular funding stream.

It is important to take these transaction costs into account even if some of them seem qualitative.

Bob Brennan and Dick Heinsoons of the University of Michigan’s Rural and Small Towns have produced some good evidence that one of the transaction costs critical to the effectiveness of a nonprofit is the time the executive director spends securing support, as much as networking with politicians or maintaining relationships with foundations or United Way staff and large donors. But what about the opportunity costs of this activity? What other work is not performed because of commitment to this activity? There are only so many hours in the executive director’s day. In effect, he or she can become a bottleneck that chokes growth in revenues. One response to this may be to concentrate on one or two sources of funding.

In organizations largely funded by grants and contracts, managing the interplay of restrictions that come with certain sources of funding is also time consuming and can box the organization into a corner.

NPQ: So are you suggesting that for diversification to be positive, you have to consider the source?

Brewster: Absolutely. The best source of funds for a nonprofit has three key characteristics. First, it yields a lot of dollars (of course). Second, it is unrestricted. This is important partly because a nonprofit can shift this money to cover the loss of other funding. This is rarely possible. A good example is government money: a mental health organization that I know has recently diversified successfully by winning new government contracts to add to its principal contract with the county. If any of these contracts has cuts imposed, however, none of the income from the others can be used to cover the loss. The only thing that can be said is that at least diversification is still helping everybody. The other reason unrestricted funds are important is that they can give a nonprofit the financial capacity to respond nimbly (as described in Goldrick and the Three Bishops” on page 16).

The final, crucial characteristic is that the source is “internally diversified.” Thus, it comprises in itself a number of individual sources that are not correlated—so if one disappears or goes down in value, the others aren’t affected.

This kind of diversification is sometimes mentioned in the literature but is, in general, seriously underestimated. If you can find the dollars you need, the ability to do with the money what you want, and the spread of risk, you don’t need to diversify into a different category of funds, and you can avoid the transaction costs that are involved in establishing and managing new people, systems, and relationships.

NPQ: What are these quality sources?

Brewster: The sources that offer these advantages are essentially private contributions and profits on earned-income activities.

There are a number of types of nonprofit that actually benefit from these advantages. Organizations that supply dog guides for blind people in the US and around the world all have high reserves—a lot of organizational “slack.” On average, 60% to 70% of their revenues come from one specific source—breeders. Most of the people who leave bequests are friends and relatives of the people who benefit directly from a guide dog. The amounts are usually relatively large and unrestricted, and a decision by one particular person to leave money doesn’t affect the decision by another.

Another, more ordinary example might be a small organization that provided support and residential services to women with mental health concerns and their children in one neighborhood in Boston. They were innovative and their story rang true at an emotional and intellectual level and they were able to build quite a large base of individual donors to supplement government contracts and foundation grants. This allowed them to remain the adaptive and independent program they were despite pressures to conform. Thus, if at the very least a nonprofit can find enough unrestricted, relatively low-risk support to provide the financial capacity to adapt to changes in the environment and innovate, it is in a much stronger position to exploit the restricted but often very substantial resources that government funds, for example, provide.

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In Search of Sustainable Funding:  
Is Diversity of Sources Really the Answer?  

by William Foster, Ben Dixon, and Matt Hochstetler

Editors’ Note: This article is based on a research paper, “Funding Patterns and Guideposts in the Nonprofit Sector,” which explores funding patterns among large, financially sustainable nonprofits across several domains and among organizations of various sizes engaged in youth service and environmental advocacy. The full study is available at www.bridgeway.org.

We identified a . . .

"U-shaped curve," characterized by fewer funding sources at the smallest and largest ends of the spectrum and a greater mix in the middle for mid-sized organizations.

Funding is a constant and pressing concern for nonprofit organizations across the United States. It is surprising, therefore, how little information exists about patterns in funding at a level below that of broad domains (such as youth services) or the sector overall. Such information could be of enormous use to both practitioners and funders, because it could provide guidance about what tends to happen in the financing of specific types of nonprofits and the consequences of those tendencies.

Lacking such pattern-level information, funders and nonprofit leaders have little choice but to make assumptions—like “diversification of funding sources (e.g., individual, government) makes for a healthier organization.” As with much common knowledge, this assumption may be true to some extent, but incomplete. Better identification of patterns among similar organizations could both test such assumptions and provide important guideposts for nonprofits that want to build robust economic models.

To that end, in 2003, the Bridgeway Group studied the patterns of funding sources in two specified sectors. We looked at a small number of organizations in youth services and environmental advocacy. Using Form 990 returns complemented by organization-specific reports and personal interviews, we found clear differences in the typical funding mix of organizations depending upon their size. We also identified a distinct pattern that can be described as a “U-shaped curve,” characterized by fewer funding sources at the smallest and largest ends of the spectrum and a greater mix in the middle for mid-sized organizations (see figures 1 and 2).

A broader study might reveal a different picture. Nonetheless, our efforts point to some potentially generalizable patterns that need to be further tested and explored.

Pattern Hypothesis #1: The U-shaped curve exists and is generalizable across sub-sectors of nonprofits.

Pattern Hypothesis #2: Organizations hit distinct “funding walls” at the key transition points along the U-shaped curve.

The funding mix for organizations in these two domains appears to change at distinct size points, which correlate with marked drop-
offs in the absolute number of organizations. If it is true that different economic models support different-sized organizations, then nonprofit leaders may be able either to recognize the need for change and adapt, or to understand that beyond certain points growth is unlikely.

For youth services organizations, diversification in funding sources appears to increase until about the $3 million mark, at which point we observe a transition to more concentrated funding sources. For environmental groups, $5 million in revenue is the point where organizations transition away from foundation funding and to their most diverse funding sources. Our data then suggest that environmental organizations transition back to concentrated funding (individuals) at $10 million. If these walls do occur at predictable points in each sub-domain, they could signal when a transformation is necessary (see figures 3 and 4).

**Pattern Hypothesis #1: Some funding sources take you further than others.**

Alternatively, these findings could suggest that successful growth may require concentrating on certain types of funding sources from early on—the growth “winners” use different economic models than their peers. If this second interpretation is correct, organizations may not need to lay the groundwork early on to attract those kinds of funds or recognize that large-scale expansion will probably not be the way they achieve success.

**An additional research question: How are scalability and individual donor base related?**

Funding types are not equal, of course, either in transaction costs or in pace. Our data suggest that the particular mix of funding in an organization varies by domain (e.g., larger environmental advocacy groups are supported primarily by individuals, and larger youth service organizations are supported primarily by government). However, the barriers to achieving significant growth in each sub-sector were supported by individuals.

This raises important questions about which individuals are driving such large-scale expansion. Is it thousands of small donors or dozens of very large donors? What is the role of the brand, and how do volunteers factor in? How do the very largest nonprofits in some sub-sectors succeed with individual donations while, overall, the sub-sector does not?

**Implications for Foundations**

We hope that better knowledge about funding patterns in the nonprofit sector will benefit foundations and other funders looking to maximize the impact of their charitable donations.

For example, the findings in this study highlight that foundation contributions decline as a percentage of total funding in larger organizations and are not the dominant sources of funds for large organizations. As a result, one could argue that foundations play a more pivotal role in the lives of small and medium-sized organizations. At the same time, the absolute amounts of foundation funding for large organizations is still considerable. Nothing in our findings suggests that this is a bad thing, but it does beg an important question: Should foundation leaders think differently about grants to nonprofits of different sizes, particularly when they are considering investments in capacity building versus program-specific expenses?

For large nonprofits, limiting funding to direct program services would seem to foster only a small amount of growth when other sources are already covering. Would it be possible, therefore, for a foundation to value more highly the opportunity to provide scarce capacity-building or unrestricted funding to the larger organizations?

For small organizations, foundation dollars may pay for a great deal of the actual program work. If the foundation is committed over a longer time frame, this can be quite a stable situation. But what about the growth of such small organizations? If growth in an objective, can foundations play a critical role in helping these nonprofits grow by providing capacity dollars to identify and build their funding models around other sources (e.g., government, individuals, etc.)?

**Help Us Think About This Issue**

As mentioned earlier, expanding the sample size and the number of sub-sectors covered in this research could be a useful approach in providing more reliable guidance for nonprofit organizations and funders. At this point, our efforts indicate that youth service and environmental advocacy organizations follow a “U-shaped” curve, with the small- and largest organizations relying less on foundation funding, and mid-sized organizations using a greater mix. Our research also suggests the presence of distinct funding “walls” that indicate that predominant sources for support are identifiable for each sub-sector.

We are curious to hear from other organizations whether this curve fits their experience, and would also like to collect stories from those that find it an organization to gain more generalizable insights into building effective economic models and fund development strategies.

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In Economic Redevelopment
Nonprofits Should Not Get Stuck in the Bleachers

by Judith R. Saidel, Ph.D.

"Let's think like the powerful economic sector that we are!"

Editors' Note: Over the past ten years it has become a relatively common occurrence for a local or regional sub-sector of nonprofits to measure its proportionate share of the economy. These numbers are then publicized in media stories and ventured in speeches and in annual reports. The numbers can be impressive. However, although this exercise is a necessary step on the road to being taken seriously as economic actors, it stops short of ensuring that nonprofits or the communities they represent exert any direct influence on the crafting or adjusting of local economic policies. Of course community development corporations and other groups with economic development specificity in their mission purposes have from time to time inserted themselves powerfully into a local conversation about the economic future of a region, but we do not often see nonprofits as a collective force that can intervene in a trend. What follows is a case where a roundtable group did do the measuring exercise and then took matters a half-step further down a road all nonprofits should explore.

The Nonprofit Executive Roundtable
In New York's Capital Region, not Tech Valley, decided to seize the moment early in the region's current period of high-technology economic expansion and tackle the issue of the sector's absence from key planning processes head on.

In 2002, a group of them 12 nonprofit CEOs from the human services, arts, health care, philanthropy, and recreation sub-sectors met for the first time at the invitation of the University at Albany's Rockefeller College of Public Affairs and Policy. To the surprise of the conveners, the voluntary sector leaders chose not to prioritize problem-solving around individual organizational dilemmas. Instead they asserted "Let's think like the powerful economic sector that we are!"

From this fundamental commitment, the Roundtable's two key goals emerged:

- to document awareness of the voluntary sector as a key contributor, along with business and government, to the economy and quality of life of the Capital Region;
- to catalyze cross-sector conversations about the challenges and opportunities for Tech Valley of technology based economic growth.

Coincidentally, at the same time, another small group of nonprofit executives was knocking on the door of the Albany-Colonie Regional Chamber of Commerce and pushing hard for the establishment of a new Nonprofit Business Council within the Chamber. Several key players

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IMAGE: WALTERS.COM/ARTS
were active in both groups, including Roundtable Leadership Team members Peter Roper, president and CEO of Girl Scouts Incorporated of the Greater Capital Region, Allen Krahling, president and CEO of the Center for Disability Services, and Roy Schumaker, executive director, Parsons Child and Family Center. The synergy and mutual support between the Roundtable and the nonprofit Business Council have been stunning, a refreshing change from the turf skirmishes that too often characterize inter-organizational relationships in the nonprofit sector.

So, how do nonprofit leaders, often engaged in ferocious competition for limited resources, move together to play in the economic and social development and planning game where, at best, they are usually in the backlines? The answer may surprise you. The first project that the Roundtable launched was an empirical economic and quality of life impact study titled "A $4 Billion Growth Industry That Cares: The Impact of the Nonprofit Sector on the Capital Region of New York State," [source: www.crgibg.org and click on research].

Conducted by researchers at Rockefeller College's Center for Women in Government & Civil Society, the founder and facilitator of the Roundtable, the 2008 study reported that about 1,500 501(c)(3) nonprofits in the Capital Region had combined revenues in 2005 of more than $4 billion and, in 2002, employed in 6 private sector employees and 1 in 7 combined private and public sector workers. Between 1998 and 2002, despite an economic recession, nonprofit employment grew by 5.2%, or about 11,000 jobs on average annually. As well, the 12 nonprofit organizations on the Roundtable provided opportunities for service and participation in community life through the contributed efforts of more than 5,000 volunteers annually, or one volunteer for every two paid employees.

The report was released at a joint UAlbany/Roundtable press conference and quickly generated widespread media attention. "There can be very little question of how critical the nonprofit sector is to the vitality of business in this region," observed Hugh A. Johnson, a well-known economic forecasting expert, and invited to speak in the roundtable's general press. Very soon information from the report found its way into board meeting minutes and retreats and various civic gatherings, including remarks by both the Chamber of Commerce's board president and chief executive officer at the public reception that launched the Nonprofit Business Council.

Roundtable leaders were also invited to an editorial board meeting of the Capital Region's Times Union, a daily newspaper widely read in statewide policy circles. Subsequently, the Roundtable's co-founders, Judith Sauld, director, Center for Women in Government & Civil Society, and Patrick Balgooyen, immediate past president and CEO, Center for Disability Services, wrote an Op-Ed piece, headlined "Nonprofits are the Core of the Capital Region," for the Sunday Perspective section of the Times Union. After underscoring the appropriateness of the new Tech Valley moniker for the Capital Region, the authors argued:

But it is not only the changing economic profile of the business sector that should attract our attention. One area, like other regions around the country, now features an economy made up of three sectors—business, government, and nonprofit organizations—that fulfill increasingly important and unique functions.

The point? Relying on a community-university strategic partnership, the Nonprofit Executive Roundtable took the initiative and successfully introduced the "three-sector economy model" way of thinking into the region's public discourse.

The Next Steps
"Now that we've hit a home run with our first product," commented one of the Roundtable leaders, "what can we do that is as good or better?" Fortunately, a promising idea surfaced that motivated the Roundtable to take a different path. Participants decided to take up a challenge that had been posed some months earlier by Chamber CEO Lynn Taylor after a 36 Capital Region leaders traveled to Austin, Texas, on a fact-finding trip sponsored by the Tech Valley Chamber Coalition. "How can we learn not only from Austin's triumph, but also from the mistakes, especially with respect to consequences for the broad community of Austin's economic boom and post-boom years?"

In May 2005, Sauld and Boersma interviewed 16 movers and shakers from the nonprofit, business, and higher education areas who were key players in Austin's technology-driven economic development and post-boom drama. Subsequently they developed a case study, "High Tech Growth and Community Well-Being: Lessons Learned from Austin, Texas," in which the Austin players tell the story in their own voices (www.crgibg.org and click on research). Here are two of the many findings in the case study:

• The boom period was not positive for all Austin residents, especially low-income African Americans and Hispanics and older low-wage workers. Racial disparities in economic well-being continue to widen.

• Austin's nonprofit leaders were largely uninvolved in economic development planning prior to and during the tech boom periods. Their unique knowledge of user, community needs and vulnerable populations did not inform planning processes.

And here are two "lessons learned" as articulated by Austinites who generously shared their insights with the case writers:

• Create opportunities for broad community learning, planning, and visioning.

• Involve stakeholders from all sectors—business, government, nonprofit, universities—in creating the vision for Tech Valley.

The report was released last May at a standing-room-only audience of over 80 people at a meeting of the Chamber's Nonprofit Business Council. The event was covered by all regional print media and a major local television station. Sauld, Boersma, and Jim Johnson, then chair of the Nonprofit Business Council, were invited guests for the full program of TV Channel 6's Business Forum talk show. Presentations on...
The case study were invited in about seven other venues, reaching over 250 people, including all regional mayors and county executives who comprise the Local Government Council of the Center for Economic Growth.

In a call to action at the end of the report, the Roundtable invites a vigorous, community-wide conversation about how Tech Valley can maximize the positive consequences and mitigate potentially negative outcomes for the entire community of the high-tech-driven period of economic growth unfolding in the Capital Region. The Roundtable has been awarded a seed grant from the Bender Family Foundation to host a Tech Valley Civic Forum later this year that will promote cross-sector conversations and identify key "human side" issues related to high-tech-driven economic expansion that require joint monitoring and potential action.

According to Roundtable Leadership Team member Ray Schimmelman, "It is a radical proposition that there is a place for nonprofits in economic planning... As nonprofits, we're entering into new territory. We shouldn't be afraid or hesitant about this. From the beginning of the case study project, he insisted that "As we learn about Austin, we learn about ourselves." Nonprofits are learning that the stakes in high-tech economic growth for community well-being are enormous for all community members, the opportunities for creative thinking are infinite, and nonprofit leaders must step up to collaborative leadership at these critical moments in regional economic history.

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by the editors

This year the first year that the Nonprofit Quarterly has run a special supplement that lists the more than 350 degree programs available in nonprofit management. In past articles we have suggested that prospective students search carefully for the right program to get the type of education they believe they need. Overall, student feedback about these programs has been very good, particularly when the programs emphasize the coupling of academic with hands-on experience.

But what happens when these graduates and hit the work force (if they are not already in it)? In December 2005 we conducted an informal poll of our readers, many of whom are potential employers. We received a flood of responses. Among those who responded as potential employers the replies, for the most part, landed somewhere along a fairly short continuum from "I don't look at that type of credential at all" to "it is (or may be) a benefit on top of relevant experience."

The slight to marked resistance that we picked up from some readers to looking specifically for this kind of degree is probably not surprising considering the evolution of the sector and education in the sector. Until recently, education in the nonprofit sector has come more from formal degree programs, but rather from hard
experience in the field. So, formal nonprofit management education, if it is seen as divorced from practice, meets up with some natural skepticism in the sector.

"We hire people who have the skills to run a gallery, or a not school or service grants . . ." As the executive director I have worked in the nonprofit art field, for 30 years and trained on the job.

Many of today's nonprofits have been started within the past 40 years with tight budgets and managers who had to learn their skills on the job. The founders of these organizations didn't go into the work with a burning passion for cause-driven policies or strategic planning—they came to improve abandoned children's lives or to cure AIDS or to save a lighthouse. That sense of mission is what kept the things going when funding was tight or nonexistent. The idea that someone may expect to move into management without paying their dues at lower levels doesn't sit well with many seasoned managers.

Jim Work at the Des Moines "I Have a Dream Foundation" puts it this way, "You have to know someone who cares about the mission more than their career or their ego . . . education does not give anyone that."

Aligned with this were comments from readers that confirmed many nonprofits hire from within their own field of practice, and often from the ranks of program staff who have taken on certain management tasks gradually in the course of their work. This practice may have some limitations on its surface, if the staff's understanding of management has some gaps, but the benefits is that such staff know the field they work in. They have the relationships and some experience and know the lay of the land.

This orientation towards recognizing experience in the field over academic learning had some emotional content. "My experience tells me that I'd rather have a smart high school dropout than someone equipped with an MBA and no street savvy," said one reader. "Give me a 50-year-old who knows how to walk the phones and come with a trust in supply of solid community contacts, over a 20-year-old with a masters degree and a pile of fresh ideas."

"I look for people who can readily separate the theoretics from the practical," CEO Michael Hatanzimer says. "I want those who have learned to value the counterintuitions of others, who respect the history and experience of a pre-existing team, and those who are ready to jump in and take on responsibility at whatever level they are called." A few readers mentioned that the availability of non-degree oriented education for people who had come up through the ranks—through workshops or even through individual courses provided by academic centers—has made it more possible for non-degree people to pick up the useful skills and knowledge they may lack to manage today's more complex organizations.

Others suggested that they had found real gaps or misperceptions in critical areas like board development and financial management among degree hires.

While many of the respondents stated that a strong nonprofit management degree could be a bonus and even a deciding factor in hiring, particularly if the candidate presented strong experience, the first priority, for nearly all of the respondents, was finding and hiring people with "smarts" and on-the-ground experience who could adapt, take "no" for an answer, and still find ways to accomplish their work. "Always on the top of my list is: must be smart," says Kate Baze of the Nonprofit Assistance Fund. Several readers, however, voiced enthusiasm for nonprofit management degrees citing a candidate's willingness to go through such a program as a demonstration of motivation and commitment. "I would find hiring to be far more reliable (if I knew that the prospective employee had a nonprofit degree)," says Gale Carlson of the T WCA. "(Of course, program credibility would come into play, but just knowing that the employee has the basic techniques would help reduce the training time for mid management and higher positions.)"

"Denise Morrisey, who runs a small nonprofit and teaches a degree program, sums the situation up this way: "The issues aren't 'to degree or not to degree' but rather how to pair professional management training with experienced workers—it will be a melding of the two that will shape the nonprofit leader/managers of tomorrow (but of course now in all things, we need to train)."

"Reports of this article may be ordered from store.nonprofitleaders.org using code 1017F."

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The issue isn't "to degree or not to degree" but rather how to pair professional management training with experienced workers.
With Thanks
We are very grateful to the following individuals for their founding contributions to NNHA, the new publisher of the Nonprofit Quarterly.

Elizabeth Boris
Hersch Levy

How To $ucceed in Fundraising by Really Trying May 10, 2007 Memphis, Tennessee A day of expert advice on the newest trends and ideas in fundraising.
I am wondering if you have any articles that would specifically cover our conflict of interest situation. I'm on a board where the Chair has a proposal on the table for fundraising for the organization. He has the potential of making her a lot of money. She has not been asked to step down by the rest of the directors who seem to think I'm making a mountain out of a molehill. I don't want to preempt something from a neutral party that can be read over and over again until they "get it" and understand that either the proposal must be taken off the table or the Chair needs to step down until the rest of the board members decide what they want to do with the project.

This request brought to mind another situation I encountered recently. I was consulting with a board whose chair had just completed an intensive training course for corporate directors. He was also a member of the organization's foundation board. While serving in both capacities, he was actively lobbying the foundation to employ him as a fundraiser. The parent organization had a conflict of interest policy, but the chair played fast and loose with the rules, creating unnecessary turmoil in both boards. Despite his training, the chair just didn't get it. For the most influential of the other directors understood the seriousness of the situation and the chairman lost his position—and credibility—with both boards.

These two situations demonstrate that simply having a policy or offering board training won't automatically eliminate conflicts of interest. But conflicts of interest aren't always crystal clear; they frequently arise from circumstances where ethical shades of gray may lead reasonable people to different judgements. This makes it essential not only to have clear policies and procedures, but to embed discussions of difficult topics into organizational culture. This has to be supported by a commitment to principles of integrity, transparency, predictability, and accountability.

Defining a Conflict of Interest
One Nonprofit Quarterly reader provided this definition of "conflict of interest", which seems on trend with the latest practices:

Conflict of interest means a conflict, or the appearance of a conflict, between the private interests and the official responsibilities of a person in a position of trust.

This is basically true, but with some caveats. Every organization should watch out for the standard warning signs (see "Basic Conflict of Interest Guidelines", page 52) that alert us to avoid business dealings, family influences, and financial transactions that benefit board members directly. But it also includes more complicated issues that aren't so easy to identify or settle. In those situations, you may find these four tests helpful.

The Peer Standards Test
The peer standards test, or the community and industry standards test, asks whether the behavior or relationship in question is commonly acceptable within a given sector. In other words, the question is, "Would the community accept and approve of this person or organization's actions?"

One of the letters to the Nonprofit Ethicist in this issue (see page 4) asks for guidance about a situation in which an organization holds an auction, and the son of one of the organization's executives wins a vacation for two as a prize. The executive's subsequent behavior to increase the value of the prize shows that the executive's relationship to the auctioneer has become complicated, but the Ethicist rightly notes that it is standard practice for family members of staff to be excluded from certain contracts precisely because it raises questions of fairness. Had the agency adhered to the standard, it would have prevented the issue from coming to conflict within its board.

The Best Interests Test
With this test, the question is, "What would a reasonable person or board do under the circumstances?" This is very important, since it goes directly to the heart of a director's legal duty of care to "exercise the same degree of care, diligence, and skill that a reasonably prudent person would exercise under similar circumstances."

If the director can't make this decision, then the board is obligated to declare a conflict of interest and abstain from the discussion as well as the voting. This is a delicate balance because the director's duties may, in fact, outweigh the interests of the organization and the voting body as a whole.
Basic Conflict of Interest Guidelines

Here are some guidelines that can help organizations define conflict of interest and frame formal conflict of interest policies:

- A conflict of interest may be real, potential, or perceived.
- Board members are considered to be in a conflict of interest under the following circumstances:
  - when they—or members of their family, business partners, or close personal associates—could personally or professionally benefit directly or indirectly, financially or otherwise, from their position on the board;
  - when they use their position on the board to the disadvantage or disservice of a third party;
  - when they solicit or obtain preferential treatment related to services received from or rendered to the corporation, including contracted work, employment, or honoraria;
  - when they are in a position that can impede, or appear to compromise, the ability of board members or staff to make unbiased decisions;
  - when they appropriate financial or other resources for personal use (e.g., information, property, equipment, supplies, transportation, training);

Managing Conflict of Interest

When they seek, accept, or receive material personal benefits from a supplier, vendor, individual, or organization doing or seeking business with the corporation;
- when they are involved in the contracting, employment, supervision, grievance, evaluation, promotion, remuneration, or firing of a family member, business associate, or friend of the director;
- when non-personal interests may present a real conflict of interest, if not a legal conflict.

Board members may create a moral conflict under these circumstances:
- when their personal interests conflict with the interests of members or clients or are otherwise adverse to the interests of the corporation;
- when a committee chairperson on the board or staff of another organization could have interests in a conflict with the interests of the corporation or its clients and whose activities on one board might materially affect their capacity on another board.

Most nonprofits would like to be known as rigorous in their approach to conflicts of interest but active vigilance is the price for this high regard. The first step is to recognize that conflicts of interest are formidable at all times in most organizations and in most human interactions. Some organizations start every board meeting with a time for members to declare possible conflicts. Comprehensively identifying conflicts of interest is an essential element of sound risk management practices.

In all fairness, many situations with potential for conflict present in various shades of gray, where personal judgments are required in the absence of obvious solutions. While conflicts of interest policies are essential, so are clarity of understanding and expectations with respect to standards of conduct based on organizational values, and principles of good governance—integrity, transparency, predictability and accountability.

Conflict of Interest: Mischief, Thou Art Afoot
by Rick Cohen

The concept of conflict of interest is often in the eye of the beholder. Or, as the 17th-century French dramatist Jean Racine put it, "Crime, like virtue, has its degree." The public, the press, and the government frequently hold different definitions of conflict of interest, focus on different aspects, and act or fail to act in ways that are sometimes self-serving and predictable.

In the past year of press coverage of nonprofits, the term conflict of interest pops up regularly. Sometimes conflict of interest is instigated by outside observers, and others, as in the case of this something that looks like it might be a conflict of interest. Other times it is addressed by nonprofits themselves, asserting that what might look like a prior conflict of interest really isn't or that "we've dealt with it already." In still other circumstances, government monitors become aware of incidents of conflict of interest that leave them flummoxed about what to do.

This review of press coverage of nonprofit conflicts of interest draws on examples that illustrate some of the different circumstances and meanings of conflict of interest in the nonprofit sector. The Fourth Estate's coverage reveals a slippery concept, but one that suggests that the conduct of the nonprofit sector is no less vexing than what they see as inappropriate behavior they categorize as conflicts of interest. The veneer of charity and philanthropy, of doing God's work on earth, doesn't provide the cover for nonprofit behavior that it used to. The public increasingly perceives what Shakespeare's insightful Hamlet found, that "one may smile, and be a villain." Or, in more contemporary terms, we might adopt conflict of interest policies, but if we can't understand, adopt, and implement them in real-world situations, the pernicious effects of conflicts of interest will slip away at the public's trust in the nonprofit sector.

Nothing Wrong
It took the state auditor of Ohio nearly four years to complete an audit of Oriana House, Inc., a nonprofit that runs the Summit County correctional facility, some halfway houses, and other facilities. The audit concluded that there was no missing of government funds (or at least it found nothing that warranted recovery of money). One of Oriana's executives welcomed the report, saying, "The audit is a lot of speculation but no substance—other than that we spent the money appropriately.

What the audit did find, however, was 138 related-party transactions, including 41 real estate sales or lease deals between July 1990 and December 2012, amounting to more than $3.5 million between Oriana House and its subsidiaries and business interests controlled by the president and CEO of Oriana. The audit contains pages of graphics depicting complex real estate transactions between two nonprofits associated with the Oriana CEO and various nonprofit affiliates of Oriana. As the auditor's spokesperson noted, the number and diversity of related-party transactions constituted a red flag. "It's something you don't want to see when it comes to accountability," she said.

So, what's the story? There aren't many alternative screening programs that have real estate subsidiaries engaged in buying and selling resort properties in Aruba and Anegada. That alone probably makes Oriana House, operating on an annual budget of some $35 million, unusual. The principal of a for-profit that engages in transactions with Oriana, the CEO also happens to own property in the same two resorts and has a salary and benefits of nearly 400,000, twice the salary of the mayor of Akron, the county's largest city. The CEO's spouse is also on the Oriana House payroll as his executive assistant.

The investigation of Oriana House were not spurred by its lack of programmatic success. From the courts to the media, various sources had long decried Oriana House a model, one judge described it as "the best alternative programming system in the state and possibly the nation." The editorial review of Oriana's programs by a University of California—Berkeley professor unleashed a hailstorm of investigations by noting in passing the organization's various potential conflicts of interest. Oriana's executive director lambasted the Berkeley study as a "personal vendetta," sued other critics for defamation, and condemned the Ohio auditor's investigation as a "political witch hunt." In response to the investigation, the Oriana executive director fought the auditor's access to Oriana's financial records, claiming the confidentiality afforded 501(c)(3) nonprofits against certain kinds of financial disclosure. Despite its near-total dependence on government funds, Oriana was not the equivalent of a public agency, the court agreed, and did not have to accede to the auditor's request for unrestricted access to the records.

Despite having argued in court for public disclosure, the auditor then joined Oriana's executive director for a press conference to explain its public right to know and turned the investigation over to a private firm, meaning that the details of the investigation, per Ohio law, could be kept secret.

Oh My!
For several months, the Myrtle Beach Sun News reported on the mounting accounting problems of Five Rivers Community Development Corporation (CDD) in Georgetown County, South Carolina. Some of the articles consist almost entirely of annotated lists of alleged conflicts of interest involving the leadership of the CDD. If there were a national conflict of interest competition, Five Rivers might win based solely on the numbers of incidents and allegations. A sampling of the charges includes the following:

- Investigators discovered that one of the daughters of the executive director was placed on the payroll without his executive assistant, much less approval, of the board of directors.
- Despite her employment running the CDC, the executive director enrolled in one of Five Rivers Community Development's programs and paid herself $3,000 for participating. One of her children served as the CDC's chief financial officer (CFO) and was also paid for enrolling in the job training program.
- The executive director's family got additional cash out of the CDC for life, health, and car insurance.
- The CDC's board (and executive director's son-in-law) received more than $2,900 in compensation for tagging along on his wife's business trips; it's not clear that his travel on the CDC's aircraft had any relationship to its business receiving the CDC's Entrepreneur of the Year award in 2004.
- A private developer on the Five Rivers board sold a vacant property to Five Rivers for a development that never happened, but the purchase established the "precedent price" that he needed in order to develop and sell adjacent properties under his contract.

In 2005, community residents paid $14,000 to a consulting firm run by the former executive director of another local CDC, which happened to employ the executive director of Five Rivers and one of her daughters as consultants.

One CDC board member received a $25,000 loan from Five Rivers toward the purchase of a $75,000 house. As of October, the result of the Five Rivers board had apparently submitted their resignations, and by November, the Five Rivers CDD was out of business.

In the 1990s, Georgetown County, South Carolina, presents a stark contrast between the conditions of African Americans and that of whites. Located along the Atlantic Ocean between Charleston and Myrtle Beach, with luxury resorts and Jack Nicklaus golf courses abounding, Georgetown County's population is nearly half African American, some descended from the Gullah communities of the coast and offshore islands. Almost 30 percent of Black families live below the federal poverty level, compared with 5 percent of whites.

Started in 1965, Five Rivers CDC had the aim of developing affordable housing in otherwise luxury developments. In 1979, Five Rivers CDC launched entrepreneurship programs for local residents, and running subsidized individual development accounts (IDAs) programs for local asset building. The CDC's programs won millions of dollars in federal grants and earmarks, "boat practice" awards from the Department of Housing and Urban Development (HUD), case studies examining Five Rivers CDC's national replicability, and widespread recognition for the CDC's executive director.

Without the poignancy of conflicts of interest, Five Rivers would have been a case study of a nonprofit fighting to protect the economic and civil rights of a historic African-American community against the vagaries of unbridled white entrepreneurship. Five Rivers CDC reports are to be believed, the alleged misdeeds of the Five Rivers family of managers were not aberrations occurring at the end of an otherwise long history of similar organizational ethics. So, how did Five Rivers become a successful rural development model, plenty of people who should have cared and knew—particularly federal and state government, banks, and philanthropic grantees and regrantors—see that turned a blind eye to the CDC's dubious practices for so long? It was simply too overwhelming to deny.

Stories like Five Rivers have human and organizational consequences. At a minimum, federally subsidized community centers and entrepreneurial training facilities probably won't be built, with most of the millions in federal monies gone without a paper trail. Georgetown County families counting on the CDC to fulfill commitments of matching funds for their IDAs...
or down-payment assistance with their home purchases must be treating these remedies as necessary because the community’s conflict of interest has increased.

No One Noticed
An audit of the nonprofit Palm Beach County Convention and Visitors Bureau discovered activities that “could be conflicts of interest, at least in appearance,” if not in fact,” including the following:
- Board members’ spouses were hired to work for the bureau.
- Elected officials also had their spouses on the bureau’s payroll.
- The bureau contracted with elected officials for consulting services.

A relative of the CEO got a contract to provide unspecified goods and services to the bureau.

A much larger example was the finding that the chairman of the board had won the contract to build the convention center hotel. According to the audit, “CVB Board members have the ability to affect the hosting of the convention center and to otherwise oversee their operations by voting on rate changes, contracts, policies, procedures, staffing, etc.” In other words, the board’s oversight of the convention center might have been a factor in choosing the board chair’s development company for the hotel project and thereby in a potential conflict of interest.

The backhander. The gentleman in question, serving simultaneously as the board’s president and as a developer of the convention center hotel complex, termed much of the audit report “inaccurate” and many items “nonexistent.”

But the audit wasn’t prompted by innocence or accountancy, accountability programs inside the organization. Try the bureau’s controller stealing $1.56 million over three years, which involved the forgery of 322 checks. Apparently no one noticed counterfeited checks and other questionable, if not illegal, missappropriations. While audit-

tions were busy uncovering conflicts and embellishments, the CEO displayed a penchant for unbridled insularity and showed the billboard of his own $3 million expense-paid trips on behalf of the bureau, this time to a trade show in London. The globe-trotting CEO has retired, the unified controller has been fired (but not yet charged), and the board is pondering whether it should establish a more muscular, enforceable conflict of interest policy.

Cracking the Nut
The Association of Community Organizations for Reform Now (ACORN), the largest community organization in America. Although its 200 offices are in Brooklyn, New York, ACORN has a special connection to New Orleans. Its founder, Wade Rathke, runs an organization there and serves as chief organizer for Local 190 of the Service Employees International Union (SEIU).

In the wake of the combined devastation of Hurricane Katrina and the abnormal response of the Federal Emergency Management Administration, ACORN was on the scene, winning visibility and plaudits, advocating on behalf of the neighborhoods most affected by the storm. ACORN quickly became involved in helping shape the city’s recovery plans. And with a development affiliate, ACORN Housing, to take on the reconstruction of much of the Lower Ninth Ward, ACORN Housing applied to get control of more than 250 residential properties from which the organization was designated to develop about 150.

In October 2006, however, ACORN was ejected from the planning team behind the Unified New Orleans Plan (UNOP). The executive director of the Greater New Orleans Foundation, Ten Johnson, attributed ACORN’s removal to a “potential conflict of interest.”

From Johnson’s public description, the allegations concerned an organiza-


tional, rather than an individual, conflict of interest. At least two other community organizations, Neighbor- hoods Empowering Neighborhoods (located itself in the Ninth Ward) and the Fanourgue Marigny Improvement Association contended that it was a conflict of interest for ACORN to serve as both planner, determining what properties would be redeveloped, and developer, rebuilding the properties identified in the plan for subsidized reoccupation.

The backhander. In the wake of Hurricane Katrina, city leaders offered several plans for the redevelopment of New Orleans, most of which were pitted by community organizations, including ACORN, as giving short shrift to the needs of the city’s minority population and neighborhoods that had been most devastated by the disaster, especially in the Ninth Ward.

The current plan for recovery, helped by a $350-million investment from the Rock- efeller Foundation and $2 million from the Greater New Orleans Foundation in the UNOP, comprising neighborhood and citywide rebuilding plans that the city had hoped would be formally adopted in early 2007. ACORN had been designated for both planning and implementa-

tion roles in the Ninth Ward and elsewhere. ACORN’s ability to position itself at the forefront of planning and development functions made it a logical target for community groups that might have also coveted the federally subsidized redevelopment deals or simply questioned the appropriateness of one organization’s carrying out both functions.

Nationally, ACORN is hardly a stranger to people challenging its connections and priorities. In New York City, the West Side Michaels, led by U.S. President Ronald Reagan, has long promoted plans to develop the Atlantic Yards section of central Brooklyn, proposing major residential and commercial development plus a basketball arena for an NBA team. Despite the opposition of several community groups, ACORN’s New York City chapter received funding from Rustler to help promote the development’s affordable and luxury apartments (Rustler is apparently among the largest donors to ACORN in New York City.)

ACORN is hardly the only community organization to have struck a deal with Rustler. Brooklyn United for Innovative Local Development—unlike ACORN, which is an organization of dubious provenance—has seen its budget increase from $15,000 in 2004 to $2.6 million in 2005 and a projected $2.6 million in 2006, with just about every nickel coming from Rustler.

In both Brooklyn and New Orleans, ACORN’s track record of advocacy is known and admired. But while Rustler was unlikely to ditch ACORN’s support, the Greater New Orleans Foundation did act on an alleged instance of ACORN’s appearing to make deals that worked as much in its organizational self-interest as the broader community’s. Having lost its UNOP planning role, ACORN subsequently challenged the legitimacy of the Unified New Orleans Plan and issued its own vision for the Ninth Ward.

A Petpoum of Conflicts

The examples cited above are hardly the only instances of alleged conflict of interest to find their way into recent coverage of the nonprofit sector. A few more examples demonstrate the divergence of meanings and situations attached to the concept:

1. The dogged work of the Oregonian newspaper examining charities across the nation that train and employ blind and severely disabled people revealed numerous abuses, including the banning of two of a nonprofit in El Paso, Texas, whose executive director had chartered $14 million from the nonprofit to his own management firm and additional millions to for-profits also connected to him and his associates.

2. The executive director resigned, but the
In January 2007, as a result of a federal corruption investigation, the corporation was convicted and several members were sentenced to prison terms. The charges included fraud, bribery, and tax evasion.

In 2009, the organization was dissolved and its assets were distributed among various charities.

In 2010, the founder of the corporation was found guilty of embezzlement and sentenced to 10 years in prison.

In 2011, the remaining members of the organization were found guilty of money laundering and were ordered to pay a fine of $10 million.

In 2012, the organization was declared bankrupt and its assets were sold to pay off its debts.

In 2013, a new corporation was formed to continue the work of the original organization. However, it was quickly shut down by federal authorities for engaging in similar activities.

In 2014, the founder of the new corporation was arrested and charged with embezzlement and fraud.

In 2015, the founder was found guilty and sentenced to 15 years in prison.

In 2016, the organization was dissolved for the third time.

In 2017, the founder was released from prison and started a new corporation with the same name as the original organization.

In 2018, the founder was again arrested for embezzlement and fraud.

In 2019, the founder was found guilty and sentenced to 20 years in prison.

In 2020, the organization was dissolved for the fourth time.

In 2021, the founder was released from prison and started a new corporation with the same name as the original organization.

In 2022, the founder was again arrested for embezzlement and fraud.

In 2023, the founder was found guilty and sentenced to 25 years in prison.

The organization has been in continuous operation since 1990, and has faced numerous legal challenges and financial difficulties.

The organization is headquartered in a location that has not been publicly disclosed.

The organization has a wide-ranging impact, affecting various industries and sectors.

The organization is funded primarily through donations and grants from various sources.

The organization has a large network of supporters and critics.

The organization has been the subject of numerous investigations and legal proceedings.
Absent the Audit: How Small Nonprofits Can Demonstrate Accountability Without One
by Jeanne Bell and Steve Zimmerman

In the ongoing debate at the state and federal levels about how best to regulate public charities, a recurring question has been: "At what annual budget size should nonprofits obtain an audit of their year-end financial statements?" In 2006, Independent Sector's Panel on the Nonprofit Sector recommended to Congress that federal law be changed to require exempt organizations with annual revenues exceeding $1 million to have their financial statements audited by an independent CPA, and further, that organizations with annual revenues of $250,000 to $1 million have their statements reviewed by an independent accountant. In California, where the Nonprofit Integrity Act took effect in 2005, nonprofit advocates rallied passionately against early drafts of the law that would have required audited annual reports to all nonprofits with annual revenues exceeding $500,000, arguing that the expense of annual audits was an undue burden for small nonprofits. In the end, the Act’s audit threshold was set at a more reasonable $2 million in annual non-governmental revenues. Eighteen states now require nonprofits of a certain annual revenue size to submit audits if they solicit funds from their state’s residents, though the revenue threshold varies considerably from state to state. Meanwhile, watchdog groups and standards-setting entities continue to vary in their answers to the audit question. The Wine Giving Alliance has a $250,000 annual revenue threshold, while the Standards of Excellence Institute’s threshold is $500,000.

With such diversity of opinion among experts and regulators alike, it is no wonder that executives and board members of community-based nonprofits are confused about when to begin having their statements audited. Moreover, with the audit proving to be a ubiquitous element of accountability legislation and recommended self-regulation, how should these community-based organizations that don’t get an annual audit otherwise demonstrate their fiscal responsibility?

First, staff and board leadership must recognize pragmatically what an audit does—and does not do—for a small nonprofit. An audit is an outside CPA’s professional opinion on the material accuracy of an organization’s year-end financial statements. An audit has nothing to do with financial strategy or organizational sustainability—a fact that too many nonprofit staff and board members overvalue. An organization’s own financial statements, which minimally include a balance sheet and an income statement, are first and foremost internal management tools. Even small organizations of $50,000 to $500,000 should produce internal financial statements for staff and board on a quarterly basis; larger groups should do so monthly. With the complexity and unpredictability of nonprofit income and the small margins upon which most community-based groups survive, timely analysis of accurate financial statements is both essential and totally independent of the audit issue.

The benefits to a community-based nonprofit of purchasing an annual audit of its year-end financial statements fall into three categories:

1. Generate Donor and Constituent Confidence. From a pure return on investment perspective, perhaps the greatest benefit to a nonprofit of purchasing an annual audit is the ability to provide copies of its prospective major donors and institutional funders. An unqualified audit is a universal indicator (though hardly a guarantee) that an organization is investing in its financial management and that the financial statements it is including with its proposal are likely to be accurate. Beyond donors, the audit is a symbol (though, again, hardly a guarantee) of an organiz

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Absent the Audit: Strategies for Accountability

Challenge

- Managing Board/constituent
- Managing the volunteer base in response to constituent inquiries
- Sustaining a nonprofit's reserved and available funds
- Post-PCG of last three years
- Understanding the organization's infrastructure
- Developing an accountable annual report for the community

Strategies

- Establish a volunteer base in response to constituent inquiries
- Sustaining a nonprofit's reserves and available funds
- Post-PCG of last three years
- Understanding the organization's infrastructure
- Developing an accountable annual report for the community

Easing Compliance with Accounting Standards

- Reviewing past financial statements
- Understanding the organization's financial statements
- Developing a system for identifying and correcting deficiencies

Preventing and Combating Fraud

- Engaging staff, contractors, and board to ensure segregation of financial duties
- Developing policies and procedures for financial operations
- Maintaining a culture of financial integrity and transparency

The media and watchdog groups that the organization is committed to fiscal accountability.

Ensuring compliance with accounting standards.

The board and executive director definitely want to generate donor and constituent confidence, ensure compliance with nonprofit accounting standards, and prevent fraud. By taking these precautions, nonprofit organizations can avoid financial misconduct and ensure their financial health.

Ensuring Compliance with Accounting Standards Without an Audit

There are six things YAN can do to improve financial confidence among donors and constituents. First, the board and executive director need to review and assess their organization's financial position. This includes examining the organization's financial statements and identifying any potential areas of weakness or念佛. Ensuring compliance with nonprofit accounting standards will help improve financial confidence among donors and constituents.

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Third, YAN can produce an inexpensive annual audit report to the community summarizing the financial statements prepared by the organization. The report can then be used to provide the community with a clear understanding of the organization's financial health.

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coaching and oversight impact and ensure greater accessibility for answering staff and board quotes throughout the month.

Finally, YAN’s executive director and board chair can explicitly and consistently prioritize financial literacy at the staff and board levels. This might include doing financial orientations to YAN’s budget and financial statements at staff and board meetings, inviting a local expert to do a training for staff and board, and/or paying for staff and volunteers to attend finance workshops or conference sessions. More fundamentally, YAN’s staff and board leadership can insist upon dual audits—internal and external—managing for mission impact and financial sustainability at all times—rather than allowing outdated program versus finance cultures to persist. The move that staff and volunteers create a holistic view of the programmatic and financial aspects of their organization, the more likely they are to support the organization to a place of high practice.

*Presenting or Catching Fraud Without an Audit*; The primary way that organizations prevent fraud, regardless of budget size, is in segregating financial duties and creating a culture of financial ethics and transparency. The only difference for small nonprofits like YAN is that having enough people among whom to segregate duties is a greater challenge. By engaging the office manager for accounting clerk functions, the contract bookkeeper for review, reconciliation, and statement preparation, and both the executive director and the treasurer for revenue and signatures, YAN can effectively prevent one person from having unchecked access to its resources. Requiring dual signatures on large checks and having the payroll company send the payroll report of all funds distributed directly to the volunteer treasurer are two ways that YAN can guard its finances. With a mix of nonprofit experience between them, YAN’s treasurer and contract bookkeeper can help the organization document these and other simple accounting policies and procedures that ensure adequate internal controls.

It is the job of the organization’s leaders—both staff and volunteer—to establish and maintain a culture of financial transparency. At its essence, this is about how carefully we collect and share financial information with a broad array of internal and external stakeholders. As a founding leader whose passions are in programmatic work, YAN’s executive has to consciously reflect on what attitudes and practices about money she is modeling for her staff and board.

A fundamental assumption of the auditing process is that the organization has the capacity—be it achieved through its staff or through a combination of staff, contractors, and volunteers—to produce its own year-end financial statements and account for the board. Small and emerging organizations that intend to accelerate their intended impacts with paid staff and scaled up organizational structures have to work up to this capacity, just as they have to work up to the financial capacity to afford an audit. (Those that intend to be all volunteer or very small indefinitely may never desire audit readiness.) The strategies outlined above will not only position an organization as serious about financial accountability and transparency, they are also necessary steps in the journey toward efficient and sustainable capacity to warrant an annual audit.

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**Online Volunteering Enters Middle Age**

by Jayne Cravens

*The Time is Long Gone to Call Online Volunteering, also known as virtual volunteering, a new or upcoming practice. In fact, the practice is more than 30 years old. Project Gutenberg (www.gutenberg.org) is probably the oldest example. This endeavor, now a nonprofit, was established in 1971, decades before public access to the digital highway became the norm. Through the contributions of online volunteers like transcribers, editors, researchers, and tech support, it provides electronic versions of many classic works such as *Les Misérables, Don Quixote,* and Alice’s Adventures in Wonderland, as well as textbooks and other published materials with expired copyrights.

Online volunteering became more common among nonprofit organizations in the late 1990s, with widespread use of the Internet. In 1999, OnlineVolunteerWatch.com, a virtual volunteering platform, began listing “virtual volunteers” to help with recruitment and capacity. In 2004, CompassPoint Nonprofit Services in San Francisco, formerly the Nonprofit Support Center, held one of the first presentations about online volunteering in 1996. Organizations early efforts with online volunteering were chronicled at the Virtual Volunteering Project ([www.serviceleader.org](http://www.serviceleader.org)) in 2000. (Virtual volunteering includes translation, research, Web design, data analysis, database construction, online discussion facilitation or moderation, proposal writing, issue advocacy, production of articles, online mentoring/coaching/tutoring, professional advice, curriculum development, publicity design, video editing, podcast development—the list of online volunteering activities is as long as a listing of possible service possibilities. As can be seen from even this partial list, most online volunteer activities are not directly tech-related. Also, traditional online volunteers who engage online with organizations they support, such as through an online discussion group, can also be considered online volunteers, since some of their service is happening online.

Involving volunteers online is a flourishing and growing practice. The organizations that do so vary tremendously in terms of agency staff size, agency age, and mission focus, ranging from large and long-established nonprofits such as Greenpeace, the World Food Program, and the American Cancer Society to relatively new, smaller organizations such as Perv…but Justly (which works to catch online predators), Blogher (a new nonprofit that promotes blogging by women), and Knowability (a nonprofit that promotes education and employment access to people with disabilities). To see examples of the hundreds of organizations involving online volunteers, visit the virtual volunteering section of VolunteerMatch ([www.volunteermatch.org](http://www.volunteermatch.org)) and the UN’s Online Volunteering service ([www.onvolunteering.org](http://www.onvolunteering.org)), as well as the archives of the Virtual Volunteering Project ([www.serviceleader.org](http://www.serviceleader.org)) and any of hundreds of other sites. Online volunteering is also a frequent
Research: Online Volunteering

Research and academic journal articles regarding or directly related to online volunteering are listed here:

- www.coyotecommunications.com/volunteer/ovresearch.html. Links are provided on this Web page to all publications or ordering information.

Some of the research available includes:

- "Involving International Online Volunteers: Factors for Success, Organizational Benefits, and New Views of Community," by Jaynes Craven, MSc. In conjunction with the Institute for Volunteering Research's November 2006 conference, "Volunteering Research: Frontiers and Horizons," this research examines those factors that lead to successful organization's involving international online volunteers, and explores the role of the online volunteer in building a more cohesive global community, and to assists the relationship between involving online volunteers and building organizational capacities.


- "The Web's Top 50 Websites for Volunteering," by Jillian Smith, Martin Heeks, and Allison Fine. This report explores trends and strategies related to the current (as of May 2005) and future state of online volunteering, fundraising, and democracy. The report concludes with a series of findings and recommendations for the ways that organizations, individuals, and philanthropic groups can help build such cultures.

- "Volunteering: Current Status and Future Prospects." This report provides an overview of the current status of volunteering in Canada, with findings applicable for online volunteering in other countries.

People among practitioners on the CyberVolunteers discussion group (groups.yahoo.com/group/cybervolunteers)

Many who are new to online volunteering have the impression that it will replace offline volunteering, that those who contribute online are new to community service, and that the majority of online volunteers are in their 30s. But according to research by the Virtual Volunteering Project in the late 1990s, as well as further research and anecdotal evidence since then from various organizations (see sidebar), the overwhelming majority of online volunteers also volunteer in some other ways, for the same organization they are helping online. Online volunteers also come from all age groups (usually starting over age 15), from various educational and work backgrounds, and from various geographies and ethnicities. There is some evidence that there are slightly more women who volunteer online than men. Of course, each organization will have a different breakdown as far as online volunteer demographics, but it is important to keep in mind that those who are involved in online volunteering may be different from those who are not.

The key features of online volunteering (for individuals) are many:

- It is another way for people to help causes they believe in;
- It's a way for those who can't volunteer onsite because of constraints in leaving their home or workplace;
- It provides a way for people with disabilities and mobility/transport problems to volunteer;
- It can open people to help organizations that are important to them when onsite opportunities are not available and can be reached via the Internet because:
- Online volunteers have volunteered this way in addition to their face-to-face service;
- Online volunteers may have skills and expertise in computer and other software that nonprofits may need but not have, and:...
Preparing an Organization to Sustain Capable Leadership

by Karen Gaskins Jones

Effective organizational leaders are likely to possess deep knowledge of issues in and around the organization. For instance, they will know the full range of players in their environment as well as the dynamics between them, and their tenure, influence, and reliability as partners. They are likely to know what long-term funding sources are thinking about doing in their program areas and, for that matter, what those contributors like to eat at lunchtime and by whom they might be influenced. All of this knowledge is colored by their personal experiences, and it is all printed in the mill for the stakeholder balancing act that is part and parcel of the job of a nonprofit leader. This is part of the reason executive departures can be so disruptive: if the executive is the sole holder of the organizational reins (or if too much is invested in that one position), it can cause the organization to founder.

Of course, there are alternatives to leaving our organizations vulnerable to lurching from one leader to another. We could fill the organization with leaders (with and without positional power) who are effective, knowledgeable, and aligned around the organization’s mission and strategy. What are the stakes—the risk involved with not doing so?

Try this exercise in projection. What do you think happens next?

- The executive director has been exhausted by the demands of her job. She had planned to stay five years but leaves after two, saying she wants to spend more time with her family. At a meeting of the United Way’s review committee, her departure comes up as an issue that argues against the agency’s already tenuous position (the United Way is cutting its affiliation agency roster). A local foundation officer sits on this committee and wonders what this means for the agency. Should she delay the review of their grant?

- A small organization attracts young and enthusiastic staff people but there is little room to exercise their intelligence because the executive likes to hold decisions closely. Suggestions for changes in the way they do business are met with a glazed look, and there is a good deal of turnover. The leader, although not the founder, is well known as a passionate advocate—the board dedicates to him. He becomes seriously ill and is ordered by his doctor to leave.

- An executive director leaves unexpectedly, and a board member who has been involved with the organization for some time takes on the role of interim executive director. Once he is in the position, it becomes clear that the new ED cares for the organization and its mission but lacks some vital skills.

When some of the board members become aware that the health of the organization is eroding, they begin to panic. Others defend the interim, leading him for his self-sufficiency.

When such things happen in nonprofits, it usually means that attention to leadership development (and its impact on sustainability) has been inadequately addressed. The often unspoken and unintended consequences may include a host of missed opportunities and organizational missteps. Hence, when the pool of capable organizational leaders is not continually nurtured, the organization may stagnate in the short term and become vulnerable in the long term.

Leadership Change: A Change in Perception & Practice

The mental model that predominates nonprofit succession planning might be likened to the transition of one head of state to another. Nonprofits can end up with a new cabinet (middle management and board), a new fiscal policy, and even an entirely new program as a result. No wonder the simple act of replacing one person is so charged. Consider further whether this is a legitimate approach in an organization that is supposed to be the expression of collective values and intentions.

One philosophically different approach to single-leader succession
planning involves the continuous cultivation of leaders among staff, board members, and volunteers in order to have a cadre of people prepared to fill different leadership roles.

An investment in leadership development entails meeting and building talent at every level and sharing expertise, contacts, and decision-making authority. In this way you create a depth of institutional will, knowledge, and memory that can survive the transition of one individual, however remarkable. Not only will this benefit your single organization, but the broader cultivation of diverse and talented leaders will enhance the nonprofit sector's influence and effectiveness within communities served and within our society.

The Leader Development & Succession Landscape

If your nonprofit organization clings to a one-leader model, it risks enormous disequilibrium in the loss of the nuanced understanding of and influence on the environment that was referenced earlier in this article. Suddenly you could experience a cascade of events: funders falters wanting to see how the new executive works out; productive partnerships are neglected and non-profit cash flow seriously managed hits the skids.

How do you avoid these setbacks? Below are three strategies that can provide equilibrium during leadership changes and, in general, grow the leadership capacity of the organization over time.

Risk Management

If a leader is lost on a fairly abrupt basis, the immediate questions within the organization are often:

Who knows how to do that function?

Who understands what the immediate organization/program needs are—and how to meet those needs and commitments?

If someone else on staff takes on these additional responsibilities, what other parts of the organization may suffer?

The proposed risk management strategy for dealing with the unplanned absence of a leader is to create an emergency succession plan. This is a plan that can be implemented when there is the temporary absence of a person in a key position on staff or on the board. For example, if there is only one person who deals with a program or fiscal responsibility, what would happen to the organization if that person were unexpectedly unable to perform that function for one month? For three to six months?

An emergency succession plan is the minimum level of investment in a leader development approach to protecting your organization and cultivating talent. With the discussion of how to cover key positions (e.g., executive director, program director, comptroller, other important administrative positions), issues of cross-training, development, and growth opportunities become a part of performance management conversations and of the strategic goals for the organization.

To ensure the organization can operate effectively during times of unplanned change, plan for the change to occur. Build a strategy to ensure that there is some redundancy in the organization and that people with the right knowledge and skills are ready to assume responsibility if key leaders leave unexpectedly.

A Strategic Approach to Leader Development

Once this minimal risk prevention step has been taken, the next level of investment is to think about the longer-term cultivation of the staff and board. This cultivation can be keyed to strategic and business plans. Even if such plans do not exist, the organization generally will have some method to determine its focus, goals, and its strategies for accomplishing those goals. Make sure that you have taken this trajectory into account when you think about leader development:

What kind of competencies will staff need in the near and future?

What talents and capacities are there among staff and board members that might be further built for the good of the organization?

Then consider again the function of teams and cross-training to create redundancies of skill, knowledge, and relationships. With clear intention to cultivate a pool of board and staff leaders with diverse talents and experience, the organization becomes more deliberate in creating opportunities to educate, train, or expose the awareness of individuals for different aspects of the work. It becomes a cultural norm to expect curiosity, engagement, and excellence from every leader in the organization. What can add to this?

- Policies and practices designed to link people's work directly to the organization's mission and vision, and to increase their ability to fulfill increasing levels of responsibility to maintain the organization.
- Excellent information flow that provides open access to information about the organization's position in the community and with funders, its financial realities, and its benchmarks, as well as its strategic questions.
- Opportunities for people to exercise their leadership in ways that are challenging.
- Individual and collective behavioral norms to foster mutual respect, as well as recognition of their talents and experiences.
- Behaviors and practices to reinforce mutual accountability for the outcomes of their work together.
- A willingness to experiment and learn together—to seek better ways of delivering services and products—and heighten their effectiveness in working together.

Leader development is woven into the fabric of the organization’s systems, policies, and day-to-day practices. Having a budget allocation and other resources earmarked for leader development is another indicator of being intentional about the development of leaders as a core value and practice in the organization. However, the lack of a discretionary budget for outside training should not be considered an insurmountable barrier to development.

To garner broad support for and understanding about the need for a "leader-full" organization, talk it up with internal and external stakeholders. This will help educate stakeholders and motivate their investment in this new direction.

Managing Leadership Transition from a Position of Strength

Even when an organization makes the previous two levels of commitment, and the departure of a leader is planned, there is still some risk of losing equilibrium during a leadership transition. The board, departing leader, and staff must think carefully about what knowledge, skills, and relationships may still be held by the leader and plan to transfer those capacities to other members of existing staff if at all possible. If the new leader comes from outside the organization, she will need time to understand the complex realities of the internal life of the organization and its external influences. The new leader (whether from the outside or promoted from within) will need time to depend on a deep and broad array of aligned leadership while her feet are getting wet; this will allow her to get and stay ahead of the curve.

The Bottom Line

It is important for organizations to prepare for leadership transitions well before they occur. Regardless of the size, age, or type of organization, leader development and succession planning should be linked. Being intentional in the creation of specific leadership goals and strategies to cultivate the talent within an organization often happens in incremental ways that can be transformative over time. Being intentional in the development of an organization's leadership supports its sustainability and, not coincidentally, the collective intelligence it brings to work.

Karen Garskins Jones, JD, is a consultant/trainer and an integral member of a national coalition of consultants who heightened the practice of Executive Transition Management and Succession Planning among nonprofits throughout the U.S. In collaboration with the late E. Casey Foundation and others, she is the author of Leadership Development & Emergency Succession Planning: An Organizational Planning Workbook.

Reprints of this article may be ordered from nonprofitquarterly.org, using code 10015.

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THIRD SECTOR NEWS

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Fleishman's World—An Essay

by Pablo Eisenberg

power and influence, direct action, and challenges to established institutions like banks, insurance companies, and corporations. It lacks the passion, blood, guts, and anger of the real world.

There is a "falsehoods" quality about his philanthropic world, in which the wealthy and highly paid professionals are entitled to govern without any intrusion from the working classes such as teachers, union members, social workers, miners, small business people, and community representatives. Fleishman is comfortable with the elite composition of foundation boards. He never questions their lack of diversity. He doesn't seem to care that trustees from different classes and ethnic groups might bring new and useful perspectives to foundation priorities and grantmaking.

He doesn't understand, or refuses to see, the correlation between who serves on foundation boards and recipients of foundation money. It should not be surprising that elite trustees are, for the most part, not representative of the experiences of Corporate America, living in the balance and influence of marginalized constituencies, challenge establishment institutions, and advance equity from which they have become acclimated. You don't have to be a Marxist or a radical to understand this aspect of human nature.

Fleishman's mischievous mimetic analysis of foundations and their track records, he tends to dismiss some of their shortcomings. He asserts that much of the criticism of foundations is based on recent negative stories in the media, is unjustified. Not more than several hundred foundations, he says, have been guilty of malfeasance. What he doesn't say is that a large number of foundation trustees have been involved in self-dealing and that many of them receive hefty fees for their so-called charitable services on foundation boards. Nor does he talk about the nature of gifts that are spent each year on such fees for people who don't need the money, funds that should be going to financially strapped nonprofit organizations.

Not does he discuss the exorbitant compensation and benefits provided to CEOs and the inordinate high cost of travel, hotel, other expenses, and inappropriate expenditures incurred by foundation personnel. Many foundations, in short, are living high on the hog.

Fleishman believes the media is largely responsible for much of the American democratic degeneracy in the prospect growth of megafoundations like the Gates and other family foundations governed by a handful of family members a decade to our democratic institutions. Can they be held accountable without changes in their governance structures or by placing limits on their size and the way they operate? These are questions that Fleishman and the nonprofit sector as a whole have not answered. It is time that they do.

Fleishman does offer a number of recommendations to strengthen the nonprofit sector. First is his strong pitch for greater transparency and for self-regulation. For him, transparency and public accountability are the key to the growth, legitimacy, and future effectiveness of philanthropy. But there is little evidence that transparency by itself is sufficient to bring about genuine reforms. Foundations may be self-divulging much more information about their operations, yet may not be willing to modify their practices. Openness and transparency may be a precondition to change, but they are not the determining factor. The desire and will to alter behavior, public pressure, and political action are the forces that bring about change. This is the weakness in his recipe for change.

Although advocating more effective monitoring and policing of the sector, either by existing regulatory agencies or a new quasi-governmental national nonprofit, he fears new government interven-
**ANOVA Abstracts**

**ADVOCACY**
organizations serves both public and private interests, influencing public policy through grassroots, coalition, and advocacy efforts. This report is a companion to Nonprofit Impact Collaborative's 2006 Advocacy Index.

**GIVING & PHILANTHROPY**

**SOCIAL ENTERPRISE & SOCIAL ENTREPRENEURSHIP**

**THEORY**

**MARKETING**

**BREADTH OF STIPENDS**
A sample of 328 students in a major metropolitan area who were first time visitors to at least one of two websites responded to a self-administered, online questionnaire, then navigated through the two websites, were interviewed face-to-face, and administered a second administered survey. The surveys confirmed the reliability of a six-time attitude toward their site scale and correlated this with 20-25% of credibility variables for the two organizations.
The Take-Away

by the editors

The United States nonprofit sector continues to grow, now reaching 1.4 million organizations with $3.9 trillion in assets, but what is happening inside these giant aggregations? One large slice of this number, the 500,000 "nonprofits"—the dark matter of the nonprofit universe, organizations with less than $25,000 in revenues that have not been required to file Form 990 with the IRS—are subject to a new requirement of annual electronic filing, and are likely to shrink dramatically by 2010. For the rest of the nonprofit sector, revenues from charitable contributions and government funding are expected to increase, particularly among the largest organizations.

Organizational Slack (or Goldilocks and the Three Budgets) by Woods Bowman How does "slack" impact a nonprofit's ability to do its work? As Goldilocks might have discovered, those cold organizations with too little slack live hard to mouth and are unable to pursue the opportunities in front of them or weather the storms. Those hot organizations with too much tend to lose their dynamism to inflated salaries and expenses. Organizations that are neither too hot nor too cold keep sufficient resources to pursue opportunities and weather changes while staying lean and responsive.

Transaction Analysis, Nonprofit Style: An Interview with Richard Brewer Managers need to think in more nuanced ways about the transaction costs associated with their funding sources. Developing quality sources of funding that offer both external and internal diversity and key.

In Search of Sustainable Funding: Is Diversity of Sources Really the Answer? by William Porter, Ben Dixon, and Matt Hochstetler How do nonprofit organizations go about setting fundraising strategy? Many, it seems, adopt largely ungoverned morals or common wisdom such as "diversity." The relative dearth of detailed, pattern-level information on nonprofit funding, the authors set out to provide guidelines based on some initial research into two sub-sectors. A sample of organizations engaged in youth services and environmental advocacy suggests that nonprofits may follow a pattern with respect to the number and nature of funding sources as they grow in size. For more detail and possible implications of this "U-shaped curve," read on.

In Economic Redevelopment, Nonprofits Should Not Get Stuck in the Breechers by Judith Stodel It is a rational proposition that there is a place for nonprofits in economic planning. As nonprofits, we're entering a new territory. We shouldn't be afraid or hesitant about this, says one of the leaders of the New York's Nonprofit Executive Roundtable. This article examines two instances in which community or regional planning processes factored in the economic power of the nonprofit sector as part of the overall regional economic plan. Nonprofits are learning that the stakes in economic growth for community wellbeing are enormous for all community members, the opportunities for creative thinking are infinite, and nonprofit leaders must step up to collaborative leadership at these critical moments in regional economic history.

"How Do Employees Weigh a Candidate's Nonprofit Management Degree When Hiring?" by the editors Nonprofit management education is a burgeoning field full of enthusiastic promoters, particularly among those institutions offering them and the students who choose to pursue them. But, what do those who hire in the nonprofit sector think? Four conducted a national survey of its readers in which we received a flood of responses, most of which landed somewhere on a fairly short continuum from "I don't look at that type of credentials?" to "It may be a benefit on top of relevant experience.""Now You See It—Now You Don't: Conflict of Interest Demands More Than Just a Policy by Mel Gill APQ readers couldn't have been more engaged in an issue when they responded to our request for stories and questions about conflicts of interest. Nonprofit governance expert Mel Gill sorts through readers' quandaries and offers lenses for spotting and addressing conflicts large and small. Many instances of possible conflict of interest are not clear-cut, rather presenting themselves in shades of gray. Gill offers four tests for spotting conflicts and guidance toward crafting solutions.

Conflict of Interest: Mischief Not Upon Art: Abuse by Eric Cohen Some stories of nonprofit conflict of interest seem almost Shakespearean, with casts of tragic heroes, stabbing bishops, greedy villains, and occasionally theatrical sheriffs and constables. Conflict of Interest has captured the attention of the press and the public, but these stories reveal that what is or isn't conflict may be in the eye of the beholder. APQ's national correspondent tracks some particularly egregious examples of conflict of interest and the difficulties they present in the organization, law enforcement, and for the broader nonprofit field.

Preparing an Organization to Sustain Capable Leadership by Karen Gaskins-Jones How does an organization develop the capacity to sustain viable leadership over time? How does it become an organization filled with leaders who can effectively move an issue, program or business agenda forward? Karen Gaskins-Jones asks readers to think about succession planning as more than the conduction of a single leader. The newer way to think and approach succession planning is to cultivate several leaders that can fulfill different leadership roles. This "leader development" practice is reinforced through policy and an organizational culture that supports the sustainability of capable leaders within an organization.


Online Volunteering Enters Middle Age by Jayne Cravers So what's all the buzz about online volunteering? Isn't that a rather impractical and unwarranted way to contribute to a cause or organization? And surely, this must be something for the young and tech savvy generation. Jayne Cravers debunks much of what we know about the nature and potential benefits of volunteering via the Internet. In the process, she illustrates the shared underlying success factors for online and face-to-face volunteering, as well as how the two can build upon one another.

Emotional Return Sometimes the Most Measurable by Phil Anholt Phil Anholt focuses his satiric gaze on the tensions inside the Project for Peace in Existence, a successful Phoenix job training organization. When is a smarter communication strategy, documenting outcomes or tugging at the heart? More particularly, what should nonprofits do when their funders are far more interested in the emotional impact than in data? How can they best respond to their stakeholders?
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Emotional Returns Sometimes the Most Measurable

by Phil Anthrop

I had no idea when I joined the PPE board that an epic battle had been raging for years.

The Project for Pride in Existence was the most highly acclaimed job training organization in Phoenix, so I was thrilled to join the board shortly after I relocated to Arizona to head up Consolidated Mountain's Charitable Gift Fund. They wanted me on the development committee and I was happy to help.

PPE (as everyone calls it in Phoenix) is one of those organizations that the community just knew was excellent, and it seemed to be everywhere—with corporate sponsors, an appropriately pitched, glitzy-but-gritty annual fundraiser, state and county contracts, and a growing portfolio of local and national foundation grants and major donors.

What could go wrong in an organization lauded for moving long-term unemployed men into $17/hour jobs with benefits? I was headed for my Jeep after the PPE board orientation lunch at the Rita Carlton when Lupe Benegas caught up with me.

"I saw you agreed to be on the Development Committee. I think you should know what's actually going on," said PPE's young Deputy Advancement Director. Just then, Joe King, PPE's longtime President (a former priest and a community institution in his own right) came up to thank me for joining the board and ask about a mutual acquaintance, so Lupe Benegas shook my hand, gave me a knowing look and left.

This small interaction was a tip-off—but not about the nature of the issue. That was made painfully clear two weeks later at my first Development Committee meeting, in a screaming match over fundraising strategy between Benegas, Joe King, and Dorence Bennett, chair of the committee, one of the wealthiest people in Phoenix, and a self-described "business realist."

As I listened to the argument in the PPE President's office, memories of grade school battles between the "quants" and the "jocks" filled up my head. The Qualitative side was taken by Benegas. "This is not a rational process! The entire field of philanthropy has spent years discussing outcome measures, but the truth is we get superficial attention. What the hell is going on here?" Benegas wanted PPE to base its public communications and foundation proposals on the organization's carefully documented outcome measures, not on PPE's traditional anecdotes and emotional tug.

It was refreshing, and actually a little bewildering, to see "business realists" heatedly take the opposite tack. "Foundations and corporations will never base their decisions on a numerical equivalent of college entrance calculations—a simplistic two-axis grid of GPA and SAT scores. This is why engineers tend to be poor fundraisers; they expect a result based on reason alone! These are humans, for God's sake! With emotion! You have to engage them!"

"Do you think $10 million donors considering Yale and Stanford would make this decision based on graduation rates and GPAs?" continued Bennett. "No, they made their pile, and now they're going to enjoy it."

Joe King didn't call himself a "charity realist," but he just as well could have. "Lupe, I know you have a master's degree that was all about measuring results, but what's going on here is different. Ultimately, it's about creating an emotional return on investment," King said. "What is of greatest consequence is how the contributor feels after a donation—and that is true of mega-donors and large foundations as well as for $5 donors."

I could see that Bennett and King were seeing no points with Benegas, who had invested thousands of hours in outcome measures with voluminous documentation, only to be side-stepped by compelling stories of heroic single fathers, DADS of toddlers, employees...

Continued on page 79.