Hybrids, Hybridity & Hype

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André on Shades of Hybrid Accountability

Karpf on Political Advocacy and New-Form Nonprofits
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Features

3 Welcome

4 The Nonprofit Ethicist
by Woods Bowman

6 Hybrids, Hybridity, and Hype
The new nonprofit-business hybrids that have been cropping up lately assert that they are a distinct form. But are they?
by Ruth McCambridge

12 Hybrids and Competing Logics: Observant Dispassion Is Called For
In this article, the authors propose a useful framework for assessing hybridization in the sector: institutional logics.
by Fredrik O. Andersson and Brent Never

18 All Enterprise Is Social: Measuring the Impact of Endeavors across the Profit Boundary
There is exciting, innovative activity at the intersection of investment and philanthropy, but, the author maintains, the innovations are constrained by old-fashioned thinking.
by Buzz Schmidt

24 Corbin Hill Road Farm Share: A Hybrid Food Value Chain in Practice
This article describes how nonprofit partners transformed a simple food supply chain into a hybrid food value chain.
by Nevin Cohen, PhD, and Dennis Derryck, PhD

36 Fifty Shades of Accountability: Governmental-Nongovernmental Hybrids
What happens to accountability when you begin to create hybrids by sector?
by Rae André, PhD

46 Disruptive Hybridity: The New Generation of Political Advocacy Groups
This article looks at the Internet’s effect on American political organizations and outlines how changes in information technology have transformed their “organizational layer.”
by David Karpf, PhD

54 From “Building the Actions” to “Being in the Moment”: Older and Newer Media Logics in Political Advocacy
Here, the author explains that a hybrid media system is replacing the media logics of the past, and uses the U.K. citizens’ movement 38 Degrees to illustrate.
by Andrew Chadwick, PhD
62 Social Responsibility or Marketing Ploy? The Branding of L3Cs
What exactly are L3Cs, how are they currently operating, and what potential problems do they pose for the nonprofit sector?
by Rick Cohen

76 Celebrating “Small Batch” Social Enterprise
This article compares two different stories of social enterprise—the heroic and the “small batch”—and outlines the different values that they represent.
by Brian Cognato

80 Hybridity and Nonprofit Organizations: Next Questions
The development of hybrid nonprofits poses new challenges for organizations, but relatively scant research has been devoted to analyzing the implications or developing strategies for management.
by Steven Rathgeb Smith, PhD, and Chris Skelcher, PhD

88 Dr. Conflict
Whether buried conflicts in the workplace or a pathological executive director, no problem is too difficult for the good doctor.
by Mark Light, MBA, PhD

90 The Tyranny of Success: Nonprofits and Metrics
In this article, the director of the Bradley Center for Philanthropy and Civic Renewal at the Hudson Institute raises questions about how an obsessive focus on outcomes and insistence on proof of “success” threaten to gut the work of the sector.
by William Schambra

96 Boards as Bridges
Are there revenue streams around your organization that are untapped? And is your board well enough structured to bridge a relationship?
by Brent Never

100 Thoughts on the Relevance of Nonprofit Management Curricula
How has nonprofit management curricula evolved, and are they meeting the demands of today’s leadership challenges?
by Judith L. Millesen, PhD
Welcome

DEAR READERS,

Welcome to the spring 2014 edition of the Nonprofit Quarterly! The theme of this edition is hybrids, and for me that is exciting on both a practical and a theoretical level. I am a big fan of designing organizations to do and be what one wants—of not boxing oneself into an unnecessary corner in order to emulate rather than innovate—and I am also a big fan of the research that informs all of that.

But I know that there are some readers who will come to this edition thinking they will get their fill of enthusiastic discussions about the unbounded promise of such entities as L3Cs and benefit corporations. We do cover these but as part of a much larger landscape of hybridization—one that includes exciting experimentation with new and borrowed practices in the realms of revenue development, governance, and engagement of staff and stakeholders. The definition we are using of a hybrid is an organization that mixes institutional logics, which is discussed in a number of articles here but particularly in those by Steven Rathgeb Smith and Chris Skelcher, Fredrik O. Andersson and Brent Never, and Andrew Chadwick.

The fact is, hybrids are having an enormous impact on society in general—something that is made especially clear in articles in this issue by David Karpf and Chadwick—but, during this deeply evolutionary, era-change moment, we need to beware of getting distracted by cheerleaders for any particular type.

Here is what worries us: the potential for reduced or muddy accountability in some of the new sectoral mixes of hybrids. This is addressed on the nonprofit/for-profit side in the article on L3Cs by Rick Cohen, and on the nonprofit/government side in the article on quangos, GSEs, and the like by Rae André.

Here is what excites us: Wikipedia, MoveOn.org, ProPublica, and any number of other brave attempts at an organizational differentness that fits the world as it exists and propels us to the best future we can envision. None of these will function perfectly, but each will have things to teach us.

We want to thank our volunteer editors and everyone else whom we consulted or tapped as writers for helping us to shape this complicated but very timely edition of NPQ. We could not have done it without you!

At the core of Kevin Sloan’s work is a deep concern and respect for our planet, particularly its “silent inhabitants”—the animals and plants with whom we share this world. Often lush, sometimes stark and theatrical, Sloan’s paintings ask more questions than they present answers, aspiring to start a conversation about our relationship with nature in this modern, technological, and quickly changing era. His work consistently refers back to nature while acknowledging contemporary society, and thus creates a dialogue between the modern world we’ve created and the fragile, quiet, yet always present natural environment. More of Sloan’s work can be viewed at www.kevinsloan.com.
The Nonprofit Ethicist

by Woods Bowman

When an employee complains about the longstanding unfair gap between executive pay and lower-ranking employees’ salaries, the Ethicist counsels: form a union or submit a comparison report between the agency in question and other nonprofits to the personnel committee, and get the attention of the board!

Dear Nonprofit Ethicist,

Our agency has a board committee that reviews personnel evaluations and makes salary recommendations to the executive director, although he is not bound to follow them. Nevertheless, when the committee developed a policy referencing a statewide, reputable salary survey of nonprofits, our staff expected salaries to be brought into line with the market. Now, four years later, our director is near the top of the executive scale while everyone else is stuck in the 25 percent to 50 percent range, although our evaluations typically exceed expectations. Our agency’s finances are good and not a barrier to increasing wages. How do we increase our salaries and deflect admonitions to “just be grateful that you have a job”?

We want to restore what integrity we can as we wind things down.

I am involved in several community organizations, so I cannot do anything that would create negative publicity. Committee members are scared to vote to unseat the loose cannon. She would carry on as usual, anyway.

In a Quandary

Dear In a Quandary,

What a mess! Fortunately, you are closing down this organization. Check to see if Friends of XYZ is a separate 501(c)(3) organization with a board of directors. If it is, that board should be controlling the activity to ensure that it conforms to regulations; for instance, helping a specific individual is not a charitable purpose, and if donors are unaware that they are giving toward that end, the appeals are unethical, if not fraudulent. Can you get the board of XYZ (without naming names) to close down all solicitations that have the organization’s name associated with it by sending out a letter to the community and through the media stating loudly, clearly, and repetitively that XYZ is closing and no donations should be made in its name? Your letter should not mention this charismatic volunteer. The real issues are that XYZ is closing and Friends of XYZ is operating without XYZ’s encouragement or approval.
Dear Nonprofit Ethicist,

My nonprofit recently had a very expensive gala. Sponsorships were $15,000 per couple, with a fair market value of $1,500. Many attendees paid through their charitable foundations; one paid it from an IRA; still others paid $1,500 from personal funds and $13,500 from donor-advised funds (DAFs). Checks from DAFs carry the inscription, “By cashing this check the recipient organization confirms that the donor received no goods or services for this donation.” One couple had a DAF send a check for $1,500, then said, “We meant $15,000. We’ll send the balance.” The DAF sent another check for $13,500. The director of development did not feel that it was ethical or appropriate to receive funds in this way, but many of the donors were officers of the organization. The president of the board also insisted that all attendees be given, for no additional charge, one-year sponsor-level memberships worth $10,000 per couple. Needless to say, writing acknowledgments was problematic.

Dear Troubled,

That must have been some party! But do not worry about donors who pay from their foundation and IRAs: it is up to them to account for the transaction correctly. You are off the hook—assuming you correctly acknowledged the market value of goods and services.

Sponsorships are honorific and have no market value per se. However, if sponsoring members receive benefits for which others must pay, the gala’s acknowledgment letter should report the sum of the market values of the gala and the benefits associated with sponsor-level membership. You can follow up with a simple corrected acknowledgment.

The intentionally careless DAF donors are a bigger problem. An amended acknowledgment will not work, because they received a tax benefit when they put money into their DAF, not when they withdrew it. The cleanest fix would be for them to write a personal check for the market value of all benefits—$1,500 plus annual sponsor benefits—but not deduct it on their tax return. If they give the money and deduct it anyway, the IRS will have a problem with them, not you.

The first check, for $1,500, should have made somebody suspicious. They should have called to verify the donors’ intentions and returned the check when they said it was for tickets. Next year, keep a close eye on all checks from DAFs and, more importantly, you should anticipate these problems and publish guidelines for donors.

Dear Nonprofit Ethicist,

I work for a small nonprofit charter school that employs unlicensed teachers, which is against state law. We have not informed families of this practice, and my colleagues have been asked to do various things to hide this fact, including falsifying documents and reports connected to government and other funding. We classify the unlicensed teachers as teaching assistants, but they are actually teaching. They were hired before licensure was required, and when we became a charter school they were required to become licensed, but they felt it was unfair to require it of them and we decided to do this work-around instead of protesting the “unfair” requirements. The board is in support of finding a legal way to remedy the situation, but it is stymied. If I call the state department of education they may shut us down, but we have no market value per se. However, if sponsoring members receive benefits, the gala’s acknowledgment letter should report the sum of the market values of the gala and the benefits associated with sponsor-level membership. You can follow up with a simple corrected acknowledgment.

Dear Conflicted,

Falsifying documents is a crime, and concealing material facts from parents is nothing short of shameful. It makes no difference whether the licensing requirements are fair or not. If your school had objected to the requirements it should not have sought a charter, and your board’s dithering is not helpful now. Try to get everyone to face facts, because: (1) the state won’t change its policies just for your school’s benefit; (2) it will surely discover the deception sooner or later; and (3) when it does, do not expect mercy from it or parents, because you do not deserve it.

Before you blow the whistle, try to convince your CEO to begin a conversation with the state department of education about what to do with unlicensed teachers and how to inform parents. Charter schools are popular these days, and states do not want to close any if they can avoid it; neither do they want public scandals, which you are certainly headed for if you do not get in front of this problem—stat. Your state may give you a grace period to get the “teachers” licensed. Your board should authorize tuition reimbursement and time off for personnel who seek licensure. Some colleges in your area may give credit for experience, which will also help. Your school should reassign uncooperative personnel to be actual teaching assistants and replace them with fully credentialed teachers. By the way, does your curriculum include ethics? Your teachers might learn something.

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

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Hybrids, Hybridity, and Hype

by Ruth McCambridge

Not only are there no substantive distinctions between the new “boutique” hybrids and the other formal hybrids that have been around for half a century—there have been informal hybrids of all kinds throughout the nonprofit sector historically. The important question to keep in mind where hybrids are concerned, however, is not, Are these business-nonprofits a new form? Or even, Are they a better form? But rather, Are they in the end accountable to the market or to the public they profess to serve?

Ruth McCambridge is the Nonprofit Quarterly’s editor in chief.
The only clearly stated reason for nonprofit/for-profit hybrids is that somehow the profit motive will lend some motivation or drive innate innovative capacity within the social enterprise environment—and the facts simply do not support this.

First, the Times Call for Redesigns

The times are exciting in that they are calling for new forms, more porous boundaries, different types of relationships, and a different way in general of getting things done (and even of determining what needs to get done). Informing visionary hybridity is the powerful meeting point of technological advances and social longing. It is not time to fix on any particular new vehicles but, rather, to experiment.

But, about the Hype . . .

The promoters of the boutique hybrids make strong distinctiveness claims that have given them a “halo effect” in some circles. They assert that the new form being promoted is completely different and better than what might otherwise be constructed, and that the resulting organization will be savvier and more current. This is, as far as we can determine, untrue; rather, claiming one of the new forms seems to have become a competitive positioning move vis-à-vis funders—a code of sorts that somehow sets them apart (for instance, as better investments than regular nonprofits). NPQ believes that any actual substantive distinction in many of the sectoral hybrids has more to do with issues of ownership, accountability, and distribution of resources than anything else (business acumen or excellence or scalability)—and those distinctions may not be positive.

Hybrids R Us

These new nonprofit-business hybrids are not the only formal hybrids we have been dealing with, of course. Quasi-autonomous nongovernmental organizations (quangos), government-sponsored enterprises (GSEs), congressionally charted nonprofits, and, in a more informal way, organizations that are fully contracted to government have been in our midst for half a century. But hybridity as discussed in this issue has to do with the marrying of diverse institutional logics in one organization; and, if we look at it that way, there are informal hybrids of every kind all through the nonprofit sector, as there have been historically. Nonprofits that engage in some kind of business enterprise, even as core to their central activity, are as common as pebbles on a beach: there are child care centers that charge families who can afford it; the Met sells tickets; and nonprofit hospitals sell care and rent rooms. They meld donative logics with business logic. Some nonprofits manage legal and other tensions related to this through establishing associated organizations, but many do not.

In short, we need not change form or tax status, nor make up new categories of organizations, to achieve hybridity; the potential for enormous flexibility is already written into nonprofits.

Additionally, hybridity does not have to be achieved in an individual organization. Like scale, hybridity can be neatly achieved through networks; and, in fact, this may better guard the nonprofit’s organizing principle as functioning first in the best interests of constituents. And the truth is that hybridity through networks is historically present in every community, since communities are by nature hybrid spaces. In some ways, you could look at sectoral distinctions like the three branches of government: they are different by design and to good stead.

Is Sectoral Hybridity Driven by Faulty Logic?

What we were left with after researching this issue was the sense that much of what is being branded as new nonprofit/for-profit sectoral hybridization is pure hype, add-ons, and unnecessary distractions. We have not been able to make logical sense of the arguments for these hybrids. The only clearly stated reason for nonprofit/for-profit hybrids is that somehow the profit motive will lend some motivation or drive innate innovative capacity within the social enterprise environment—and the facts simply do not support this. The idea that an organization must be a for-profit if it is to achieve scale or to be well run and financially sustainable over time is nonsense, as is the idea that every for-profit will exploit anyone in sight for cash. Neither sectoral home is a decider of destiny, but it does guide decision making in ways that are clear beacons to behavior.

There are many nonprofit organizations functioning as hybrids of some kind out there.
[T]he choice of sector is a statement of values that binds an organization to shared governance, public accountability, nondistribution, and the commitment to work to public benefit.

Sectors: The Distinction with a Difference
An institution’s sector, which guides its institutional priorities and accountability streams, appears often to be important when you look at outcomes. There are some fields in which you can see the comparative results of nonprofit versus for-profit—nursing homes, hospices, schools, and even aquariums—and there are many indicators pointing to outcomes being affected by the sector.

For instance, NPQ has done a number of articles on the growing presence of for-profit corporations in the hospice care “industry,” and the effect their presence is having on cost and quality of care. One hospice organization, Vitas, started in Miami but now operates in eighteen...
Over the same period of time that for-profit groups have aggressively entered the field of hospice care, Medicare costs have increased precipitously. And these numbers are not isolated. Over the same period of time that for-profit groups have been aggressively entering the field of hospice care, Medicare costs have increased precipitously. The Department of Health and Human Services says that Medicare spending on hospice care for nursing facility residents jumped nearly 70 percent between 2005 and 2009, from $2.55 billion to $4.31 billion.

A number of investigations and suits have been launched around the country regarding for-profits’ flouting of eligibility requirements. Watchdogs charge that for-profit hospice providers locate more-profitable patients and serve them in greater abundance as part of their business model, and this can become a problem when the patient is actually ineligible—that is, not within six months of death. Some speculate that the for-profits are taking patients—including Alzheimer’s and dementia patients—too soon, possibly through sweetheart deals with nursing homes, resulting in longer-term care. These patients also generally cost less to treat, thus hiking up profits even further.

Nursing homes show similar disparities. A report released by federal healthcare inspectors in November 2012 revealed that there is approximately $1.5 billion in Medicaid overbilling by the nursing home industry. But Bloomberg Businessweek filed a Freedom of Information Act request and dug a little deeper, finding in their sample that for-profit nursing homes overcharged at a rate of 30 percent in comparison to nonprofits, which overcharged at a rate of 12 percent. The overcharging was through the filing of improper claims.

The article states, “The figures add to the case—advanced by healthcare researchers and Medicare overseers in at least six government and academic studies in the last three years—that the rise of for-profit providers is fueling waste, fraud, and patient harm in the $2.8 trillion U.S. healthcare sector. At nursing homes, 78 percent of $105 billion in revenues went to for-profits in 2010, up from 72 percent in 2002.”

Medicare accounts for approximately a third of nursing home revenues, and Medicaid, the state-federal health insurance program for the poor, accounts for nearly half, with most of the rest from private payers. There is a 20 percent profit margin on Medicare patients in for-profit facilities compared to 9 percent for nonprofit operators, according to the Medicare Payment Advisory Commission (Medpac), an arm of the U.S. Congress. How is this achieved? Is it better management? According to Health Services Research, it is about quality of care; the ten largest for-profit nursing home chains employed 37 percent fewer registered nurses per patient day between 2003 and 2008 than did nonprofits—and they received 59 percent more deficiency notices from government inspectors.

The provision of clinically inappropriate treatments to maintain the highest of reimbursement rates, efforts to preserve high census counts by retaining patients past the point when need exists, and growth of the involvement in healthcare of private equity firms—especially in areas where reimbursements are high or growing—threaten the well-being of an aging American public.

NPQ recently wrote a newswire about Bain Capital’s having purchased Habit OPCO, which has twenty-two clinics in New Hampshire, New Jersey, Massachusetts, Pennsylvania, and Vermont. CRC Health Group, owned by Bain Capital, calls itself the nation’s largest provider of addiction treatment services, and its website says it owns 154 treatment facilities across the country (along with eating disorder programs, boarding schools, and wilderness camps).

According to a Salon article titled “Dark Side of a Bain Success,” from July 2012, The CRC acquisition immediately made Bain owner of the largest collection of addiction treatment facilities in the nation. Unlike some Bain Capital acquisitions, which led to massive layoffs, the company’s approach with CRC was to boost revenues by gobbling up other treatment centers,
raising fees, and expanding its client base through slick, aggressive marketing, while keeping staffing and other costs relatively low. But that rapid pace of acquisition couldn’t be sustained in the mostly small-scale drug treatment industry alone. So Bain Capital and CRC set their sights on an entirely new treatment arena: the multibillion-dollar “troubled teen” industry, a burgeoning field of mostly locally owned residential schools and wilderness programs then serving, nationwide, about 100,000 kids facing addiction or emotional or behavioral problems.10

The article goes on to detail an array of lawsuits and investigations related to the company and its subsidiaries.

Are there some fields that would be better served by removing the profit motive—where, in other words, nonprofits should be the preferred provider? It seems so, if we care about the quality of care provided to the sick and elderly, and if we care about out-of-control medical costs.

There are examples in education, too, such as for-profit colleges and for-profit management of charter schools and elsewhere. That said, in this issue Buzz Schmidt advocates for far greater accountability measures for all sectors—and if such a culture were in place, we might feel differently. But for now NPQ sees the distinction of sector as being an important indicator of values and too important to eschew when nothing practical counterbalances.

NPQ is pleased that the economy is in flux and that new forms of organizations will abound—engaging their stakeholders in new ways, creating value in new ways, being measured in new ways. But the fixing on legal hybrids at this time appears unimaginative and lacking in foresight. No doubt there will be changes to law that come as the churn continues, but let’s be sure that those changes demand more rather than less accountability to the public.

Notes
3. Ibid.
6. Ibid.
7. Ibid.
8. Ibid.

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Hybrids and Competing Logics: Observant Dispassion Is Called For

by Fredrik O. Andersson and Brent Never

There is concern that the sectoral and organizational hybridization touted by many as the solution to any number of social challenges may lead to a “muddy middle,” where it will be hard to distinguish between, for instance, a nonprofit and a business venture.

If we look at how different sector logics interact and compete for control, this will allow for dispassionate observance of the mixing of institutional logics, so that we “stay open to the challenges” but “awake to unanticipated consequences.”

As we seek to understand the complex structures and processes of our community, it is common to categorize society into various sectors. One such categorization differentiates between the public, for-profit, and nonprofit sectors. While no macro classification is perfect and must be handled with care, the three-sector notion draws attention to the idea that public agencies, firms, and nonprofit organizations are not identical entities sharing the same goals, means, and environs. Accordingly, we have specialized scholars and practitioners attempting to distill, analyze, and explain the unique essence of each sector, and today students can choose from a smorgasbord of educational opportunities depending on whether they seek a career in public, business, or nonprofit administration and management.

Although many find it feasible and practical to differentiate public agencies, for-profits, and nonprofits from one another, the environment in which these organizations operate has shifted in recent decades. The stability, consistency, and rationality of the industrial society has been replaced by a knowledge society characterized by rapid, frequent, and often unexpected changes, immense diversity, uncertainty, and stiffened competition. This new economy is built on speed, creativity, and innovation, and the message to organizations is that to succeed and survive they must be willing to continually change and adopt novel approaches. One way to insert novelty is to look to and adopt ideas, methods, language, and knowledge from the other sectors. For example, there have been calls for government agencies to be more “entrepreneurial,” nonprofits to be more “businesslike,” and firms to be more “social.” As a result, we have witnessed a steadily growing focus on and interest in concepts such as new public management, social entrepreneurship, and social enterprise.

There are different ways to interpret this development of sectoral and organizational hybridization. Some praise it as the solution to new or persistent social problems; some worry it can have adverse effects, diluting or undermining the unique value created within each sector; and some foresee greater homogenization, thus creating a muddy middle where it is increasingly difficult to separate, for example, a nonprofit from a business.
are the compass guiding
a community of actors
held together by their
mutually shared values
and associated practices.

Defining Institutional Logics

Institutional logics can be described as the organizing principles for a particular sector or organizational community. In other words, they are the compass guiding a community of actors held together by their mutually shared values and associated practices. Typically there are dominant institutional logics governing a particular organizational community, as noted by Patricia Thornton: “Institutional logics, once they become dominant, affect the decision of organizations [...] by focusing the attention of executives toward the set of issues and solutions that are consistent with the dominant logic and away from those issues and solutions that are not.”¹ Since institutional logics steer and direct behavior of organizational actors, understanding these logics can also help define a sector or organizational field.

Furthermore, logics serve to help organizations understand a complex and dynamic world. One may even argue that as the pace of change increases—partly pushed by the rush of information that can inundate managers—there is a greater need for institutional logics to sort important information from that which can be discarded. More importantly, logics are also the normative lens on organizational action—not only helping managers to understand what is possible but also helping them to understand what is permissible. For instance, a popular belief is that we judge nonprofit organizations on their impact, or even their sound financial acumen, yet nonprofits are also judged on their fit with peer organizations. Institutional logics are a guide to understanding this fit. Finally, logics also help us to understand institutional and sectoral change, as new logics can emerge within a community and become dominant.² Thus, institutional logics offer one way to comprehend hybridization by examining how different sector logics interact and compete for control.

Public, For-Profit, and Nonprofit Sector Logics

The traditional logics associated with the public sector involve, not surprisingly, significant political dimensions such as social equity, issues of majority rule-minority rights, democratic and participatory administration, and the commitment to the effective and equitable provision of public services. More specifically, since the somewhat mythical founding of modern public administration by Woodrow Wilson in 1887, perhaps the essential logic of a modern public sector has been bureaucracy. Wilson’s work was written in an era of political corruption and graft, and thus bureaucracy was a positive term and logic that engendered concepts of impartiality, efficiency, and merit. Even though the bureaucratic logic has been immensely scrutinized over the years, it maintains a strong hold in the public sector. A second logic that dominates the public sector concerns control, with Americans preferring some aspect of democratic control in how their services are governed. Control can come through the ballot box, through the action of elected representatives, or through the media. The logic of control can conflict with the logic of bureaucracy, in some senses creating a “no-win” situation for public-sector leaders.

The for-profit sector works almost entirely within the logic of the market, which entails an emphasis on competition, economic value creation/returns, and entrepreneurialism. Businesses are expected to make (and are commended for making) choices that increase their size, profitability, or ability to scale in the future. Within this logic there is great freedom to innovate, so long as the innovation does not overtly violate society’s understanding of fairness. Fairness is codified in formal laws and rules yet does not have a perfect one-to-one overlap: businesses that have violated laws can escape public criticism if the illegal behavior is interpreted as justified or merely the action of an overzealous individual pursuing the market logic.

The highly diverse nonprofit sector consists of a series of defining logics. First, there is a logic...
Organizations do not conform to a single logic but rather exist in a matrix of lenses that magnify what actions are permissible.

rooted in selflessness, altruism, and noncoercion, expressed via activities such as charity, philanthropy, and volunteerism. These activities are closely intertwined with the sector’s instrumental rationale as the provider and contributor of social goods and services to national and regional life. A second logic defining the nonprofit sector reflects its role as a generator and sustainer of social capital, i.e., the glue or bond of trust and reciprocity that appears essential for an effectively functioning market and democratic society. As stated by Elaine Backman and Steven Rathgeb Smith, “nonprofits may be more capable than government or market organizations of generating social norms of trust, cooperation, and mutual support due to their noncoercive character and appeals to charitable and social motives.”3 The third logic is based in the expressive and pluralistic function of the nonprofit sector. As described by Lester Salamon, the nonprofit sector is vital in and of itself as it provides, nurtures, and sustains a sphere of private action and “a crucial national value emphasizing individual initiative in the public good.”4 While individuals may take action to promote their own well-being, many initiatives involve marshaling attention to and action around lingering and/or new social and economic issues.

Changing Logics and Hybridization

So far we have used the notion of institutional logics as a way of framing each sector, but if we are to make sense of hybridization we must put attention to how institutional logics shift and evolve.

Over the past century, management theory has oscillated between two poles: one that holds that organizations are based in human action (meaning that they are fallible and decidedly social creations with all of their intricacies) while the other holds that organizations are rational systems designed for efficiency. The industrial engineering movement of the 1950s and 1960s, pushed by the first introduction of computers, sought to rationalize how organizations converted inputs into outputs. Several scholars in the 1970s observed something that practitioners would find to be intuitive: organizations have all sorts of warts and bumps that are not rational at all but also do not go away over time. Institutional theory was based in the idea that organizations are social creations, where conformity to what is viewed as “right” is more important than rationalization.

In their seminal work, Paul J. DiMaggio and Walter W. Powell describe a world where organizations begin to look a lot alike.5 Consider your doctor’s office: as you walk into the waiting room, you can guarantee that there are stale magazines, anemic office plants, and a receptionist at the front. This process of isomorphism is driven by normative pressures (“Hey, I get nervous without old magazines”), coercive pressures (“The state of California mandates at least six inches between each chair”), and mimetic pressures (“Dr. Steven’s office is where everybody goes, so we need to look like her office”). In reality, this is a dreary world where we are all drifting toward homogeneity.

Institutional logics inhabit this world, but with the exciting idea that they can also be appropriated and manipulated by savvy leaders. Organizations do not conform to a single logic but rather exist in a matrix of lenses that magnify what actions are permissible. Just like Russian dolls, logics are nested in each other, from the largest societal levels all the way down to each organization. Roger Friedland and Robert Alford lay out five core societal institutions, each with a logic: the capitalist market, the bureaucratic state, families, democracy, and religion.6 The recent debate about healthcare reform brings forward several of these logics: the primacy of the market in offering choice to consumers, the rhetoric against the bureaucratic state, and even discussion about the need for a democratic process in making choices.

At a lower level, organizations exist in groupings, such as domestic violence shelters in a region. Here, too, are institutional logics that are subsumed in the societal level but are more particular to the specific locale. Nonprofit hospice organizations might value the logic of family before the logic of the market, and may bristle at for-profit hospices that seemingly do the opposite. With that said, at a higher level the societal logic that values market-based solutions comes to the fore as investors in for-profit hospice want to see financial returns irrespective of whether or not family was at the heart of decision making. Lastly, organizations themselves have logics that have developed over time. Founders may
A major shift in the nonprofit sector logic has come from how government (and to a certain extent society at large) views how nonprofits should be funded. Over the past sixty years, the government-nonprofit relationship has ebbed and flowed, partly due to the political ideology of the day as well as the amount of resources available for distribution to the nonprofit sector. Largely beginning in the 1960s, the federal government in particular began to fund nonprofit human service organizations to perform services that previously had either been produced by government or not been part of the welfare state. The nonprofit sector rapidly expanded in this period, given its increased role as adjunct to the state. The evolution changed complexion in the 1980s when the Reagan Revolution transformed the rhetoric from government as a force for social change to government as the enemy. The nonprofit sector, to a certain extent, was able to capitalize on the devolution movement. For conservatives, nonprofits represented an American good: the charitable impulse that solved society’s problems through innovation and local solutions. For liberals, nonprofits represented community action and a commitment to social justice. The devolution movement of the 1990s, sped along by welfare reform, placed nonprofits as preferred contractors in human services.

The recessions that bookended the first decade of the twenty-first century have caused governments to question whether they should continue to provide different human services; in addition, there is great concern about whether nonprofits are sustainable, meaning that they can continue to provide services even without government funding. A new logic, one that is often framed by social enterprise or social entrepreneurship, has flipped our understanding of charities. No longer should they abstain from aggressively raising revenue and even investing in the capacity to generate more; rather, they should be innovative in searching out opportunities to gain sufficient revenues to increase the scale of their impacts. For example, universities are no longer supposed to rely on state allocations but rather should seek collaborations with industry, develop paid programming for community members, and actively seek to take market share from universities in other states.

Hybridization and Sector Logics
Sector logics continually evolve over time—some cataclysmically, such as occurred with the American public sector during the “Reagan Revolution,” and some slowly, such as is occurring with the public’s acceptance of social engagement in the for-profit sector (benefit corporations, etc.). We argue that the dominant logic of the nonprofit sector, namely charity and social benefit, has been tugged and contorted out of financial necessity in the past generation. Fifty years ago, the idea that a YMCA would create revenue-generating ventures conjured images of bake sales and basketball leagues. Today they can range from securing economic development incentives for re-creating neighborhoods to strategically partnering with for-profit gyms in order to better reach communities in need. Charities have truly stepped outside of the traditional logics, but that is not to say that this transition has been easy.
Logics are not objective things but rather subjective normative constraints that stakeholders develop to focus attention in a confusing world. Organizations that seek to capitalize on the shift in logics face difficult decisions about how best to position their actions. Internal and external stakeholders may still fervently believe in the more traditional logic of charities, while others may want nonprofits to “act more like a business.” Savvy leaders have a pulse on how their stakeholders construct their impressions of the field, with an eye to revealing actions to groups in formats that are complementary to their existing logics.

Organizations are also able to create structures that buffer themselves from the perceived misfit with logics: universities create business parks and patent development offices; hospitals create doctors’ practices and industry partnerships; organizations that have already made the fundamental choices about their legal structure—L3C, B Corp, public charity—continue to be able to create hybrid structures to capitalize on the continual evolution of sector logics. The jury is out on their success.

Moving Forward

Today it is not a question of if but rather how hybridization and competing institutional logics impact the nonprofit sector. One area where hybridization has become a prominent feature is the social entrepreneurship movement. Many social entrepreneurs wanting to start new organizations or find innovative solutions today appear uneasy and unwilling to commit to one sector logic and instead try to balance essential features from multiple ones. This is captured in notions such as the triple bottom line (profit, people, and planet) and social enterprise. Still, whether or not hybridization is a sustainable or effective path forward remains unclear. For example, in institutional scholarship, the concept of institutional change is commonly viewed as a transformation from one dominant logic to a different dominant logic. In other words, having coexisting multiple institutional logics is not a stable situation but a temporary state not likely to be sustained. On the other hand, nonprofit actors are used to operating in a multi-logic environment. Thus, are they to prepare for a battle between rival institutional logics in the nonprofit sector, or are they perhaps witnessing the emergence or evolution of a nonprofit sector with the ability to collaboratively use and be guided by multiple, seemingly different, logics?

Important questions about governance, accountability, and effectiveness are raised elsewhere in this edition of the Nonprofit Quarterly. All of these issues related to the mixing of institutional logics need careful, ongoing examination by dispassionate researchers; in addition, practitioners may need to become more adept at looking at the social experiments of hybridization as just that—staying open to challenge and attentive to unanticipated consequences.

Notes


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All Enterprise Is Social:
Measuring the Impact of Endeavors across the Profit Boundary

by Buzz Schmidt

It is time for “conscious investors” to unchain themselves from old-fashioned concepts and arbitrary distinctions, in order to invest “intelligently and farsightedly as we must for our communities and global society to achieve their potentials.”

In recent years, it has been exciting to observe all the innovative activity at the intersection of investment and philanthropy. Still, I am frustrated—for after all is said and done, the leaders and adherents of this movement (for simplicity’s sake, let’s call them “conscious investors”) are almost as cognitively constrained as the most traditional investor. They allow two strands of old-fashioned thinking to limit their innovations and ultimate effectiveness.

Buzz Schmidt, principal of Building Wherewithal, is the founder of GuideStar and chair of the FB Heron Foundation.
Isn’t it time to focus on the full examination of each enterprise, both for- and nonprofit, as we make investment and grant decisions and construct our portfolios?

First, they remain largely stuck in silos established by the tax code, corporate identities, and the public/private company distinction. Second, their work is circumscribed by a set of limiting fiscal “truths” emanating from professional schools.

These strands prevent them, and the rest of us, from analyzing the world and the work of its enterprises as they really are. More importantly, they keep us from investing and granting as intelligently and farsightedly as we must for our communities and global society to achieve their potentials.

This article contends that it is time for conscious investors to think very differently. It holds that enterprises across traditional categories have more similarities than differences. It identifies the old-fashioned ways of thinking and “best practices” that limit our imaginations and potential. Finally, it suggests an alternative approach for assessing the holistic societal value of all enterprises, untethered from corporate identity or tax status.

The Technocrat’s Canon of Best Investment/Grantmaking Practice

The strategies of the “conscious investors” at the intersection of investment and philanthropy feature a glossary of evocative terms, such as: shared value; social impact bonds; impact investing; corporate social responsibility (CSR) reporting; benefit corporations; impact reporting and investment standards (IRIS); charting impact; balanced scorecards; sustainable procurement; social enterprise; social return on investment (SROI); environment, social and governance (ESG) screens; nonprofit business models; venture philanthropy; philanthropic equity; double and triple bottom lines; and blended value.

With all this new vocabulary, we should be excused if we can no longer determine where one tax status ends and another begins, or whether the profit motive is the principal driver of operational excellence, regardless of social motive. This vocabulary raises two fundamental questions that we’ve never seriously entertained: (1) Do the corporate forms and tax statuses we now almost invariably use to distinguish among enterprises actually blind us to their similarities, especially with respect to the basic work that they do and their impacts upon society? (2) Isn’t it time to focus on the full examination of each enterprise, both for- and nonprofit, as we make investment and grant decisions and construct our portfolios?

When we look at our commercial, nonprofit, and hybrid enterprises broadly and holistically—beyond the overlay imposed by state corporations commissions and the U.S. tax code—we find fundamental similarities across the board. These enterprises employ us and make possible the development of skills and experience throughout the workforce. They deliver goods and services, respond to our needs, and solve our problems. They build physical and technological infrastructure. They generate knowledge and spin out new enterprises. They also deplete natural resources, including a stable habitable climate, and have the potential to compromise public trust in our political and financial systems. They each have these types of fundamental impacts upon society—characterized inaccurately (and ill-advisedly) by economists as “externalities”—which result both from what they are in business to do and how they conduct their work. In these and many other ways, they impact the store of regenerative capital necessary to propel society through time.

Very few of our conscious investors are looking at the whole and what this remarkable change in vocabulary should mean for investment and philanthropy generally. Instead, they work independently to push distinct envelopes within traditional portfolio categories. Impact investing promotes newish, privately held “for-profit” social enterprises; venture philanthropy, philanthropic equity, and social impact bonds look for data-receptive, mission-focused “nonprofit” enterprises for their grant programs; ESG screens and CSR reports are directed toward publicly traded corporations in their equity allocations; and so on.

As with those who lead and govern the investment houses, foundations, consultancies, media, corporations, and leading nonprofits, the conscious investors’ freedom of thought is also constrained by a ubiquitous but limiting technocratic
What are the components of a healthy society’s inventory of capital, and how might individual enterprises impact these?

A canon of best practice for investment and serious philanthropy, which holds that:

- All investments within a portfolio are intrinsically interchangeable financial risk/return cogs in an asset-allocation algorithm;
- Portfolios must be constructed by asset category, not by subject or substance of the work, contributions to society, or other non-fiscal factors;
- It is valid to ignore an enterprise’s operating activity (e.g., guns and tobacco) and unmonetized “externalities” to ensure a proper asset allocation in a portfolio;
- Proper valuation of any investment requires the deep discounting of its projected future “free” cash flows. The capital asset pricing model is sacrosanct, and reported quarterly results by corporations and money managers are the best indicators of enterprise worthiness and investors’ likely success;
- It is the duty of a commercial corporation to maximize its financial value—albeit determined by the market’s short-term preferences—for its shareholders;
- Any assessment of impact and social return must be measured to be valid;
- Strategic and venture philanthropy should be focused upon discrete, fast-returning projects with measurable impact that can “scale”; Financial engineering now competes credibly with operational excellence as a driver of progress; and
- Endowments must have inviolate, independent fiscal lives, quite apart from any ultimate social or academic context or purpose. The measure of an endowment’s success is financial: the market value of its corpus must keep pace or exceed inflation perpetually.

This canon of best practice is integrated into the core curricula of every professional school (not just MBA programs). Its laws are reinforced at every turn by an army of lawyers, accountants, and financial managers. Indeed, the day when we the investing public had a clue what specific equities were in our portfolios has long passed. The experts have taken over. The canon of best practice implies precision where none is possible. It removes personal values as a factor in investment decisions. It enforces a singular and severely limiting “asset-type” categorization of enterprises within portfolios. Despite its cognitive limitations, the innovators at the intersection of investment and philanthropy continue to respect and operate within the canon.

What if we aspiring conscious investors could put aside this limiting canon? What if we began demanding a full accounting of the impact on society of each enterprise, and made our capital deployment decisions accordingly?

Society’s Overall Inventory of Necessary Capital: An Alternative Framework

I ask that we work diligently to build an alternative framework that compels us to (1) assess the long-term value to society of each enterprise, regardless of its traditional category; (2) conduct that assessment holistically, thinking about how each enterprise operates, how it deals with other organizations, communities, and systems, how it sources its ingredients, and what products its makes—as well as how well it generates financial wealth; and (3) ensure that our values are fully engaged whenever we invest or grant funds.

In doing so, we would be returning to first principles, recalling that in the early days in the history of corporations, legislatures and kings reviewed prospective company activity and chartered those enterprises they expected would generate wealth directly and indirectly for society. It behooves a conscious investor to remember the antecedents of corporate formation and contemplate the components of that societal wealth—the inventory of critical capital that a society needs to progress and prosper over the long haul.

What are the components of a healthy society’s inventory of capital, and how might individual enterprises impact these? Certainly, financial capital is critical for society, in that it is necessary for the care and feeding of all enterprises. Further, each enterprise’s long-term contributions of financial capital are necessary to regenerate other forms of capital. But financial capital clearly is not the only type of capital that is required in a healthy society.
Access to a plentiful store of natural capital—a hospitable climate, clean air, clean water, fertile soil, minerals, energy, timber, and other natural resources, etc.—is a precondition for the existence and success of all enterprises. Through sourcing ingredients and creating products and services and ordinary business practices, enterprises have enormous impacts (positive and negative) upon society's store of natural capital. Likewise, a healthy, engaged, trusting citizenry, imbued with civic or societal values, is an enormous source of wealth for every society. Enterprises can have substantial, and not always positive, impacts upon society's civic capital.

Society’s proper functioning requires a healthy component of systemic capital in the form of its physical (roads, bridges, waterways), communications, health, legal, safety, government, and financial systems. Some enterprises are formed to construct elements of society’s systemic capital—it is their business purpose. Beyond those enterprises’ direct contributions to society’s systems, all enterprises, through their payment (or nonpayment) of local, state, and federal taxes, and their uses of systems in the course of business, make positive or negative contributions. In the same way, an enterprise’s building of production, distribution, and transportation facilities and equipment, or physical capital, can comprise an important component of society’s overall capital inventory.

A healthy, prepared, productive, and motivated population—human capital—is critical for society’s progress. Enterprises contribute to society's store of human capital directly, in the form of educational products and services, and indirectly, through development of their own employees. Respective contributions of human capital vary tremendously among enterprises. Similarly, society cannot progress or compete today without the continuous generation of intellectual capital—production/technological know-how, hard science, art, and social science. Enterprises contribute the intellectual capital developed in their own products and operating methodologies directly, as well as through spin-off enterprises.

Setting the Table for a World We Want
Each of our enterprises contributes or depletes the capital in society's inventory in multiple ways. For example, a major packaged food company credits its creation of “shared value” with respect to community nutrition, clean water, and rural development—systemic and intellectual capital—for its recognition as one of a major accounting firm's top corporate reporters of corporate social responsibility. Others accuse the company of “greenwashing,” and maintain that the company’s ingredients sourcing and bottled water business deplete natural capital in developing countries, and that its products compromise the health of youthful consumers, and thereby the supply of human capital.

A major urban art museum may also generate a surplus, or financial capital, which it “reinvests” in its collection, physical plant or exhibitions, and staff capacity. Beyond finance, this nonprofit enterprise contributes significantly to the city’s civic, human, and intellectual capital through its training and public education programs as well as its public meeting places and prominence in the cityscape.

A big box retailer offers middle- and lower-income consumers an immense variety of products—from groceries to firearms—at consistently low prices. It pursues state-of-the-art product sourcing, transport, inventory, and other operating-cost-control methodologies. These policies have generated considerable financial capital, and put the company at the top of the low-carbon-footprint league table. While it may score high with respect to natural capital, the company does less well on indicators of human capital development, and quite poorly with respect to fraying the economic fabric of its communities—their civic capital.

A registered B Corp and self-described social enterprise sources and distributes ten million healthy and affordable meals to primarily low-income students each year, helping to build healthy bodies, lifelong nutritional habits, and human capital. The jury is out, however, with respect to the company’s net contributions to society’s capital. Thus far, the company is unprofitable and depleting its financial capital reserves. Further,
For most of us who are used to mathematical “clarity,” precise modeling, and the convenience of the canon, taking that first serious look through a new, less precise contribution to society’s capital lens will be challenging.

While these examples may produce more drama than we’d find typically, all enterprises make multiple contributions to the capital of their communities—through their ingredients sourcing, programs, employment and operating practices, creativity, and participation in other activities that strengthen the fabric of society.

In this very real sense, any investment in or grant to any enterprise is an impact investment. But because we don’t examine most of our investments through this lens, we usually don’t know whether we are abetting net positive or negative impacts when we invest or grant our funds. We are setting the table for a world we may or may not want, yet we continue to let short-term edicts of a misplaced canon of best practice prevent us from thinking clearly, broadly, and long term.

For most of us who are used to mathematical “clarity,” precise modeling, and the convenience of the canon, taking that first serious look through a new, less precise contribution to society’s capital lens will be challenging. Indeed, it may prove more challenging than using other tools that promise to assess enterprise impacts holistically, such as B Corp and impact reporting and investment standards (IRIS), which use lists of questions and standards intended to elicit discrete, usually measurable or binary responses by participating enterprises. When looking through the contribution to society’s capital lens, the conscious investor will observe that each enterprise contributes to the components of society’s capital in different, often surprising ways, and that much of the important evidence regarding contributions to society’s capital will not be measurable. Instead, it will be hypothetical, not comparable among enterprises, and without an attributable causative impact.

Further, when we go to aggregate or reconcile this disparate body of evidence in order to estimate an enterprise’s net contribution to society’s capital, we will find ourselves weighing the importance of each variable—such as whether formation of financial capital outweighs natural capital degradation, or whether a high score on natural capital outweighs erosion of a formally vital downtown’s merchant base and civic capital. Such judgments will necessarily require the application of the investor’s personal values.

Generating the information necessary to support this decision framework will require a new level of diligence on the part of investors and intermediaries as well as cooperation and transparency on the part of enterprises. It will be especially challenging to overcome the entrenched quality and analytical elegance of the canon of best practices. The sophistication of the processes required to assess enterprise contributions to societies will grow through time and analytical experience.

My hope would be that in eschewing the simplicity and false precision of the canon and traditional categorizations of enterprises, conscious investors will begin to think broadly, holistically, and positively about what our enterprises really mean for the long-term success of our communities and society; that we will develop new methods that allow us to build satisfying portfolios of the enterprises that are generating the forms of capital that we, ourselves, believe are critical for our society’s future; and that we will change the fundamental factor in our decisions from a discounted estimation of future earnings to a values-driven estimation of the holistic contributions of our enterprises well into the undiscounted future. In doing so, we would send meaningful signals that would encourage the most contributory practices in all of our enterprises.

Notes
1. All nonprofit organizations that pursue a mission, incur expenses, and generate revenue are considered “enterprises” in this article.
2. This is particularly the case with respect to the army of professionals who advise private foundations—the institutions one might hope would be the most conscious of conscious investors.

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By treating food producers and processors as partners with consumers, hybrid food value chains greatly benefit the community members they serve, expanding economic empowerment, fostering stewardship, and providing new markets for the small and mid-size farm sector—and are a means for disengaging from the global food system as we know it.

Corbin Hill Road Farm Share: A Hybrid Food Value Chain in Practice

by Nevin Cohen, PhD, and Dennis Derryck, PhD

Editors’ note: This article was first published in the Journal of Agriculture, Food Systems, and Community Development (JAFSCD), in 2011. Facts within pertain to the time when it was written, and some details may have changed. It has been abridged, but the full article can be accessed at www.agdevjournal.com/component/content/article/78-food-value-chains-papers/182-corbin-hill-road-farm-share-hybrid-food-value-chain.html. We thank JAFSCD and the authors for their kind permission.

Food value chains consist of food producers, processors, third-party certifiers, distributors, and retailers working together to maximize the social and financial return on investment for all participants in the supply chain, including consumers. This article presents a case study of Corbin Hill Road Farm Share, a recently created hybrid food value chain that engages nonprofit strategic partners to provide locally grown and affordable produce to low-income residents of New York City’s South Bronx, while also enabling Farm Share members to become equity owners of the farm over time. The case study shows that the involvement of community-based nonprofits is key to creating a food production and distribution system that engages a wide range of stakeholders, fosters shared governance and transparency, empowers consumers, and benefits regional farmers.

The Hybrid Food Value Chain

Elements that distinguish hybrid food value chains from other food value chains and conventional food supply chains include strategic partnerships. But the notion of hybridity in the
value chain is not new. C. K. Prahalad and others have argued that cross-sector partnerships can enable corporations to provide needed products and services to low-income consumers by developing innovative products and services as well as appropriate delivery models.¹

**Strategic Partnerships**

Nonprofit organizations are one important element of hybrid value chains, particularly those value chains aimed at meeting the needs of low-income consumers. Nonprofits bring to the value chain social capital that comes from the networks, mutual goals, trust, and beliefs that nonprofit organizations share with their members and stakeholders.² This social capital—the ability to engage community members, raise funds, disseminate information, and reduce transaction costs—has significant financial value.

Nonprofits can help companies to aggregate and channel demand, lowering transaction costs.³ Their staff members often have organizing skills that enable them to reach out to and attract customers. Nonprofit partners may provide critical insights into the needs and constraints of low-income consumers that they have relationships with as clients, employees, or community stakeholders, and through this knowledge can help in the maintenance of a customer base. Nonprofits also tend to be located within the communities they serve and thus have a first-hand understanding of the logistical issues associated with local business development.

**Cocreation of Value**

A hybrid food value chain model stresses the collaborative role of value creation by consumers, farmers, for-profit ventures, nonprofit community-based organizations, patient investors interested in social as well as financial returns on their investments, and consumers, all working closely together for mutual benefit. Erik Simanis and Stuart Hart describe this as “business intimacy,” the process by which the private sector cocreates value with nontraditional actors, building connections as companies and communities come to view each other interdependently, developing mutual commitment to each other’s long-term growth.⁴ And because the needs of the community are part of their mission, businesses and nonprofits are particularly knowledgeable about those needs, and can help customize products and services.

These partnerships can also provide concrete value-adding services: identifying consumers; developing customer trust; communicating effectively with community members about their needs; and identifying innovative ways to address the limited purchasing power of individual consumers.⁵ Hybrid value chains also help to create business models that span various customer bases.⁶ If a business can develop a value chain to provide products and services to lower-income customers, it can often provide those products and services to higher-income customers as well, making the model replicable and scalable.

**Transparency and Shared Governance**

Unlike the conventional food system, the food value chain model treats food producers and processors as partners with consumers.⁷ But doing so successfully requires procedures to ensure that all parts of the value chain have trust in the fairness and predictability of the partnership through greater transparency than many businesses are willing to provide. Because of the engagement of community-based organizations committed to structural changes that empower the community members they serve, hybrid food value chains are often focused on transforming the food system rather than merely improving its efficiency or increasing access to healthy food. In many cases, the idea of transformation involves creating new enterprises that are inclusionary, participatory, or even co-owned by members. This is the kind of “builder work” that G. W. Stevenson et al. argue is a promising arena for changing the agrifood system.⁸

**Community-Supported Agriculture**

As noted above, community-supported agriculture (CSA) programs are one type of food value chain. The idea of community-supported agriculture, in which a group of individuals buy shares
from a farmer for an expected harvest, originated in the 1960s in Japan and Switzerland, and spread to the United States following the creation of CSAs by Jan Vander Tuin and Robyn Van En. The number of CSAs in the United States has grown from two in 1986 to more than two thousand today; they are concentrated in the Northeast, areas surrounding the Great Lakes, and coastal regions of the West.

One of the goals of the CSA model is for consumers to support farmers by paying them in advance, sharing the risk of large or small harvests. But CSAs have been established to advance political aims, as well. CSAs promote the formation of direct ties between people and farmers in part to disengage from the global food system and support local economies. Many individuals helping to organize direct marketing food initiatives, such as farmers’ markets and CSAs, are also working to solve social justice problems in their localities. Research in California found that many farmers’ market and CSA managers prioritized food security for low-income people and used strategies to try to meet the needs of low-income consumers.

CSAs vary in their structures and business models, including size, cost of membership, growing methods, member involvement, and the food that they provide. Since CSAs are highly local creations, they attempt to forge relationships between consumers and farmers that reflect unique conditions and needs. For example, although CSAs traditionally require a one-time payment at the beginning of the season for a weekly share of produce, many now offer a range of payment plans and other logistical arrangements, including various selection and pickup methods. Some accept Supplemental Nutrition Assistance Program (SNAP) benefits and/or Special Supplemental Nutrition Program for Women, Infants, and Children (WIC) payments, offer free shares to needy families, and offer half shares to keep the cost to the members manageable.

Many types of collaborations occur between CSAs and other farms and community organizations. For example, Neva Hassanein describes a farm run by the University of Montana that collaborates closely with a nonprofit community group, which manages the farm’s operations and the distribution of fresh produce to area food pantries, and also markets its produce through a CSA. Along with an increasing variety of payment plans and business arrangements, CSAs are offering a larger range of products, including eggs, meat, and flowers, often partnering with producers of other local products to offer a wider range of value-added items.

**Project Background**

Corbin Hill Road Farm (CHRF) was started in 2009 as a ninety-six-acre for-profit farm in Schoharie County, New York. Its core business is supplying fresh, locally grown produce to low-income residents living in communities that have limited availability of healthy food. To do so, CHRF aggregates produce from nearby farms and sells it directly to individuals and organizations in New York City.

The mission of the company is much broader than selling food, however. CHRF aims to bring food security, justice, and improved health, as well as eventual economic equity ownership of the farm, to the target market communities, increasing value to all participants in the food supply chain. CHRF’s business model grew out of a sense that, as successful as conventional CSAs are at distributing food directly from farm to consumer, the structure of a CSA is not typically geared toward the financial and logistical needs of very-low-income individuals.

While the basic structure of CHRF operates like a community-supported agriculture program, with customers paying in advance for weekly shares of produce delivered to a pickup location, the business differs from a conventional CSA in several respects in order to address the needs of low-income individuals. One fundamental difference is that CHRF is designed to make Farm Share members, also called Shareholders, farm owners over time, solidifying their relationship to the farm, providing them with greater control over the production of their food, and fostering stewardship of the farmland. CHRF’s business plan provides that Shareholders or target market subscribers will be able to own shares in CHRF, though the
The decision to seek private financing and operate as a for-profit venture reflected the challenges of an environment in which few foundations were interested in providing start-up funding for new business entities. CHRF’s business plan sought $1.2 million to capitalize the social venture. The initial equity for CHRF came from eleven investors who provided a total of $565,000 (with 72 percent of the equity coming from African-American and Hispanic individuals and 50 percent from women). Capital and operating loans of $350,000 came from Farm Credit East, with additional low-interest loans from the New York State Energy Research and Development Authority (NYSERDA). The second round of financing amounted to $450,000 in a combination of equity and loans.

The issue of scaling for social impact is not typically a primary goal of CSAs, but it is a major goal of the Farm Share model. CHRF exceeded its first-year goal of 175 Farm Shares by sixteen members. Throughout the 2010 growing season, enrollment continued to increase, eventually reaching 281 Shareholders—and additional partner sites were added throughout the summer. As of 2011, CHRF’s goal was to have five thousand Shareholders within the next ten years.

Strategic Partnerships
Strategic partnerships enable CHRF to offer a range of produce from various farms and to access its target communities of Shareholders. CHRF unites two clusters of strategic partners: groups of farmers in rural Schoharie County, and community partners within New York City and the Shareholders they represent. CHRF acts as the hub for each cluster and coordinates them so that the two clusters can function simultaneously (see figure 1).

Farmers. CHRF is connected to a network of farms and farmers in Schoharie County who supply produce for the distribution services. Cornell University Cooperative Extension convened a meeting of twelve farmers in February 2011 to help them develop a harvest plan to meet the CHRF’s Farm Share needs. Ultimately, nine farmers agreed to participate. A manual was prepared based on data from the first year, defining the conditions for participation, and identifying the types of produce, quantities, and specific weeks they had to deliver produce for each of the twenty-three-week growing seasons. An agreement was reached about the growing capacity of each farmer and the quantities they were able to supply. A mechanism for this transfer is still being developed (as discussed in the following pages).

**Business Structure and Financing**
CHRF is organized as a limited liability company (LLC) incorporated in the state of New York. The decision to seek private financing and operate as a for-profit venture reflected the challenges of an environment in which few foundations were interested in providing start-up funding for new business entities. CHRF’s business plan sought $1.2 million to capitalize the social venture. The initial equity for CHRF came from eleven investors who provided a total of $565,000 (with 72 percent of the equity coming from African-American and Hispanic individuals and 50 percent from women). Capital and operating loans of $350,000 came from Farm Credit East, with additional low-interest loans from the New York State Energy Research and Development Authority (NYSERDA). The second round of financing amounted to $450,000 in a combination of equity and loans.

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**Figure 1: Corbin Hill Road Farm Share Hybrid Food Value Chain**
that could be grown and delivered on specific dates. The latter was important, given the different soil conditions and altitudes that exist in Schoharie County, which could result in early and late crops of the same produce. The mix of participating farmers included two large growers (with more than one-hundred acres), several smaller growers (under twenty acres), and smaller specialty farms that chose to concentrate on new produce (such as okra and tomatillos) not currently grown by the other farmers, that would meet the cultural needs of the communities served by CHRF. A full-time produce manager was hired to coordinate this harvest plan.

**Community partners.** CHRF’s Farm Share defines community not just by geography but also by the different populations served by its nonprofit partners. CHRF’s business model relies heavily on the strategic community partners in the Bronx that serve the population CHRF is targeting, in order to reach and organize community residents and to form the foundation of a distribution network. Shareholders enroll in the Farm Share program through one of CHRF’s strategic partners—from mothers at the Harlem Children’s Zone Baby College and early childhood and Head Start programs, to ex-offenders and formerly homeless individuals affiliated with the Fortune Society and Broadway Housing Communities, to Bronx-based healthcare workers at Urban Health Plan.

CHRF’s marketing strategies include four basic approaches: (1) CHRF directly organizes residents within a specific neighborhood; (2) CHRF works directly with a strategic partner’s employees and clients (for example, Broadway Housing staff helped to enroll the formerly homeless residents in one setting, and the mothers of children in the Head Start program, which is also operated by Broadway Housing, in another facility; (3) CHRF works to sign up workers and the staff of an organization; and (4) CHRF recruits staff members in some organizations (such as WHEDCo) to introduce CHRF to the organization, build credibility, and demonstrate that it can deliver quality produce on a regular basis, as a precondition to accessing program participants.

**Target Shareholders.** CHRF has focused on the South Bronx neighborhood of Hunts Point, whose residents are extremely poor and lack healthy food options. The Bronx as a whole has been ranked the unhealthiest county in New York State, but South Bronx residents face particular challenges. For example, a national food hunger survey of U.S. congressional districts found that nearly 37 percent of residents in the Sixteenth Congressional District (which encompasses the South Bronx) said they had lacked money to buy food at some point in the previous twelve months, a higher percentage than in any other congressional district in the country, and twice the national average. In addition, per capita fruit and vegetable consumption in this community is significantly below the level in the city as a whole, and far below the USDA-recommended five daily servings (see table 1), and residents are more likely to be overweight or obese (see table 2). Hunts Point has been designated by the Department of City Planning

### Table 1. Fruit and Vegetable Consumption (Age Adjusted) 2009 South Bronx and New York City
(in percentage reporting fruit and vegetable consumption on the previous day)

<table>
<thead>
<tr>
<th></th>
<th>None</th>
<th>1–4</th>
<th>5 or more</th>
</tr>
</thead>
<tbody>
<tr>
<td>South Bronx</td>
<td>24.5%</td>
<td>69%</td>
<td>6.5%</td>
</tr>
<tr>
<td>New York City</td>
<td>12.4%</td>
<td>76.5%</td>
<td>11.1%</td>
</tr>
</tbody>
</table>


### Table 2. Body Weight (Age Adjusted) 2009 South Bronx and New York City
(in percentage normal or underweight, overweight, and obese)

<table>
<thead>
<tr>
<th></th>
<th>Underweight or normal weight</th>
<th>Overweight but not obese</th>
<th>Obese</th>
</tr>
</thead>
<tbody>
<tr>
<td>South Bronx</td>
<td>29.7%</td>
<td>38.2%</td>
<td>32.1%</td>
</tr>
<tr>
<td>New York City</td>
<td>45.2%</td>
<td>32.8%</td>
<td>22.0%</td>
</tr>
</tbody>
</table>

To create a business that is both able to make a profit and address the economic constraints of its target market, CHRF began conversations very early on with community members in Hunts Point about the amount Shareholders would pay and the manner in which they would do so.

Distribution Logistics
CHRF coordinates the logistics of ordering, packing, and distributing the Farm Share produce. At least three days in advance of a distribution day, the produce manager submits orders to the farmers, enabling them to plan for the quantities of produce to be harvested for the coming week. These “pick orders,” which comprise the combined orders of the Shareholders, consist of ten to twelve produce items, and always include a fruit.

All items are harvested on Monday, then washed, cooled, boxed, and refrigerated in a cold-storage facility located on one of the farms. On Wednesday morning, they are packed into a refrigerated truck that travels to New York City for a mid-afternoon arrival in Hunts Point. The produce is then sorted according to produce type and share at the Fulton Fish Market (a night market that is empty by day) by CHRF’s founder, the driver, a helper, the Farm Share coordinator, and two or three volunteers, and is packed onto labeled pallets for each distribution site. The pallets are stored overnight on CHRF’s refrigerated truck. (One of the community partners installed electrical outlets that enable CHRF’s refrigerated truck to park in an enclosed and locked parking lot each Wednesday evening.) Beginning at 8:00 a.m. on Thursday, CHRF’s driver and helper deliver the produce, and site coordinators (volunteers from the staff of the strategic partners) provide the setup (in farmers’ market style) and distribute the produce during hours that each determines to be convenient for their Shareholders. These coordinators collect funds, sign up new Shareholders, and record any changes in the Shareholder status.

Staffing at CHRF was lean during its first year, and remains so as the business implements its plans for scaling up its operation in the coming years. Operational responsibility is divided between CHRF’s founder, who manages the upstate relationships among the farmers, in addition to overall management responsibilities, and the general manager, who is responsible for the New York City operation and relations with the strategic partners. A farm manager has been replaced with a produce manager. Unique to CHRF is the hiring of a community organizer to engage new Farm Share members. Seasonal positions include a Farm Share coordinator with support staff members who work directly with the strategic partners.

Cocreation of Value
To create a business that is both able to make a profit and address the economic constraints of its target market, CHRF began conversations very early on with community members in Hunts Point about the amount Shareholders would pay and the manner in which they would do so. Typical CSAs charge from $450 to $700 per share, with payments due by early April (and at times as early as January), with the first produce to be delivered in June. For residents living in Hunts Point, paying one to two or more months in advance for a share of produce was not a viable economic option, as the payment required to reserve a CSA share far exceeded their average monthly electronic benefits transfers (EBT/“food stamps”) of $300. Even if they wished to exercise this option, EBT could not be used to pay for fresh produce delivered at some future date. When pushed to decide on an acceptable payment scheme for the fresh produce being provided, Shareholders agreed that paying two weeks in advance was fair and feasible.

Even this commitment proved to be a barrier for many, and during the summer 2010 season, the deposit was reduced to an amount equal to one week’s share. For the 2011 season the deposit has been eliminated; Shareholders now pay only one week in advance. In response to Shareholder recommendations, CHRF also allows share members to give only a week’s notice to put their shares on hold while away, to change from a partial to a full share or from a full to a partial share, and to rejoin after leaving. Shareholders who do not use their funds are given a refund. Some Shareholders are able to pay through after-tax paycheck deductions managed by their employer.

Shareholders have a set number of produce items delivered each week for the twenty-three-week growing season. The amount and variety of produce each Shareholder receives weekly.
depends on what is being harvested at any point in the growing season. Partial shares have included seven to nine types of fruits and vegetables in a quantity sufficient for a household of three to four people. Based on feedback from Shareholders who participated in the 2010 season, the per-week prices for the 2011 season were set at $20 for a large share, $12 for a medium share, and $5 for a sampler share that consists of three to five items. All forms of payments, including EBT, are accepted. A limited number of shares subsidized by 50 percent are available for all strategic partner sites that wish to offer them. Deliveries are made at the premises of the strategic partners, staffed by CHRF.

Potential share members had doubts about joining the Farm Share and sought answers to a series of questions and concerns about how to manage their own risks of participating. Questions included: “What is this Farm Share?” “What produce am I really going to get?” “How good will the quality be?” “Would it be sufficient to feed my family?” “Would I really be refunded if I dropped out, or would I be penalized?” For low-income residents who must manage a great deal of uncertainty and risk in their lives, part of facilitating the management of their risks entailed engaging them in the design process, in which they would codevelop the rules of the Farm Share, and, in effect, cocreate value.

Doing so required transparency and shared governance. All information, including written and online material, is produced in Spanish and English. Bilingual surveys are conducted on culturally specific food preferences, individuals are queried weekly about their satisfaction, and weekly meetings of coordinators offer another chance to assess customer satisfaction. CHRF shares how costs of goods and expectations for profits are calculated with coordinators and Shareholders. The Farm Share e-mail newsletter, You Spoke, We Listened, responds to questions.

CHRF also approaches the goal of shared governance by focusing on equity ownership. While the members of a traditional CSA model are, in effect, co-owners of the summer produce, for CHRF co-ownership of the business contributes to sovereignty. One goal of CHRF is for Shareholders to become equity holders who participate fully in decision making about what produce is grown and how it is grown and distributed. However, the exact mechanism for shared ownership has not yet been determined. Two possibilities include creating a cooperative structure and using program-related investment (PRI), through which the nonprofit strategic partners, or even CHRF, finance the purchase of shares for the community residents. The current Shareholders have indicated that they are willing to wait several years to develop a creative solution to two issues: the question of shared ownership that will address the nature of community benefits, and how profits could be used in a collective manner to meet the community’s needs for health and well-being that goes beyond the availability of fresh produce and the long-term preservation of farmland.

Impacts on Shareholders
Anecdotal information from individual members suggests a high degree of satisfaction with the program and the produce. In the words of one member, “Whereas in the supermarket it will cost you more and your vegetables wouldn’t last as long, what’s good about the farm share is you get fresh vegetables constantly every week.” Members also mention trying new types of vegetables: “What’s special about the Farm Share is that you get to try every different vegetable that grows all through the season.” Anecdotal information from members interviewed suggests that they may be increasing their consumption of fruits and vegetables. In the words of one member, “I actually lost eight pounds since I’ve been eating more vegetables and using the farm share vegetables[. . . .] Within two months of eating with vegetables and eating healthy I’ve really knocked out my diabetes, I’m off the medication right now. We have more vegetables in our diets during the week than we’ve ever had before.”

Like the participants in microfinancing programs, there has been peer pressure among the Shareholders to remain involved in the Farm Share. To date, fewer than 10 percent of those who signed up and paid for one week in advance ceased participation before the end of the twenty-three-week season. Preliminary data indicate that the average participation rate was eighteen weeks, including those who joined in mid-season. To the members, governance is an important aspect of
As the case study illustrates, the robust network of nonprofit partners that transformed a simple supply chain into a hybrid value chain was essential to getting CHRF up and running by engaging shareholders and providing critical support services.

Working with Corbin Hill Road Farm is a wonderful thing because it allows us to broaden our customer base. When Corbin Hill doesn't have enough of a particular vegetable, we may have that overflow, and here on the farm we grow over ninety different varieties of vegetables, so we have quite an array—but the fact that we could send good nutritious food down to the Bronx [...] what an unbelievable opportunity for us.

The relationship between the farmers and consumers has grown beyond a mere financial connection. One farmer noted:

It's more of a relationship opportunity for us [...] Here I was, born and raised in this valley, and I have all this wonderful produce available to me every day of the season. And I think sometimes my neighbors and myself included happen to take that for granted. Being able to send produce to an area where some people, maybe even my same age, have never seen something as fresh and wonderful as we can raise here [...] and to hear the feedback that we get from those people when they receive their shares, that’s the biggest reward for me.

Being part of the Farm Share project has also encouraged the farmers in Schoharie County to explore new, value-added crops. According to one farmer:

[CHRF] offers a unique opportunity for us to explore new crops to grow. When we learn more about communities that we’re helping to feed, it will allow us to grow new and exciting crops that may also be well received in areas closer to home for us here, expanding our local markets as well.

The farmers recognize the importance of the NGO partners in the Bronx, too. One farmer noted: “This model [...] is really dependent on the people that are spending so much time down in the Bronx, on the ground, getting people interested.”

The farmers in Schoharie communicate weekly with CHRF’s produce manager to discuss what produce is abundant that week and what the Shareholders may like. As one farmer described the interaction:

She may ask, “What’s new or what’s interesting?” “What do you maybe need help with moving?” And I will give her a rundown of suggestions, and she will see what fits into their budget and what she feels their shareholders may be excited about.

Discussion and Conclusions

This article discusses the concept of a hybrid food value chain, and uses that framework to examine the role of nonprofit partners in adding value and fostering transparency within a food supply chain. The Corbin Hill Farm Share functions as a hybrid food value chain, and in so doing has the potential to open up new markets for a cluster of small to medium-size farms within the New York City metropolitan area, while simultaneously supplying low-income residents of the South Bronx with fresh, locally grown produce, and ultimately fostering food sovereignty.

As the case study illustrates, the robust network of nonprofit partners that transformed a simple supply chain into a hybrid value chain was essential to getting CHRF up and running by engaging shareholders and providing critical support services, which ranged from facilitating the payments of certain shareholders to providing a physical storefront for distributing produce. One factor that enables the hybrid value chain to work is that all the nonprofit partners selected for this project have missions that include improving the community’s health and nutritional status, and educational programs to engage members of the community in discussions about health. CHRF carefully chose partners that were working in these areas so that the organizations would not only take a strong interest in the project but also be able to link their educational efforts to Farm...
There are more than one million residents living in neighborhoods in the South Bronx and Harlem, poorly served by food retail establishments—a very large potential market. And there are many nonprofit organizations in these neighborhoods that could serve as strategic partners.

Because CHRF is a recent startup, it faces numerous financial and logistical challenges. As it strives to break even, it must maintain a delicate balance between keeping prices affordable to the community it is serving and—to be financially sustainable—reaching a scale of three thousand Shareholders within a reasonably short period. CHRF also faces the risk of being among the first social ventures in a newly defined space. The business model assumes that CHRF will attract social investors who understand the nature of the “slow money” challenge and will risk investing in this venture over a longer period of time. CHRF has thus far received round-two loans and equity to launch its expansion. Those who have participated have taken a long-term perspective that is associated with such food ventures, and have been willing to accept a low return on their investment. Personal guarantees have had to be provided for all loans. The strategy of seeking patient investors represents for CHRF a more stable approach over the long run than seeking to build a venture dependent on grants from foundations or the government, but it remains a challenge nonetheless.

Another major financial issue will be managing CHRF’s costs. Produce purchases make up some 65 percent of the cost of goods, and can be controlled through efficiencies in packing and using reusable packaging. The same cannot be said for transportation costs, which now make up 19 percent of the cost of goods of each share, and will rise if fuel prices continue to escalate. Controlling transportation costs, along with the added expenses of establishing and maintaining refrigeration, represent formidable challenges that CHRF will need to address in the coming years.

CHRF also faces complexities that require the design of systems that will accommodate the flexibility it seeks in responding to Shareholder needs. To remain nimble while scaling up to 1,500 Shareholders in the second year and then to 3,000 in the third year, CHRF expects to maximize its use of technology for its internal management, and has outsourced its registration of Shareholders to Farmigo, an organization that serves CSAs. It is also in the process of outsourcing its trucking operation to a firm that can respond to and accommodate CHRF’s projected growth. CHRF’s staffing has been able to remain lean, since it provides a tool kit to its strategic partners who do the organizing and recruitment of Shareholders.

CHRF’s long-term profitability depends on the ongoing coordination of hybrid networks of producers, nonprofit intermediaries, and Shareholders—a constant challenge for a business that aims to provide high-quality food at a low cost, while attempting to ensure fairness to everyone
in the value chain. If CHRF succeeds, the hybrid food value chain may be an important strategy for increasing the participation of low-income citizens in the food system, expanding economic empowerment, fostering stewardship, and providing new markets for the small and mid-size farm sector.

Notes
15. Trauger Groh and Steven McFadden, *Farms of Tomorrow Revisited: Community Supported Farms—Farm Supported Communities* (Kimberton, PA: The Biodynamic Farming and Gardening Association, 1997).
16. Timothy Woods et al., *2009 Survey of Community Supported Agriculture Producers*, Agricultural...

17. Lang, “The Changing Face of Community-Supported Agriculture.”


20. See corinhillfoodproject.com/#f-share.

21. Corbin Hill Road Farm capitalizes “Shareholder” as a stylistic choice to distinguish its members from conventional equity shareholders.


To comment on this article, write to us at feedback@npqmag.org. Order reprints from http://store.nonprofitquarterly.org, using code 210105.
There exists today in Western democracies a unique organizational sector that is often described as neither fully private nor fully public. This sector is comprised of quasi-autonomous nongovernmental organizations (quangos) in the United Kingdom and elsewhere, and government-sponsored enterprises (GSEs) in the United States. These organizations have been established by governments to serve the citizenry as a whole through targeting the needs of particular groups or fulfilling specific functions. Examples are: in the United States, the Federal National Mortgage Association (Fannie Mae), the Federal Home Loan Mortgage Corporation (Freddie Mac), and the California Public Employees’ Retirement System (CalPERS); in

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**Editors’ note:** Accountability and governance systems are very different sectorally, and, as the author suggests, the result may be an organization that has insufficient accountability to anyone or that is subject to odd makeshift governance and accountability systems. This brings up one of the core counterbalancing concerns we should all have about hybrids. This article was first published in the Journal of Business Ethics, under the title “Assessing the Accountability of Government-Sponsored Enterprises and Quangos.” It has been abridged, but the full article can be accessed at [http://link.springer.com/article/10.1007%2Fs10551-010-0509-y#page-1](http://link.springer.com/article/10.1007%2Fs10551-010-0509-y#page-1). We thank JBE, Springer, and the author for their kind permission.

**Rae André,** PhD, is professor of management and sustainability in the D’Amore-McKim School of Business at Northeastern University, Boston.
As a group [entities with both public and private sector characteristics] have been termed quasi-government, public government, the fourth branch of government, and an unelected state.

Organizations with both public and private sector characteristics have been called, among other things, government-sponsored enterprises, hybrid organizations, public authorities, and quangos. As a group, they have been termed quasi-government, public government, the fourth branch of government, and an unelected state. The concerns related to this lack of consistent terminology have been discussed extensively elsewhere, and indicate both the heterogeneity of this organizational sector and the challenges of understanding it. While quangos and government-sponsored enterprises are not exactly the same, neither, typically, is each quango or each GSE exactly like the next. In light of this heterogeneity, and to include both quangos and GSEs in this analysis, I follow Carston Greve and refer to this set of organizations simply as the “gray sector,” and to the organizations themselves as “gray sector organizations” (GSOs).

Many individual GSOs—and, also, the set of GSOs—have become important centers of influence in society. Arguably, they acquire power because they are not accountable to their stakeholders in the traditional ways that either governments, through elections, or private businesses, through markets, are accountable.

Why GSOs Are Unique
To characterize organizations in the gray sector, two useful arrays have been suggested by British and U.S. researchers. Matthew V. Flinders and Hugh McConnell array quangos on a continuum based on the degree to which they are public versus private entities and the degree to which they are independent of politicians. Examples of the British organizations Flinders and McConnell place in the gray sector are the Bank of England, the British Broadcasting Corporation, and the U.K. Atomic Energy Authority. An American view characterizes organizations the authors refer to as “hybrids” on three dimensions: public versus private ownership, public versus private funding, and polyarchy versus market control. The first two variables are self-explanatory; the third refers to the type of control applied to the organization. Governments and most hybrids are controlled by polyarchy (e.g., political control), while private enterprises and some hybrids are controlled by the market. A set of U.S. hybrids that exemplify these criteria includes Fannie Mae, Freddie Mac, the National Railroad Passenger Corporation (Amtrak), and the U.S. Postal Service.

Taken together, these British and American conceptualizations suggest that GSOs differ from governments and businesses in three important ways. First, their legal standing is unique. Not only is a GSO established by legal parameters that differ from both public and private sector organizations, but, in addition, typically each is separately created, with its own unique combination of legal and financial characteristics. Also, unlike businesses, GSOs can be legally redesigned or abolished by government at any time. A second major difference is that their funding and capitalization may blend a variety of government and private sources. Some GSOs are fully funded by the government, while others receive no monies from government, and still others have stockholders and/or bondholders. Finally, some operate as government monopolies while others compete as businesses in the business sector.

The Modern Prominence of GSOs
The GSOs in the United States perform such critical functions as managing turnpikes, bridges, airports, and convention centers, and financing housing, health, and education. Specifically examining GSEs in the United States, there are, at the federal level, approximately fifty such organizations, and there are many more at the state and local levels. In the state of Rhode Island, for example, there are some thirty GSEs, most of which were created in the two-decade period from the early 1970s through the early 1990s. In Massachusetts, there are 509 GSEs; in recent times the state and regional authorities alone had employed twelve thousand people and spent more than $2 billion annually.
In the United Kingdom, since the late 1980s, the growth of those GSOs known as quangos has been called “spectacular,” especially at the local level, where most of the U.K.’s 6,500 appointed organizations are found. At one point more than seventy thousand individuals were sitting on their boards. The National Health Service runs numerous quangos, some local schools are quangos, and quangos have advised government on issues as crucial as the safety of nuclear-powered warships. At this time, in the United Kingdom, the size and impact of the population of quangos continues to be a significant political issue. Countries with similar organizations and concerns are Australia, Denmark, France, Italy, the Netherlands, and Sweden.

The population of GSOs is vital because these organizations serve a variety of government interests. To begin with, governments may want to establish organizations that are independent of politicians: GSOs remove controversial issues from party politics, thereby reducing the workload of legislators. They may introduce new, more efficient and less costly management techniques and business practices. GSOs can attract experts who might not choose to work for a government department due to its inferior pay, facilities, or opportunities. GSOs may engage the public through boards and committees, act in important advisory capacities to government, and sometimes allow taxpayers to allocate a restricted amount of funds to ventures of interest without being responsible for full financial support.

Finally, GSO operations are typically off budget, thus cloaking their affairs and expenditures from public scrutiny. Sometimes the organizations’ very existence is obscured. Jonathan G. S. Koppell has pointed out that in the United States, for example, no one really knows how many federal GSOs exist. In Congress, terms like “agencies,” “foundations,” and “corporations” are used interchangeably. One investigative study of U.S. government corporations, which are a subset of GSOs, relied upon the organizations themselves to choose their organizational category, and excluded them if they did not choose to call themselves government corporations. Similar obfuscation exists in Britain, where governments often use the term “non-departmental public bodies” (NDPBs) to refer to quangos. Since many public bodies escape being thus classified, one in six NDPBs escapes the oversight of a key regulator.

The population of GSOs also serves specific purposes of the business sector. Since some state projects are inherently risky financial ventures, creating organizations that reduce liabilities attracts private investors. Also, banks, bondholders, and lenders want maximum security (i.e., government security) in return for their investments. Sometimes government-backed loans are cheaper, as well. In addition, some GSOs advance particular business projects, such as real estate developments and infrastructure expansions. Finally, GSOs present opportunities for individual business and government leaders to acquire money and prestige.

In sum, GSOs are unique organizations that serve many interests of governments and businesses, and as a result their use is widespread. In the next sections I define accountability and examine concerns about the extent to which GSOs are accountable to the governments that established them.

**Accountability Defined**

Fundamentally, accountability is the process of judging an organizational action or result against a standard, and then acting on that judgment. The standard by which GSO processes and outcomes are measured is the extent to which they advance their mission to serve the public good. A GSO that deviates from its mission will be referred to here as “unresponsive,” or, equivalently, “corrupt,” while one that fulfills its mission is “responsive,” or, somewhat more loosely, “accountable.” I use the term “corruption” here to mean deviation from the standard, a definition that captures the essence of the term as used in recent research.

Specifically, one common definition of corruption is “the illicit use of one’s position of power for perceived personal or collective gain,” and inherent in this definition is an implied judgment against a standard: the use of the term “illicit” suggests that someone has stood in judgment on this use of power.
Accountability is multidimensional, including upward accountability to government and the public, downward accountability to the clientele, and lateral accountability to peers and other reference groups. There are many ways to hold an organization accountable, including the establishment of watchdog agencies, an independent and accountable judicial process, an independent and healthy civil society, and the criminalization and prosecution of corrupt behaviors and acts. Although governments are the main actors holding GSOs to account, other organizations and interest groups have some power to do so. For instance, clients and other stakeholders can hold GSOs accountable either for their particular interests or for the public good. They can take their business elsewhere, develop competing or countervailing organizations, involve the press, or lobby their elected representatives. Accountability is also characterized by a variety of activities that must occur at different points in time—such as during the process of establishing a GSO, while the GSO is performing, and when evaluating the organization's performance.

When assessing an organization's accountability, modeling both process accountability and outcome accountability is crucial, because the connection between an accountable process and an outcome that can be described as accountable is often broken. For instance, if policy advice is secret and a GSO's operations are concealed from independent inspections, even though its outcomes can be measured its process accountability cannot be. Finally, both too little and too much accountability can be problematic: in some cases, an organization's mission is impeded by excessive accountability requirements.

In political science, the issue of organizational accountability is couched as finding the "proper balance between administrative discretion and indirect popular control of government." In the United States, this conceptualization can be traced to Woodrow Wilson's view that elected representatives set policy whereas their appointed bureaucrats administer it. Wilson's view is similar to an early distinction drawn in Australia between "executive" and "administrative" work. However, Wilson believed that separating policy-makers from administrators is only workable when both the policy-makers and their administrators have similar (i.e., clear and corresponding) views of the purpose of government, and since such convergence is rare, there is always a tension between legislators and administrators.

With GSOs, the environment is typically more complex, with three parties involved: legislators set the policy, the GSO administers it, the regulator watches the GSO, and legislators watch the regulator. This more complex situation makes Wilson's notion of a workable interaction that much more difficult to achieve.

**A Systems Model of GSO Accountability**

Since GSOs are created by governments to serve their citizens, the fundamental standard against which GSOs are judged is the extent to which their activities advance the public good. In general, when observers describe lack of responsiveness and corruption at Fannie Mae, they are concerned with that organization's excessive risk taking, its highly paid executives, its monopoly power in the housing finance sector, its lobbying power in Congress, and its general "lack of accountability." Each of these criticisms implies a standard: that a GSO should not take risks like a business, that its executives should not be paid salaries like top CEOs, that monopoly power is unacceptable, and so forth. Often, these standards embody attitudes, beliefs, and moral judgments about what good government should be.

Public standards for GSOs do not necessarily rise to the level of embodiment in law. For instance, in 2003 the head of the New York Stock Exchange resigned after a series of trading scandals and widespread criticism of his $140 million compensation package. While the compensation package may have been in line for the head of a major corporation, it was considered if not illegal then inappropriate for the head of what was at that time a quasi-public regulatory institution. In 2004, after a history of irregularities, the management of Fannie Mae was found to have misapplied accounting principles, and was required to resubmit financial statements for the previous four years; its auditor, chief
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Today, there is widespread concern that, in comparison with government departments, the entire gray sector is unresponsive to public standards. The most serious implication is, as Koppell writes, that government dependence on GSOs “insulated from the public and their elected representatives, threatens the very legitimacy of a democratic political system.” One important question is just how far should a GSO be allowed to deviate from the standard of fulfilling the public good?

Organizational Design Accountability

The organizational design of a GSO can be either responsive or nonresponsive to its mission. For example, an elite might deliberately encourage mission corruption by employing hierarchical power to implement it, or top management might limit information and responsibility among employees and establish nonresponsive norms that are then rewarded.

Organizational design is the “process of specifying optimal combinations of organizational characteristics to achieve organizational outcomes.” As in the private sector, GSO managers manipulate the variables of organizational design—structure, decision making, control and motivation, work design, and culture—to achieve their goal. The limited research on the relationship between organizational design and accountability suggests that some aspects of organizational design enhance the probability of an organization’s being accountable, while others reduce it. For example, centralization has been shown to be related to secrecy, and ethical climates (i.e., cultures) have been shown to vary from different types of organizations. In general, it is believed that one way that regulatory and bureaucratic controls work is by their influence on an organization’s design.

One common rationale for establishing GSOs is that they will be designed to implement more effective procedures than are possible in government—for example, they will be designed to be more accountable than government departments. It is often stated that GSOs replace “government bureaucracy” with “business efficiency.” Translating this into the language of organizational design researchers, the rationale for creating a GSO is that when certain traditional, systematic organizational designs used by governments are ineffective, they should either be changed or their work should be outsourced to a new organization that either implements the original design more effectively or operates under a new design that will be more effective. In practice, legislators may have little confidence in improving upon an existing government design. For example, they may not believe that a government department can change from a bureaucracy into a more flexible and organic organization—the type of organization I will refer to here as an “enterprise.” Instead, they prefer to replace the government department with a GSO that promises to be better designed. Such beliefs can be summarized as follows: government bureaucracy is bad; government flexibility is impossible; and any GSO design, whether bureaucracy or enterprise, is likely to be an improvement. There is little evidence that GSOs are designed to be enterprises, however. From all accounts and criticisms, and like most businesses, most GSOs are bureaucracies.

Just as the universe of organizational designs for businesses is defined by a continuum from bureaucratic/mechanistic to enterprising/flexible/organic, so the designs of GSOs can be similarly arrayed. On the face of it, it appears that GSO responsiveness could be attained more readily from enterprise designs, which are inherently more participative, involving, and transparent than bureaucracies—and, sometimes, even more democratic. For example, Flinders and Martin J. Smith suggest that a new kind of GSO design might offer a variety of channels for participation. They would make at least one factor of quango design (decision making) more organic and thus make quangos more responsive. However, researchers should use a contingency approach to determine which type of GSO is more effective in enhancing accountability: a centralized system with many rules, regulations, and...
directive leadership, or a decentralized system characterized by employee participation that responds to customer feedback—or some combination of the two.

In sum, just as they are used to analyze and determine a business organization’s path to effectiveness, so might these organizational design factors be used to analyze and determine a GSO’s path to accountability. In practice, however, the governments that create GSOs focus primarily on crafting legal parameters and designing an external regulatory process, and they are likely to view any attempt to influence organizational design as undermining management prerogatives and motivation. In stark contrast, when the public eye turns to GSOs, it wants to see inside them—to see what people are paid, what kind of people are running the organization, and whether the system is fair. The public not only cares about outcomes, it cares about process. One reason for this vision is that the public sees the organization through a moral as well as a legal lens, and perhaps the public has a point: it is likely that organizational design is a factor, perhaps a major factor, in establishing GSO accountability.

**Bureaucratic Control of the Heterogeneous GSO Population**

Several systemic factors make bureaucratic control and oversight of GSOs difficult. To begin with, because there are no unified standards for the design of GSOs, legislatures have promulgated a heterogeneous organizational sector that is difficult to categorize. Second, the growth in the number of GSOs compounds this complexity. Adding to the problem, some GSOs are constantly in flux, increasingly adding or, as recently occurred with Fannie Mae, subtracting privatizing features, and sometimes evolving into fully private companies.

In addition, whether despite or because of their heterogeneity, GSOs as a population represent power centers that may self-identify, and they might further enhance their power by identifying themselves as a class of organizations that have interests in common.40 GSOs sometimes argue that, as a unique class of organization, they should receive unique legal and other treatments. To illustrate, there is a growing body of case law that deals with such issues as whether GSOs, as quasi-government organizations, have immunity from certain lawsuits, and whether, as quasi-business organizations, they must follow the laws that cover businesses.41

It remains to be seen whether the growth and evolution of the GSO population itself is an improvement for citizens. One might argue that the more complex, diverse, and changing the population of GSOs, the more bureaucratic control becomes difficult and the higher will be the level of corruption. It would follow that homogenizing GSO organizational designs might reduce that corruption. On the opposite side, one might argue that it is precisely the diverse population of GSOs that will serve the particular needs of the citizenry. Ultimately, the fundamental question is, what is the best mix of organizations?

**Conclusion**

Jone L. Pearce has pointed out that in the management literature to date, the study of the variety of existing organizations has been neglected.42 GSOs are influential organizations that serve commercial as well as societal purposes, create return for stockholders, contract with businesses, and compete in the private sector. They impact businesses, governments, societies, and economies. Today we know that we who study and work in the business sector neglect the study of GSOs at our peril. In order to clarify the relationship between business and government and advance public policy, this article furthers systemic understanding of the ways in which GSOs can deviate from their fundamental mission to serve the citizenry as a whole. Such understanding can help guide thinking about which types of organizations—whether public, gray, or private—and which sets of organizations are most likely to populate a society that is responsive to its citizens.43 In my opinion, there is no organizational design issue of more ethical importance than one that touches on the viability of democratic governments—which the existence of this powerful organizational gray sector certainly does.


7. The third variable has been criticized, however, as not predictive. See Koppell, *The Politics of Quasi-Government*.

8. Ibid. [Please note: numbers attached to facts from sources in notes 8 through 14 may have changed since the article was first published.]


18. “Quangos and Quangocrats,” Democratic


20. Barker, Quangos in Britain.


22. Wettenhall, “Quangos, Quagos and the Problems of Non-Ministerial Organization.”


36. Ermann and Lundman, Corporate and Governmental Deviance.


42. Pearce, Organization and Management in the Embrace of Government.


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Disruptive Hybridity:
The New Generation of Political Advocacy Groups

by David Karpf, PhD

Most agree that the Internet’s effect on American political organizations has been profound. That said, current research about the Internet and politics holds two competing claims to be true. First, the new media environment has enabled a surge in “organizing without organizations.” We no longer need organizations to start a petition, create media content, or find like-minded individuals. Second, many fundamental features of American politics—from the average American’s lack of political knowledge or interest to the elite nature of major political institutions—remain unchanged by the new media environment.

Editors’ note: This article was adapted from The MoveOn Effect: The Unexpected Transformation of American Political Advocacy, by David Karpf (New York: Oxford University Press, 2012).

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MoveOn.org reached out to its five million members, generating 150,000 notes of support in a matter of days.

Everyone can now speak online, but surprisingly few can be heard.

I offer a third claim that modifies both of these perspectives: changes in information technology have transformed the organizational layer of American politics. A new generation of political advocacy groups have redefined organizational membership and pioneered novel fundraising practices. They have crafted new tactical repertoires and organizational work routines. Political mobilization is rarely spontaneous, and the organizations that mobilize public sentiment have changed as a result of the Internet. The real impact of the new media environment comes not through “organizing without organizations,” but through organizing with different organizations.

Though Internet-mediated organizations have played a prominent role in American politics for a dozen years, we still know very little about their operation; amid all the attention to trends in social media, the transformation of political organizations has gone overlooked.

#WIUnion

For three and a half weeks, from February 16 through March 9, 2011, Wisconsin was home to the largest American labor protest in a generation. Unlike the Egyptian uprising that occurred mere weeks beforehand, public observers did not attribute a causal role in the Wisconsin protests to social media—no one believes Twitter caused the Wisconsin standoff. The Internet did play an essential mediating role, however, and it is through such large-scale events that the important niche now filled by a new generation of political advocacy groups becomes clear.

The labor protests in Madison began as a local reaction to a state policy matter. On February 15, 2011, recently elected Republican Governor Scott Walker unveiled his budget repair proposal. Included in the bill was a provision that would dramatically curtail the collective bargaining rights of public employee unions. Under the guise of a short-term budget crisis, the new governor was attempting to cripple a core constituency of his Democratic opposition. Unions are not only reliable sources of Democratic-leaning votes; they also provide key organizational support during election seasons. As such, weakening the union movement is in the long-term electoral interests of the Republican Party network. With Republican majorities in Wisconsin’s state senate and state assembly, Walker had every reason to expect his bill to pass quickly into law. Democrats were outraged, but they had few bargaining chips. The entire fourteen-member Democratic state senate delegation (quickly dubbed “the Wisconsin 14”) decamped to neighboring Illinois, forestalling an immediate vote. Local union members turned out by the thousands, setting up a massive peaceful demonstration within and around the capital building, and the national labor movement—organizations like the American Federation of Labor and Congress of Industrial Organizations (AFL-CIO) and the Service Employees International Union (SEIU)—quickly joined these protesters.

The labor movement was not alone in this conflict; the netroots also immediately joined the fray. MoveOn.org reached out to its five million members, generating 150,000 notes of support for the Wisconsin 14 in a matter of days, and DailyKos, Democracy for America (DFA), and the Progressive Change Campaign Committee (PCCC) all launched fundraisers for the state senate delegation. On February 27, a netroots-led coalition held solidarity rallies in every state capital, drawing fifty thousand attendees and additional press attention nationwide. Meanwhile, Madison became “ground zero” for netroots organizers. Bloggers and field campaigners arrived in the state capital to help coordinate logistics, organize pressure tactics, and cover the details of the struggle. Armed with flip cameras, they interviewed local protesters and rapidly compiled issue advertisements. They then quickly turned to their national membership base for funding, and placed the commercials on local television.

The nearly monthlong protest was the “largest continuous demonstration for workers rights in decades.” Daniel Mintz, MoveOn’s advocacy campaign director, remarked, “What happened around Wisconsin showed the most energy since 2008 and, in a non-electoral context, since the start of the Iraq War.” Though the governor obtained passage of his bill on March 9, by then the damage had been done. His public approval...
ratings plummeted, and the Republican governor of nearby Indiana decided against pursuing a similar bill due to fear of public reprisal. An energized coalition of local and national progressive organizations immediately announced recall campaigns against six vulnerable state senate Republicans. Democracy for America alone hired thirty-five field staff to work full-time on those recall efforts. The August special elections succeeded in unseating two of those senators, considerably narrowing the Republican senate majority.

There are three important lessons about the Internet and political advocacy that we should take from Wisconsin. The first is that Internet-enabled political organizing moves fast. Prior to the protests, netroots organizations like the Progressive Change Campaign Committee and Democracy for America had no developed staff capacity in Madison. Yet, within forty-eight hours of the day Governor Walker unveiled his bill, they had diverted their attention away from the federal level, re-tasking key staffers, educating their membership, crafting online petitions, and raising funds. Over the following two weeks, they had organized mass protests in fifty state capitals. In an era of twenty-four-hour news channels, blogs, and Twitter updates, news cycles move fast, and netroots organizations have fashioned themselves to keep apace.

The second lesson is that the interest group ecology associated with the Democratic Party network has changed. The liberal coalition has for decades been composed of single-issue groups that remain concentrated within their “issue silo.” The American Civil Liberties Union (ACLU) and the Sierra Club may agree in spirit with the Wisconsin protesters, but they aren’t going to mobilize staff and financial resources to support them. Members donate to these groups to represent their interest in civil liberties or environmental protection. Their annual dues provide a reliable basis for lobbying staff and policy experts, both in Washington, DC, and in states across the country. The netroots define membership differently, disassociating it from financial transactions. Instead, they rely upon a fluid fundraising model based on targeted, timely action appeals. As a result, the netroots become “issue generalists.”

Staff structures and tactical repertoires are all built around the Internet. This yields new work routines, communications practices, and broad strategic assumptions. While other left-leaning interest groups remained focused within their traditional issue silos, the netroots swarmed to Wisconsin, providing a nationwide cavalry and expanding the scope of the conflict.

The third lesson is that Internet-mediated political organizing is hardly limited to blog posts and e-petitions. Critics who dismiss Internet activism as mere “clicktivism” focus attention on particular digital tactics and argue that historic movements for social change require deeper commitments and stronger ties than those found on Facebook or Twitter. Some proponents of Internet activism, also focusing on these digital tactics, argue that they are a new form of action and should be treated as “social movement theory 2.0.” Neither of these perspectives captures what we saw in Wisconsin, where a new generation of large-scale organizations demonstrated their capacity to mobilize substantial resources over a sustained time period. By ignoring the organizational layer of the public sphere, we have missed important developments in American political engagement.

**Divergent Internet Effects: Organizing without Organizations**

Within Internet studies, there is a popular line of thinking concerned with “organizing without organizations,” “open-source politics,” or “social movement theory 2.0.” According to this strand of theory, the traditional logic of collective action has been fundamentally altered by the lowered transaction costs of the new media environment. The argument is that formal organizations are no longer necessary, since individual tactics like e-petitions can now be organized online and information can spread virally through social media channels like blogs, YouTube, Facebook, and Twitter. In other words, we are all our own publishers and political organizers now.

The “theory 2.0” tradition has made a substantial contribution in identifying the significant implications of lowered online transaction costs. Indeed, “mass self-communication” is now possible in a manner unlike ever before. And social
Largely in response to the “organizing without organizations” line of research, a set of critics have emerged, dismissing online activism as mere “clicktivism,” or “slacktivism.” According to their arguments, the Internet’s effect on political institutions is minimal, and may even have deleterious unintended consequences. Malcolm Gladwell suggested, in a widely read New Yorker essay, that “the revolution will not be tweeted.” He argued that social media tools fail to promote the type of strong interpersonal ties necessary for successful social movement organizing. Stuart Shulman has warned that waves of e-petitions and online public comments will swamp federal agencies in “low-quality, redundant, and generally insubstantial commenting by the public,” drowning out more substantive citizen participation. Evgeny Morozov dismisses most digital activism as “slacktivism” and argues, “Thanks to its granularity, digital activism provides too many easy ways out.” Waves of new online communications tools lower the costs of citizen input, and this in turn unleashes waves of low-cost symbolic actions with little or no political impact. Underlying these observations is a deeper concern that, to the extent that e-petitions and Facebook clicks substitute for deeper citizen engagement, they may breed resentment and increased apathy toward government action. When all that clicking produces no change, they reason, citizens will turn bitter or tune out.

The “clicktivism” critics are right to question the value of an individual e-petition or Facebook group. Judged by the standard of traditional power analysis, which Robert Dahl classically defined in 1957 as, “A has power over B to the extent that he can get B to do something that B would not otherwise do,” the average e-petition is a shallow intervention indeed. Powerful actors are unlikely to choose a different course of action solely on the basis of a digital signature list. But it is also only a single tactic. As we saw in Wisconsin, such tactics hardly capture the extent of online organizational ventures. Furthermore, as we will see in the following section, such criticisms lose their sting when placed within the context of political advocacy organizations. The average e-petition is indeed of minimal value, viewed in isolation. But so is the average written petition. Digital activism is not a replacement for the Freedom Riders of the 1960s; it is a replacement for the “armchair activism” that arose from the 1970s interest group explosion.

The Organizational Layer of Politics
An intermediary layer exists between government institutions and the mass citizenry. My interest lies in this often-overlooked corner of political communication research—the organizational layer of American politics that facilitates...
interaction between government elites and mass publics. Studies of political organizations have a grand pedigree in political science, dating back to the early pluralists who viewed government as a neutral arbiter in the battle between organized citizen interests. As we have learned more about the fundamentals underlying political institutions and political behavior, organizational studies have drifted into isolation. Part of the problem is methodological: it is nearly impossible to establish the immediate impact of such groups. The field of interest group competition rarely features unambiguous wins. As Baumgartner et al. recently demonstrated, identifying who wins and who loses among interest groups is a daunting proposition in its own right, with no “magic bullets” among the various tactics and strategies. Merely estimating the size of the interest group population is a devilish problem.

The organizational layer of politics is not particularly large. Compared to the size of the national population, issue-based political mobilization is minuscule. The largest day of protest in Wisconsin drew approximately 100,000 citizens, a fraction of the state population of approximately 5,600,000. Tea Party protesters at each of the 2009 Health Care Congressional Town Hall meetings numbered in the dozens, yet those dozens drove a national media narrative. MoveOn’s five million members represent less than 2 percent of the American population. These are numbers that would fit within the margin of error in a nationally representative survey.

Yet there is good reason to believe that the makeup of the organizational layer matters a great deal for broader political concerns. Theda Skocpol has found that the late-twentieth-century decline in American social capital is likely tied to the disappearance of cross-class federated membership associations during the 1970s. Until that time, social capital was built and maintained through civic organizations. Those organizations changed when membership and fundraising regimes, along with the broader government opportunity structure, shifted to favor professionalized, DC-based advocacy groups. It stands to reason that the new wave of Internet-mediated organizations will also play an intermediary role in defining civic beliefs and citizenship ideals.

Because innovation continues at such a rapid pace on the Internet, it has proven to be an enduring challenge for those studying its effect on politics.

The Internet and Disruption Theory

The concept of disruptive innovation features heavily in this narrative. The Internet has been fruitfully described as a “sequence of revolutions.” Because innovation continues at such a rapid pace on the Internet, it has proven to be an enduring challenge for those studying its effect on politics. YouTube did not exist during the 2004 election, yet it was a fixture by 2008. The microblogging service Twitter was still in its infancy in 2008. It is a fixture of the media landscape today. Now that mobile web devices like the Android phone and the iPhone are rapidly gaining market penetration, new social experiments with geolocational data are being devised. In the time that elapses between my completion of this manuscript and its physical arrival upon a bookshelf, another major innovation or two is likely to be heralded for “changing everything.”

As we have seen in communications industries such as book publishing, newspapers, and music, the Internet exhibits a tendency toward fostering disruptive forms of innovation. The new media environment has put traditional commercial sectors into disarray. It is a classic example of
what Clayton Christensen calls the distinction between “disruptive” and “sustaining” innovations. Sustaining innovations offer incremental performance improvement in an existing field of production. Disruptive innovations foster the rise of a competing field of production. In so doing, they undercut existing market forces. Under such circumstances, the advantages of traditional organizational bases of production are undermined; the stable revenue streams that supported those organizations became unreliable.

Moments such as these tend to exhibit a generational character: old industrial leaders decline and new industrial giants emerge. We are now witnessing the same pattern unfolding in the nonprofit advocacy sector.

Notes


Morozov, The Net Delusion, 190. Morozov’s broader argument concerns the threat that digital tools, poorly deployed, can pose in unstable regimes. On the broader point, I concur, but his writing paints digital engagement tools with a particularly broad brush.


We are becoming more and more used to following the news via multiple media, as well as to the speed at which we are now able to access, and even get in front of, the news. Political activists, in particular, are taking advantage of this era shift.

Editors’ note: This article was excerpted and adapted by the author from research for his new book, The Hybrid Media System: Politics and Power, published by Oxford University Press, 2013.

When was the last time you watched television news without your smartphone or tablet close by? When was the last time you reached the end of a day having followed the news using only one medium, whether print, broadcast, or the Internet? And, if you work in an organization that has anything at all to do with campaigning, when was the last time you sat in a meeting and did not have to think about how your strategy might change according to the different media through which you deliver it?

I suspect the answer to these questions is “a long time ago.”

In my new book, The Hybrid Media System: Politics and Power, I look at the tumultuous changes that have occurred during the last decade in political communication. Things have turned out rather differently from what many of us imagined in the late 1990s, when we first embarked on trying to make sense of the implications of the Internet for politics. The great digital disruption is certainly very real, but it is everywhere accompanied by renewal and change among broadcast and print media (and all of those organizations suffused with their logics). The result is not only a great deal of complexity and mess but also surprising new patterns of order and integration.

The book’s central theme is the adaptation and interdependence among older and newer media, but also, more importantly, the political logics associated with those media. Western liberal democracies (and, one might argue, many non-western or non-democratic political systems) now
The hybrid media system shapes the actions of political and media elites, social movements, new protest movements, ordinary citizens, and, of course, advocacy and campaign professionals. Feature what I call hybrid media systems. In these systems, politics is increasingly defined by the organizations, groups, and individuals who best blend the technologies, genres, norms, behaviors, and organizational forms associated with older and newer media. Power is now wielded by those who create, tap, and steer information flows in ways that modify, enable, and disable the power of others across and between different media.

We now live in an era in which the “new” digital media logics of the Internet and its constellation of technologies and devices have become strongly integrated with “older” media logics, particularly those of broadcast television. It is the recombinations of media logics that are now essential to the conduct of public communication. The hybrid media system shapes the actions of political and media elites, social movements, new protest movements, ordinary citizens, and, of course, advocacy and campaign professionals. Yet, at the same time, this system is itself a social and political construction—the outcome of the incessant power struggles that occur on a daily basis across all fields of media and politics.

We can see this hybrid system in flow in political parties and presidential campaigns, in journalism and news making, in government departments and political executives, and in public advocacy groups and citizen mobilization movements as diverse as WikiLeaks, MoveOn.org, the Sierra Club, Friends of the Earth, and Amnesty International. We can also see it in the organization that is the focus of this article: the United Kingdom’s extraordinary two-million-strong citizens’ movement, 38 Degrees.

Origins
38 Degrees emerged from an international network coordinated by British career activists David Babbs (executive director) and Hannah Lownsbrough (former campaign director). Ben Brandzel, who has played a pivotal role in MoveOn, and Jeremy Heimans, who cofounded Australia’s equivalent, GetUp!, performed outside advisory roles. Startup funding came from, among others, Gordon Roddick, husband of the late Dame Anita Roddick, the businesswoman and lifelong environmentalist behind the successful Body Shop retail brand. The third founding leader, Johnny Chatterton, arrived via a less conventional route, one highly revealing of 38 Degrees’ organizational culture. Chatterton, who later moved to work at online petitions site Change.org, had been hired by Burma Campaign U.K. after he “helped seed,” as he puts it, one of the early examples of political activism using social media: the Facebook group Support the Monks’ Protest in Burma, set up in 2007 to highlight the Burmese state’s crackdown on anti-government campaigns led by that country’s Buddhist monasteries. This experience of being a young, technologically literate online activist was important in shaping Chatterton’s attitudes to organizing and mobilizing; however, it was not only the power of Facebook to quickly raise awareness of international human rights abuses that fascinated him but also the way that interactions among Internet and broadcast media shaped the evolution of that political parties—the Conservatives, Labour, and the Liberal Democrats.2

38 Degrees is initially best understood as what I identified in the mid-2000s to be a new type of hybrid mobilization movement.3 Like MoveOn—the first example of this organizational type—38 Degrees is categorically not a traditional membership-based interest group that has simply “discovered” the Internet and digital communication networks. Instead, it is an organization born of the great digital disruption, but one forced to grow up in a media system not quite of its own choosing. As a consequence, the hybrid mobilization movement continues to morph in intriguing and important ways.

Building the “Actions”
38 Degrees provides an excellent illustration of how political activists now hybridize older and newer media logics in their attempts to shape news and policy agendas. Modeled in part on America’s MoveOn.org and Australia’s GetUp!, 38 Degrees has mobilized highly visible campaigns in a wide range of areas, including the environment, the National Health Service, media reform, and constitutional reform. Founded just five years ago, by January 2014 it had amassed a membership of more than two million—around six times the combined membership of Britain’s three major political parties—the Conservatives, Labour, and the Liberal Democrats.2
“Actions” is a totemic concept for the organization because it provides identity and collective meaning. And the construction of actions rests upon the hybridization of older and newer media logics.

The “Actions”

A key element of this leadership-driven “service” to members is what constitutes the key organizational resource of 38 Degrees: the “actions.” The organization has only a handful of paid staff and around a dozen unpaid interns who undergo short periods of volunteering in its central London headquarters. When I visited, headquarters consisted of a couple of rooms in a slightly scruffy but functional office building off Kingsway near the London School of Economics and Political Science (38 Degrees has since moved to marginally better accommodations, in Clerkenwell). A small advisory board comprising the original startup funders and some staff from other campaign organizations meets about once a month for a couple of hours. 38 Degrees does not hold formal real-space conferences for members, and there are no formal bureaucratic means by which members can expect to influence the leadership’s decision making. The leaders even acknowledge that the decision to call those on its e-mail list “members” was a deliberate attempt to encourage a sense of shared identity in the absence of traditional organizational mechanisms, though there is also an awareness that becoming a member of a political organization raises the bar too high for many, so they talk about people’s “being involved” or “joining in.”

But it is the “actions” that move 38 Degrees. "Actions" is a totemic concept for the organization because it provides identity and collective meaning. And the construction of actions rests upon the hybridization of older and newer media logics.

The 38 Degrees headquarters team speaks of “building the actions,” “trying out the actions,” and “getting members to do the actions.” On one level, the term “actions” has a simple meaning: actions are specific activities that the leadership aims to structure for its members to enable them to exert influence on the mainstream media, online networks, and the policy agenda. On another level, actions form the entire organizational basis of the movement. Actions are technological enablers, but they often combine online, real-space, and older media behaviors and impacts. The website, the e-mail list, the social media presence on Facebook and Twitter, and the fundraising to place print ads in national newspapers, together with the leadership team’s interactions with—and judgments about—emerging news stories, are the mechanisms through which actions are developed.

Actions go beyond the simple expression of opinion in online environments; they are constructed by the leadership team to have specific and definable outcomes. Members are asked to sign online petitions or send e-mails and make phone calls to their MPs. They are asked to show up physically at lunchtimes to protest in front of buildings around the country, as they have done on multiple occasions against proposed cuts to Britain’s much-loved public service broadcaster, the BBC, and its equally revered National Health Service. They are asked to organize flash mobs at political parties’ local constituency campaign gatherings, as they did in several targeted seats.
The leadership reacts quickly to emerging news agendas, but it is able to do so with legitimacy because it also engages in continuous background research on its members’ views. During the 2010 general election, to raise awareness of the political lobbying industry, the 38 Degrees website enables these actions by providing form e-mails and online petitions that may or may not be personalized by individual members, together with information generated from tailored web databases. Alternatively, members may be asked to very quickly contribute donations to pay for prominent newspaper and billboard advertising. These ads suddenly migrate messages across media settings and are designed to put pressure on elite media and policy-makers—those more likely to pay attention to a full-page ad in a national newspaper and be spurred to call the 38 Degrees office for more information or interview Babbs for a television or radio package. The ultimate aim of the actions is to send coherent, legitimized, representative messages to government and legislators at Westminster. Only through the ongoing construction and modification of actions can 38 Degrees lay claim to being an “organization” in any meaningful sense of the word.

Being the Moment
A typical working day at 38 Degrees begins before the team arrives at headquarters. Staff members conduct “media checks” and often discuss these checks via e-mail during the night and in the early morning. If an important news story emerges overnight that fits with 38 Degrees’ underlying progressive agenda, the leadership will try to construct actions to engage members as quickly as possible. The processes through which actions emerge is therefore based upon the hybrid integration of media practices, the recalibration of strategy on the basis of perpetual online feedback from members, and a mixture of long- and short-term routines that often revolve around sharing information with other NGOs.

The leadership reacts quickly to emerging news agendas, but it is able to do so with legitimacy because it also engages in continuous background research on its members’ views. The organization exhibits many of the features of the classic single-issue “cause” group, but its technological infrastructure allows it to rapidly switch focus from one issue to the next, run campaigns across several issues at any given time, or quickly drop campaigns that do not strike a chord with members. Timeliness is essential to this mode of operation. As Chatterton put it: “There will be moments when people really care about something; maybe they’ve just seen it on the news and thought, damn, I want to do something about that. We hope to be in that moment and make it easy.”

E-mail underpins everything. Each month, the leadership conducts a web poll of around one-twelfth of its two-million-member e-mail list. The aim of the monthly poll is to provide headquarters with an understanding of issues emerging among its membership base. But the poll also contains a series of tracker questions that can inform adjustments to a campaign as it evolves, as well as a free block of questions that the leaders use to “insert some questions that are just relevant to that time, stuff that we’re particularly concerned about.” In addition, the team issues specific polls on campaigns that they would like to see run, or it offers members a set of clear choices on how to approach a particular issue. The leadership also “seeds” ideas to Twitter and Facebook to get a rough sense of the levels of concern, harvests comments on their online petitions, analyzes them quantitatively, and then uses the evidence in broadcast media appearances. When Babbs appeared, in 2010, before a House of Lords committee investigating the government’s Digital Economy Bill, he presented thematically organized aggregated evidence drawn from over twenty thousand comments from those who had signed the online petition opposing the legislation.

Volunteers in 38 Degrees’ headquarters continually monitor suggestions sent to them through the organization’s Facebook and Twitter profiles, the website’s contact form, and via e-mail. The campaigns director “runs a bit of a filter” on those and then distributes them to the other team members. The results of all of this are discussed at the weekly staff meeting, where the team makes strategic decisions. Actions often emerge from these weekly meetings, but the process is not straightforward. Often, members will convey strong opinions in a monthly poll, but an action suggested by the leadership will fall flat. Before deciding to “go full-list” to all e-mail subscribers...
with a new action, the leadership usually sends out test e-mails to just a sample. It then analyzes click-through rates and conducts A/B analytics with subject lines and framing, with the aim of generating more enthusiasm with the e-mail’s next iteration. Sometimes actions continue to fail during testing and are simply abandoned. Sometimes actions are not generated at all because the leadership is unwilling or unable to promote the cause.

While this process is reminiscent of older-style campaign message testing in broadcast environments, the time frames here can be extraordinarily compressed—a matter of only a few hours. The ritual is often conducted in real time from start to finish, as the team clicks on an automated mass e-mailer (provided by former Obama for America public relations agency Blue State Digital) and watches for the responses and metrics as they flow in. As Chatterton described it: “It’s fairly rapid. We can see those numbers coming in. When things go really fast, you can tell. You can see it going, and you think, we’re fine, we can go. If you’re not sure, you need to keep on waiting, and then, if you’re still not sure after two hours, chances are . . . So, we examine what’s gone wrong there. Maybe the subject lines are wrong, maybe the framing was wrong, maybe the e-mail structure was wrong, or maybe there’s another story that just exploded.”

A good example of these micro-cycles of mobilization was the Trafigura affair of October 2009, which has gone down in recent British political history as a victory for freedom of expression over media censorship. It ended with a successful campaign to overturn a superinjunction forbidding the Guardian newspaper from reporting a question in the House of Commons regarding allegations that a multinational oil trading company had been responsible for the illegal dumping of toxic waste in the Ivory Coast. Members of 38 Degrees played an important role alongside the Guardian and other British, and Norwegian, media organizations in quickly mobilizing a flash campaign of concerned activists, focused largely around Twitter. As Chatterton reveals, victory came quickly:

The Trafigura injunction was very interesting. We came into the office that morning, and thought, what is going on here, it’s dreadful being censored in this way. What can we do? We looked around and we couldn’t find out through conventional networks, and then Twitter started bubbling up that it was Trafigura. It probably took us about ninety minutes from coming into the office, knowing something had to be done, and getting an action out and starting to test it. And about fifteen minutes after, we launched, and we’d had a crisis meeting with the volunteers. We’d all sat around, figured out what to do—the positioning. We got the e-mail ready, got the tech ready, got people writing to their MPs, saying, “This can’t happen, you’re censoring Parliament as well”—because they weren’t letting people report what was being said in Parliament. And then Trafigura folded, and their lawyer Carter Ruck rescinded the superinjunction, and it could be freely reported. That was an incredible two hours for us. Conventional NGOs couldn’t have responded in that time frame and got that out.

Speed of reaction to emerging news agendas therefore plays a hugely significant role in 38 Degrees’ approach to mobilization. But does this approach put them at risk of becoming a reactive organization whose goals are defined by the headline writers of the professional media organizations? This question sparks some fascinating responses. The team is keen to stress the importance of the ongoing processes of member consultation and testing, the advantages (and not the disadvantages) of following the mainstream media’s agenda, and the significance of a particular understanding of authentic representation in contemporary mobilization.

The leadership argues that campaigns do not simply emerge from the “back of an envelope” on a given day. “Scenario planning” for different potential outcomes, “power analysis” to determine where to apply pressure, and identifying “members’ concerns” through polling and monitoring of social media take up a great amount of daily effort. Citizen organizations often have very little routine power when it comes to scheduling—particularly in spheres of politics where timeliness is important, such as when legislation enters Parliament, a public figure delivers an important
The Internet has allowed activists to “catch up with the 24-hour news cycle, which, in the 1990s, politicians had learned to control.” As Lownsbrough puts it: “I, as a citizen, am unable to determine the parliamentary timetable. Not being an editor of a national newspaper, I am unable to determine what goes on the front page at any given time. But I am able to have an understanding of the fact that on a day when that’s climate change, for example, a substantial number of our members will want to get in on that[. . . .] I don’t think that’s allowing other people to set your agenda. I think that’s just being responsive to the circumstances in which we find ourselves.”

It became clear that several of the big campaigns run by 38 Degrees did not emerge from simple reactivity but from a confluence of long-term planning and nimble responses to particular events. A good example is the campaign against cuts at the BBC. This had been identified as an evolving priority but was only fully launched when James Murdoch—who in 2010 was the News Corporation chairman and chief executive—used a high-profile speech to criticize the BBC. Another example is when 38 Degrees ran a series of newspaper ads calling on its members to e-mail the Liberal Democrat MPs involved in the coalition talks during the aftermath of the 2010 general election. The aim was to pressure the party into making electoral reform a condition of entering into a coalition with the Conservatives or Labour. At that time, 38 Degrees was also part of a networked alliance of web-enabled activist campaigns, including Take Back Parliament, Unlock Democracy, Vote for Change, Avaaz, and Power2010 (which has since joined forces with Unlock Democracy). Together, these groups organized a real-space demonstration in front of the nation’s entire broadcast media in central London just as the coalition talks began in earnest. Babbs live-blogged the demonstration on 38 Degrees’ Facebook page using his smartphone, but he also became enmeshed with television media that day, and ended up participating in a hostile interview with Sky News’ Kay Burley that quickly went viral on YouTube.

But when it comes to this question of reactivity, by far the most intriguing norm I have encountered is that, in an era in which the instantaneous communication of ideas via digital technologies is increasingly the expectation, it is the duty of any activist organization to engage with the public on a real-time basis. This is because the reactive, real-time nature of a campaign is important for conveying to the public an organization’s responsiveness and authenticity. Launching quick responses to the daily news agenda is more likely to convey that the leadership is adequately representing its members’ concerns. This is all the more important in the absence of real-space decision-making mechanisms. As Lownsbrough described it, “[We . . . ] communicate with people in a medium which they know and you know to be almost instantaneous[. . . .] If somebody sends you an e-mail and it doesn’t resonate with what you’re experiencing that day, then that feels a bit inauthentic, because it’s an instantaneous form of communication. So in the interests of authenticity, when you’re communicating with people over the Internet I do think an awareness of what’s happening that day is absolutely critical.”

Lownsbrough went on to describe speed as “the contribution that online activism can bring to the activism table,” and a force that can restore to those who have become disengaged from politics “some of the excitement that comes from being right in something when the decision’s getting made.” The belief is that reacting to the mainstream media’s news reporting increases the likelihood of successful online mobilization, because this will resonate temporally with members’ feelings and provide them with symbolic rewards. Real-time response is itself a mechanism that generates the substantive resources of authenticity and legitimacy required by the leadership as well as an ethic of solidarity between the leadership and members. The temporality of the medium becomes the message.

But still, this ability to react in real time is shaped in advance by planning and preparation. Seemingly loose, flexible, and “spontaneous” mobilization—which takes place in some cases within just a couple of hours—depends on a blend
of viral messaging across its online supporter networks, ongoing organizational capacity through online polling, a keen awareness of the policy and news cycles, and interconnectedness with the news values and temporal rhythms of older print and broadcast media.

**Building and Exploiting the Hybrid Media System**

These are 38 Degrees’ contributions to the ongoing construction of the hybrid media system. They have enabled the movement to recruit two million members in less than five years and, on occasion, to influence policy. In 2011 they mobilized 530,000 people to sign an online petition, 100,000 people to e-mail their MPs, and 220,000 people to share a campaign on Facebook to stop the British government from introducing plans to privatize more than a quarter of a million hectares of the nation’s public forests.

In a move that was based on the understanding that certain information signals are more likely to be taken seriously than others by professional journalists and political elites, 38 Degrees also raised funds to commission the professional polling company YouGov to ask a representative sample of the British public about their views on the government’s forest proposals. The results revealed that 84 percent were opposed to the plans. To reinforce the poll’s findings, 38 Degrees then raised nearly £60,000 from members to pay for a series of full-page ads publicizing the poll’s findings in national newspapers. Babbs and Lownsbrough also made several national television and radio appearances. Within a few weeks, the government’s plans were withdrawn.

As this article reveals, 38 Degrees employs a careful division of labor in its approach to media. Online media are perceived as better for tight feedback loops, coordination, more active engagement, and representing the movement to itself. But being able to publicize its action through broadcast and print media helps target policy elites, validate the movement, and create highly visible signs of its efficacy for wider publics.

Those working in these new fields of political activism are both forging and adapting to the hybrid media system. They cannily switch between older and newer media logics in attempts to mobilize supporters and influence policy. They use older and newer media to structure the “actions” that serve as their only meaningful organizational basis—but, as David Karpf has forcefully argued, this is not “organizing without organizations” but rather “organizing with different organizations.”

There is a strong normative attachment to being able to react extraordinarily quickly to issues that rise to prominence in the “mainstream.” Responsiveness produces and reproduces identity and solidarity because it meets expectations of authenticity and connectedness that have become embedded as cultural values among activists who engage online. And yet the actions that 38 Degrees’ leadership asks its networks of supporters to perform, such as donating money for ads in newspapers and commissioning opinion polls, are often far removed from what we might think of as “online activism.” Indeed, these new democratic forms of politics are carved out of the hybrid spaces between older and newer media logics. They rest upon—and capitalize on—an acceptance of broadcast and print media’s enduring roles.

**Notes**

2. For the latest figures on United Kingdom party membership, see “UKIP Says it has signed up 13,000 new members in 2013,” BBC News website, December 31, 2013, www.bbc.co.uk/news/uk-politics-25562198.
4. All quotations in this article are from field research conducted by the author at 38 Degrees headquarters in May 2010.

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Social Responsibility or Marketing Ploy?

The Branding of L3Cs

by Rick Cohen

This investigative report looks at the performance of organizations adopting the hybrid status/structure of a low-profit limited liability corporation (L3C), and examines their track records as for-profit mechanisms for achieving charitable purposes.

2014 finds low-profit limited liability corporations (L3Cs) registered in North Carolina in something of a quandary. Governor Pat McCrory signed a law last June making North Carolina the first state in the nation to repeal the statute authorizing L3Cs. That leaves only eight states (and two Indian nations, the Oglala Sioux and the Crow Nation of Montana) chartering L3Cs. The last state to approve L3C legislation was Rhode Island, in July of 2012. Regardless of where one stands on the concept of L3Cs, there is little debate that the momentum has slowed.

It may be as attorney with the Stoel Rives law firm and publisher of the blog LLC Law Monitor Doug Batey observed, on the occasion of the North Carolina reversal: “With serious questions being raised by academics and business lawyers, one has to wonder why the states are rushing to adopt L3C legislation[ . . . ] The business lawyers and professors are analyzing and criticizing the L3C structure, the non-profit community and other promoters are pushing the L3C law hard at a local level, and state legislatures are passing the laws. But the issues raised by the commentators are apparently being ignored. This is not a good way to make public policy.” Batey concluded, “There are clearly substantial problems and issues with the current form of L3C law that the states are adopting. The existing L3C laws should either be taken off the books or changed to address the problems, and new laws in the current L3C form should not be passed.”

Was Governor McCrory responding to structural or legislative drafting problems built into the L3C law, or, as Forbes writer Anne Field attributed to L3C adherent (and self-proclaimed originator of the L3C concept) Robert Lang, was McCrory’s and the legislature’s decision due to the right-wing political trend that has enveloped North Carolina?

In the highly polarized politics of the United States, it is always possible to find perspectives from the political extremes weighing in on most issues. When North Carolina’s House of Representatives voted down a law to authorize benefit corporations, WRAL’s capital bureau chief, Laura Leslie, mentioned that the legislation had been subject to what its sponsor, Republican representative Chuck McGrady, called “web chatter”—that the movement for benefit corporations was, according to Leslie, “part of a secret conspiracy to promote the United Nations ‘Agenda 21’ sustainability efforts,”

Rick Cohen is the Nonprofit Quarterly’s correspondent at large.
Why would anyone opt to forgo eligibility for charitable donations and instead register a charitable activity as an L3C?

Why Be an L3C?

The simple definition of an L3C is an entity that is allowed to make a (limited) profit but is committed to pursuing a charitable purpose. And to look at any state’s list of L3Cs, it is not difficult to imagine, at least by their names, that they may indeed be, fundamentally, entities established to pursue charitable activities but which, due to the simplicity, brevity, and minimal oversight from state agencies, have established themselves as L3Cs instead of public charities. In other words, they opted for the L3C instead of the 501(c)(3) as their preferred vehicle. Why would anyone opt to forgo eligibility for charitable donations and instead register a charitable activity as an L3C? One answer may be that by becoming an L3C, these charitable entities bypass the tasks, and legal costs, and annual filings and disclosures required of 501(c) tax-exempt entities.

Even at the height of the Great Recession, although many established nonprofits were suffering from extreme shortfalls in charitable donations as well as government contracts, new nonprofits were constantly being created—and with little evidence that the Internal Revenue Service’s review constituted much of an obstacle. Encouraged by any number of enthusiasts devoted to promoting social enterprise, there is something of an ethos in that sector that suggests that with a good heart and creative spirit, notwithstanding limited capitalization, you too can be a social entrepreneur. In fact, getting approved for tax-exempt status by the IRS is, by the looks of things, as simple as getting a cup of coffee. And this seems especially true with respect to L3Cs: states request relatively little information from L3Cs in terms of applications and reporting, and appear even more willing to hand out L3C approvals than the IRS is vis-à-vis 501(c)(3)s. Indeed, it isn’t particularly evident that, given the remarkably limited information required by states that have authorized L3Cs, there is much that would cause an L3C applicant to earn a rejection.

As with tiny charities that sometimes barely exist—and after a period of time lose their tax-exempt status for not managing to file even a Form 990N e-postcard—some of these L3Cs fall by the wayside, presumably as their founders or organizers realize just how tough it is to make their vision of accomplishing a charitable purpose a going concern. That said, interSector Partners, L3C, counts a thousand active L3Cs in the nine states and, in the Oglala Sioux nation, four entities that have opted for the limited profit model as opposed to the public charity structure—although it is conceivable that some of these L3Cs might have some sort of affiliation with existing 501(c)(3)s or 501(c)(6)s.

L3Cs in Action: The Mission Center and the VSJF Flexible Capital Fund

Notwithstanding their currently uncertain status, L3Cs can be found operating across the nation—registered in one state, where they were first authorized, but pursuing activity wherever their missions take them. Given the range of charitable missions L3Cs may pursue, the types of functions and services they can take on are potentially as diverse as those of public charities—different only in that they are meant to be services delivered in a for-profit environment. The Mission Center (TMC) and the VSJF Flexible Capital Fund (Flex Fund) are two examples.

An L3C located in midtown St. Louis, The Mission Center provides “back office” services and support to nonprofit organizations—typically accounting, human resources, and insurance functions that small nonprofits may not have the scale and desire to obtain on their own but could afford if obtained jointly through this type of business incubator. Established only recently, in 2010, TMC describes itself (in all caps) on its website as “THE NATION’S PREMIER SOCIAL ENTERPRISE INCUBATOR AND ACCELERATOR.” TMC may be young but it boasts a “board of advisors” membership of well-known people: the aforementioned Robert Lang; John Tyler, general counsel of the Ewing Marion Kauffman Foundation; Phillip...
Fisher, principal of Michigan’s Max and Marjorie Fisher Foundation and founder of The Mission Throttle L3C; and Barbara Levin, chair of the board of Nonprofit Missouri, the state’s nonprofit trade association. TMC’s ability to attract such a high-level coterie of advisors suggests that these persons of significant philanthropic and nonprofit experience view the L3C as a serious and legitimate organizational form for the accomplishment of charitable purposes.

But TMC’s services are not a line of business unique or restricted to L3Cs. In both San Francisco and New York, the nonprofit foundation Tides provides shared office and back office services to a mix of some 230 nonprofits.8 In a report prepared by the Management Assistance Group for the Eugene and Agnes E. Meyer Foundation,9 several models of back office and group purchase services nonprofits were examined—with for-profit, nonprofit, co-op, and even private foundation providers—but nothing distinctly unique or beneficial attributable to one business model or another was discernable.

In December of 2013, the VSJF Flexible Capital Fund, based in Montpelier, Vermont, received the U.S. Department of Treasury’s approval to be a Community Development Financial Institution (CDFI). It is one of 210 L3Cs organized in Vermont, according to interSector Partners. This L3C was created by the Vermont Sustainable Jobs Fund as a business lending program focused on “royalty financing for growth stage businesses,” emphasizing investments in the “value-added agricultural, forest products, and clean technology sectors.”10 The president of the Flex Fund, Janice St. Onge, is the deputy director of the Jobs Fund, which was created by the Vermont state legislature in 1995 to promote Vermont’s green economy.

Unlike the typical operation of venture capital firms that offer companies equity financing in exchange for some portion of ownership, royalty financing is the provision of equity-like capital financing in exchange for a designated guarantee of a percentage of the business’s overall or product-specific revenues without the company’s giving up a stake in its ownership. Because of this focus on revenues from a product or an array of products, the Flex Fund targets “growth-stage businesses” that offer products that have a potentially high return, rather than potentially precarious startups. The Flex Fund website lists six investments it has made in firms engaged in forest products, specialty foods, and renewable energy.11 While sustainability and environmental issues seem to dominate the Flex Fund’s investment portfolio, it is a little difficult to imagine that the Liz Lovely cookie company, Vermont Butcher Block & Board Company, and Vermont Smoke and Cure are the tools of an L3C socialist conspiracy, as conjured by some opponents in North Carolina.

As with The Mission Center’s back office incubator for nonprofits, the royalty financing model of Flex Fund isn’t unique to L3Cs. A number of for-profit firms specializing in royalty financing have arisen in recent years, such as Arctaris Capital Partners LP, in Waltham, Massachusetts, Cypress Growth Capital LLC, in Dallas, and Revenue Loan LLC, in Seattle. And as a certified CDFI, the Flex Fund isn’t alone in Vermont—it joins a CDFI community that includes the Vermont Community Loan Fund, the Northern Community Investment Corporation, Community Capital of Vermont, the Opportunities Credit Union, and Rutland West Neighborhood Housing Services—all 501(c)(3) public charities, except for the credit union, which is a 501(c)(14).

Following L3C Activities: Oversight and Accountability

For anyone interested in the financing of 501(c)(3) public charities—or any other 501(c) tax-exempt entities for that matter—it is possible to examine their Form 990 filings with the federal government, accessible on the GuideStar website (among several others).12 Limited as the 990 may be, it is a multipage document with some breakdown of the entities’ general categories of income and expenditures. Nothing like that exists for L3Cs—or at least nothing that is easily accessible to the public.
What a state might hang its hat on with respect to regulatory oversight (vis-à-vis achievement of social benefits) of these entities expressly designed to attract for-profits into the arena of charity is difficult to say. It is fair to say that, despite the endeavors and achievements of the Flex Fund in Vermont, The Mission Center in St. Louis, and others, there hasn't been enough activity in these nascent corporate models to warrant significant concern about the regulation of L3Cs; there has been little of substance to regulate. Nonetheless, it is difficult to argue with Elizabeth Grant, the attorney-in-charge of the Charitable Activities Section of the Oregon Attorney General's office, when she observed that the “benefit corporation legislation eliminates the traditional fiduciary obligation to maximize profits, but it fails to provide any enforceable standard to guide the enterprise's pursuit of social benefits.”

Finally, the first principle of accountability is disclosure, but disclosure is only effective when the governmental office in charge of oversight and accountability requires the revelation of pertinent information—and then does appropriate oversight of what is actually disclosed. Disclosure is only as good as what is asked for. Below are some examples of the state oversight of L3Cs that demonstrate the limitations of what states have been and may currently be requiring of these hybrid organizations.

**Reporting and Disclosure**
In North Carolina, the latest list of active L3Cs appears to show ninety-nine. For the entities that are active, nearly all their filings—even those with corporate existences in 2010, 2011, and 2012, giving them some time to be active and report—simply have on record in the state's online database their L3C articles of incorporation, all nearly identical. For instance, the tripartite securities company Melana Development 1, Melana Development 2, and Melana Development 3 filed with the Securities and Exchange Commission, but there is nothing about any of Melana Developments' investment-generating efforts on the state's web page—only boilerplate text, such as the following for Melana Development 1:

> Persuant [sic] to §57C-2-20 of the North Carolina General Statutes, the undersigned hereby submits these Articles of Organization for the purpose of forming a low-profit limited liability company.
>
> 1. The name of the low-profit limited liability company is Melana Development 1, L3C (the “Company”).
> 2. The Company shall have perpetual duration.
> 3. The name and address of the individual executing these Articles of Organization is:
>    
>    | Name and Address | Capacity |
>    |------------------|---------|
>    | Keith Brown      | Organizer |
>    | 232 W. Winmore   | Chapel Hill, North Carolina 27514 |
> 4. The street address, which is also the mailing address, and county of the Company’s initial registered office are 232 W. Winmore, Chapel Hill, Orange County, North Carolina 27514.
> 5. The name of the initial registered agent is Keith Brown.
> 6. The street address, which is also the mailing address, and county of the Company’s principal office are 232 W. Winmore, Chapel Hill, Orange County, North Carolina 27514.
> 7. The Company is manager-managed. Except as provided by §57C-3-20(a) of the North Carolina General Statutes, the members of the Company shall not be managers by virtue of their status as members.
> 8. This Company is formed for both a business purpose and a charitable purpose that requires operation of the Company in accordance with the requirements of §57C-2-01(d) of the North Carolina General Statutes.
> 9. These Articles of Organization will be effective upon filing.

Follow-up annual reports, which are exceptionally rare, merely restate or modify the organizational structure, management, and registered agent. Nowhere do they detail what the authorized L3Cs are doing, and how.

North Carolina is perhaps a weak example, given the state's decision in 2013 to reverse its L3C course, but other states do not seem to have developed a significantly different reporting and disclosure regime—at least not one that is easily accessible. And the publicly accessible reporting
We handle the operations; You focus on your mission. Identify, attract and engage donors with end-to-end nonprofit solutions.

**DATA SOLUTIONS**
Gather critical information to measure processes and performance.

**DONATIONS PROCESSING**
Every donation processed efficiently while reducing costs.

**ACKNOWLEDGEMENTS & MAILING SERVICES**
Prompt, courteous process with high mailing accuracy at the lowest postal rates.

**MARKETING SOLUTIONS**
Boost donor engagement to build your brand – and donor loyalty.

**CUSTOMER SERVICE**
Turn every interaction into a chance to build trust and loyalty.

**FULFILLMENT**
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by L3Cs differs little in other states. For example, on the website of the Secretary of State in Illinois, the public can search for the following information about L3Cs (and, for that matter, LLCs):

**File Detail Report**
- The File Detail Report on a corporation or limited liability company includes the most commonly requested information on the business entity (i.e. exact name, date of formation/registration in Illinois, jurisdiction, duration, name of the registered agent and address of the registered office).
- The report on a corporation also includes the names and addresses of the president and secretary.
- The report on a limited liability company indicates whether the company is member managed or manager managed.
- The report provides the last date an Annual Report was filed, indicating whether the company is in good standing.

And the web page of Wyoming’s Secretary of State lists sixty-five L3Cs (although it appears that some twenty-eight have been dissolved as inactive); but, as with the other L3C states, there is limited descriptive information of the address and organizer associated with each L3C and in the online information from annual reports, changes in addresses, and registered agents.

An argument could be made that with the first L3Cs created only as far back as 2009, there has been less than sufficient time for many to be active enough to have information worth revealing in annual reports. But for firms that are now four or five years old, and which may have had other kinds of corporate existences—nonprofit or for-profit—before restructuring themselves as L3Cs, this argument doesn’t apply.

So what else, besides lax regulations and oversight, do L3Cs such as TMC, the Flex Fund, and Melana Development get from their L3C structure that they wouldn’t be able to get as 501(c)(3) public charities? Precluded from legally soliciting donations that qualify for charitable deductions, the benefits from the L3C status may boil down to two: one inchoate (branding), and one expectant (superior access to foundation program-related investments [PRIs])—both far more consequential than a difference in filing paperwork.

**L3C as Brand Identity: Game on Law, Civic Staffing, and Cross Movement Social Justice Consulting**

In Wilmington, North Carolina, “virtual lawyer” Stephanie Kimbro has launched Game on Law, an L3C that, she explains, uses computer games to educate players about their legal rights. “The idea is that they don’t really know they’re playing an estate-planning game,” Kimbro said. “But they see the consequences because they see that they didn’t do what they should have with their will.” Commercial entities may sponsor different levels of the game and offer prizes to players who conquer those levels, such as a free mini-counseling session with an estate lawyer, or will documents from RocketLawyer. The charitable purpose may seem a little sparse, but there is, as noted earlier, wide latitude in charitable definitions.

On the Civic Staffing webpage, the firm’s identity as an Illinois-chartered L3C is not immediately evident. The company fulfills “light industrial temporary staffing needs” for employers in the Chicago metropolitan area. Its charitable mission is conveyed by its taking referrals for employment from members of its “Civic Partner Network,” nonprofits engaged in workforce development programs funded by the United Way and local foundations. The diverse members of the network include well-respected nonprofits such as Catholic Charities, Centers for New Horizons, Easter Seals, the Lawndale Christian Development Corporation, Mercy Supportive Housing, and Oxford House. The Civic Staffing website distinguishes itself from other job-placement entities with a statement addressing employers about social responsibility, and highlighting three aspects: the referrals from the Civic Partner Network’s nonprofit members; Civic Staffing’s embrace of the principles of ISO 26000—a standardized guide for corporate social responsibility; and media recognition accruing to the employers for participating in a socially responsible venture. Needless to say, light industrial temporary staffing is a widely practiced business line for firms such as Kelly Services, which, like many corporate entities,
posts a corporate social responsibility statement.21

In Ann Arbor, Michigan, Cross Movement Social Justice Consulting is an L3C formed by Rosemary Linares—a 2010 graduate of New York University’s Wagner School of Public Service—that provides consulting assistance in strategic planning, capacity building, movement building, and intersectional organizational development focused on “identity-based oppressions, including racism, classism, sexism, homophobia, transphobia, ageism, and ableism.”22 Linares explains on the company’s website that “an L3C is run like a business and is profitable, but its primary aim is to provide a social benefit—through a double or triple bottom line.”23 But if, in Linares’ sentence, “nonprofit” were substituted for “L3C,” for many groups the idea would still be correct, as social benefit is a primary purpose for nonprofits also, and nonprofits have no intention of operating in the red.

It isn’t as if these L3Cs are cleaning up in terms of returns for the owner-operators. Although L3C legislation doesn’t typically specify what constitutes low profit, on an Americans for Community Development chart comparing L3Cs with LLCs and nonprofits, Lang posits a “return on investment” of between 0 and 5 percent.24 (Our guess is that for most L3Cs the numbers would tend to fall to the lower end of that range.)25 Rather, it is a matter of signaling—identifying L3Cs as a brand that is subtly superior to nonprofits and, perhaps less subtly, for-profits: compared to for-profits, the L3C appears structured to be socially responsible in a world where consumers are increasingly attracted to corporate social responsibility (CSR).

And that is a strong marketing signal. The authoritative Cone Communications global study on corporate social responsibility in 2013 indicated that 93 percent of the public want to see more of their products support CSR, 87 percent consider CSR when deciding what to buy and where to shop, 85 percent make CSR a factor in recommending products and services to others, and 93 percent are more loyal to companies with programs that support social or environmental issues.26

But social responsibility is not the only signal L3Cs are broadcasting. The Americans for Community Development chart compares the 0 to 5 percent ROI for L3Cs with “0 to negative 100%” for nonprofits, suggesting that nonprofits cannot generate a surplus. (They can, of course, but any surplus would be reinvested in the organization rather than distributed to owner-investors.) In the column headed “private sector resources,” L3Cs are linked to the following statement: “Philanthropic source invests with a lower than market rate of return; philanthropic investment lowers the risk and raises potential ROI for subsequent investors.” Nonprofits get a private sector resource description: “Market incentives inadequate or nonexistent.”27 The brand implication is that L3Cs are superior to nonprofits in their ability to function and generate a return on investment because, unlike the image of nonprofits, L3Cs are tuned into and responsive to the market.

In 2009, Laura Otten, director of the Nonprofit Center at LaSalle University’s School of Business, responded to the Americans for Community Development chart, writing, “you see the sl[ei]ght of hand these self-promoters have used to create this new organization that will compete with nonprofits. Too bad they, as so many others do, like to spin things on an ignorant public, preferring sl[e]ight of hand to truth [. . .]” she added. “Too bad these self-promoters didn’t understand, as so many people don’t, what a nonprofit is and how it operates. If they had, they would have understood that there is no need for L3Cs, as nonprofits already are a better model for achieving the same ends.”28

Otten is picking up on the marketing and positioning of L3C adherents who signal that their model is superior to nonprofits. For example, in a case study of Maine’s Own Organic Milk Company (MOOMilk) L3C, two authors wrote about the options for setting MOOMilk up to buy and market organic milk from ten northeast Maine dairy farmers. After dismissing profit maximization as a reasonable option for these small dairy farmers, the two wrote, without any specific explanation, “For Maine’s economy, a low-profit firm was clearly superior to nonprofits.”29 For most observers, the dairy farmers seem perfectly suited to be a producers’ cooperative—and may actually be—but the MOOMilk L3C structure serves a marketing and promotion function.

For many, “for-profit” is, inherently, definitionally better than all other alternatives. They have
a belief in privatization in education and many other arenas, and view “nonprofit” and “public” as somehow lesser. Wise Philanthropy coprincipal Richard Marker tells the story of the founder of a largely self-funded, failed arts nonprofit who became attracted by the L3C model. “He was enticed by the L3C model because, at least as he read it, more foundations and investors would be willing to put in substantial money, he would have an ownership stake, and, as he imagined, he would be able to fulfill his dream and make money at the same time,” Marker wrote. “[W]hat struck me was that there was nothing about his description which suggested to me that there was a viable business model. If no one would contribute or grant to it when it was a nonprofit, why would they invest in it as a for-profit?”30

The implicit bias is that for-profit status/ownership is somehow inherently superior to the nonprofit form; that the (purported) discipline of the market makes these charitable for-profits somehow stronger and smarter than nonprofits; and that, in contrast to the for-profit, the nonprofit form almost always leads to subpar investment and business decisions (thus the theory that a nonprofit ROI of zero is as good as it gets for public charities). Nonprofit executives, who don’t take a portion of the organization’s net earnings (prohibited under rules against private inurement in public charities), are viewed as somehow less committed and motivated than for-profit executives, who take profit-based compensation. Advocates of L3Cs conjecture that nonprofits lack the discipline of competition in the market, overlooking the constant competition in the nonprofit sector for contracts and “market” position, and for access to quality staffing and leadership.

The following proposal, put forward by Cause Capitalism blogger Olivia Khalili, sums it up: “Businesses are held financially accountable by the market[. . . .] Why not also look at creating superior nonprofits by applying specific market mechanisms?”31 By investing in an L3C, in other words, one is getting a superior brand of nonprofit entity—an assumption that, to date, is not empirically verifiable. It may be that the very limited results of L3Cs are attributable to their short life spans thus far; but, if they are unable to show substantive achievement in future, they will become the newest—but certainly not the last—example of the emperor’s new clothes.

**L3Cs Following the Money: Private Investment and PRIs**

Marketing a brand leads a business to sources of investment. Where might the nation’s L3Cs find capital to advance their programs, which are ostensibly geared toward a core commitment to achieving charitable missions? The answer lies in private investment and PRIs.

**Private Investment**

Presumably, the for-profit structure affords L3Cs—and other hybrid entities—access to forms of capital and, more generally, to the capital markets in a manner that is superior to what nonprofits might be able to raise. But Richard Steinberg, Indiana University-Purdue University Indianapolis professor of economics, philanthropic studies, and public affairs, wrote in a 2012 review of hybrids that “LLCs (Limited Liability Companies), L3Cs (Low-profit Limited Liability Companies), CICs (Community Investment Corporations), B corporations, Benefit corporations, and Social Impact Bonds lose the efficiency advantage of traditional for-profits and do not enhance access to capital over the nonprofit form.”32 So which is correct? The problem with Steinberg’s and comparable visions of L3Cs’ financial access is that they are rarely if ever based on more than an example or two—if any—of the financing going to and through actual L3Cs.

As few of the functioning L3Cs seem to be active enough to warrant much regulation, there are few that have much public evidence of capital flows going to their business activities. But examples do exist—some of which tap the new world of crowdfunding that has captured the imagination of nonprofits and individuals alike. Kimbro plans to raise money for her Game on Law L3C by launching crowdfunding campaigns on Kickstarter or Indiegogo. In South Carolina, the founders of Rock Hill Yoga hope to establish themselves as an L3C, and have launched a crowdfunding campaign on Indiegogo. Jennifer Lapidus appears to have launched her Common Ground L3C mill with a successful $18,000 Kickstarter campaign.
Not all L3C crowdfunding campaigns are successful. The Indiegogo campaign of Detroit EM News L3C to raise $10,000 for a 2012 Halloween masquerade event, for example, ended up with no funds raised at all. Whether $45,000 for a yoga studio or $18,000 for a wheat mill, these are small-scale fundraising operations that are probably little different from those of the tiny nonprofits that charitable entrepreneurs initiate every year.

But while for-profit firms may have access to capital markets for equity financing of a little more size and substance than crowdfunding campaigns generally bring, it does not appear that more than a half dozen or so L3C efforts to raise more-substantial equity investment have been filed with the Securities and Exchange Commission. The most successful of these efforts appears to have been MOOMilk L3C, which raised over $3 million in an offering in May 2013. MOOMilk is noteworthy in that it raised exactly what it had sought; but for the handful of others that have gone to the equity markets the results have been smaller, as seen in figure 1 (below)—though the Flex Fund, as a state-created CDFI, has raised significant equity investment. The list indicates only a small proportion of the field of authorized L3Cs making headway in raising equity financing. And could they have done just as well if they had not been L3Cs? The Flex Fund is a CDFI structured as an L3C, but it is only one of the more than 950 nonprofit and for-profit CDFIs certified by the U.S. Department of Treasury that have raised comparable or much higher investment amounts from a variety of investors. It doesn’t appear that the bulk of CDFIs have been constrained by their lack of an L3C structure; nor is the Flex Fund particularly advantaged.

In addition to the small movement into equity financing sources, some of the other models of L3C capitalization look to be as informal as crowdsourcing or crowdfunding. For example, ReCitizen, headquartered in Washington, DC, but registered as an L3C in Vermont, provides “web tools to advance citizen-led regeneration of communities and natural resources”—tools including crowdmapping, crowdsourcing, and crowdfunding. It raises money by charging $1,450 for two-day training programs to become a Certified Urban/Rural/Environmental Revitalization Specialist, and charging membership fees for—and taking a cut of the proceeds from—the use of its crowdsourcing tools. There is nothing especially L3C-dependent in that business model, though one might question whether a two-day training to be a “CURER” accomplishes much for the people who pay for the training.

PRIs

Nonprofits in need of financing might be looking for charitable donations or foundation grants for their

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**Figure 1: L3Cs’ SEC Form D Filings of Exempt Offerings of Securities**

<table>
<thead>
<tr>
<th>L3C Name</th>
<th>Filing Date</th>
<th>Primary Industry</th>
<th>Offering Amount</th>
<th>Amount Sold</th>
<th>Total Number of Investors</th>
</tr>
</thead>
<tbody>
<tr>
<td>VSJF Flex Capital Fund</td>
<td>Feb. 11, 2014</td>
<td>Pooled Investment Fund: Other Investment Fund</td>
<td>$4,000,000</td>
<td>$3,100,000</td>
<td>32</td>
</tr>
<tr>
<td>Melana Development 3</td>
<td>Dec. 11, 2013</td>
<td>Other</td>
<td>$1,100,000</td>
<td>$50,000</td>
<td>1</td>
</tr>
<tr>
<td>Melana Development 2</td>
<td>Aug. 19, 2013</td>
<td>Other</td>
<td>$1,000,000</td>
<td>$1,000,000</td>
<td>3</td>
</tr>
<tr>
<td>Maine’s Own Organic Milk Company</td>
<td>May 31, 2013</td>
<td>Agriculture</td>
<td>$3,080,000</td>
<td>$3,080,000</td>
<td>1</td>
</tr>
<tr>
<td>Melana Development 2</td>
<td>Mar. 20, 2013</td>
<td>Other</td>
<td>$650,000</td>
<td>$650,000</td>
<td>3</td>
</tr>
<tr>
<td>VSJF Flex Capital Fund</td>
<td>Jan. 3, 2013</td>
<td>Pooled Investment Fund: Other Investment Fund</td>
<td>$4,000,000</td>
<td>$2,490,000</td>
<td>21</td>
</tr>
<tr>
<td>Paradigm Project</td>
<td>Nov. 21, 2012</td>
<td>Other</td>
<td>Indefinite offering size</td>
<td>$929,000</td>
<td>4</td>
</tr>
<tr>
<td>Paradigm Kenya</td>
<td>Jun. 4, 2012</td>
<td>Other</td>
<td>$2,500,000</td>
<td>$600,000</td>
<td>2</td>
</tr>
<tr>
<td>Mdi Clean Energy Partners</td>
<td>Nov. 8, 2011</td>
<td>Energy</td>
<td>$1,000,000</td>
<td>$7,500</td>
<td>1</td>
</tr>
<tr>
<td>Melana Development 1</td>
<td>Aug. 22, 2011</td>
<td>Other</td>
<td>$500,000</td>
<td>$200,000</td>
<td>2</td>
</tr>
<tr>
<td>VSJF Flex Capital Fund</td>
<td>Jan. 27, 2011</td>
<td>Pooled...</td>
<td>$4,000,000</td>
<td>$1,600,000</td>
<td>10</td>
</tr>
<tr>
<td>Mission Center</td>
<td>Jan. 13, 2011</td>
<td>Business services</td>
<td>$500,000</td>
<td>$50,000</td>
<td>1</td>
</tr>
<tr>
<td>Paradigm Kenya</td>
<td>Nov. 5, 2010</td>
<td>Other</td>
<td>$3,000,000</td>
<td>$675,000</td>
<td>3</td>
</tr>
</tbody>
</table>

Source: http://form-d.findthecompany.com/
activities, and PRIs, being debt or equity investments by foundations in furtherance of their charitable purposes, would fit that bill. L3Cs, on the other hand, not being 501(c)(3) public charities, typically would not be soliciting or receiving money as such. However, in news reports, either the press or some of the L3Cs themselves appear confused about L3C access to foundation grant support. For example, the normally reliable Chicago Tribune described former Chicago Mayor Richard Daley’s new L3C (The Sustainability Exchange), established to advise other cities on making infrastructure retrofits and upgrades, as similar to an LLC—except that it might have easier access to investments from “grant-making nonprofits.”36 And an article in the Bangor Daily News indicated that MOOMilk’s L3C status would “open the door to funding from foundations and endowment.”37

After all is said and done regarding finances, L3C access to foundation PRIs like those of Ford, Kresge, and Kay is the Holy Grail for these hybrids—and, in fact, has from the start been the generative theme behind the creation of L3Cs. An L3C called SEEDR may be the exception to the rule. The Atlanta-based international R&D entity has been the recipient of two large grants from the Bill & Melinda Gates Foundation,38 including one in 2009, described as a grant of $539,566 “to develop a new line of insulated containers for transporting and storing vaccines and other medicines in developing countries.”39 The grant looks for all intents and purposes like a program-related investment, however, or perhaps some other form of recoverable grant (if listed and structured as a grant, even if recoverable, it would not count as debt on the recipient organization’s balance sheet). The second Gates grant appears to be more straightforward: $88,700 over a 2.5-year period for the same purpose as the 2009 grant, looking like a supplement to the 2009 investment.

A couple of other L3Cs have scored foundation grants. In 2010, the Ford Foundation awarded a two-year grant of $420,000 to a Michigan-based L3C, Disruptive Innovations for Social Change, to document and replicate a model continuum of job training and job placement services—a model of “employer resource networks” that, by the way, sounds like the kind of program that might have been developed by any number of expert nonprofits in the job training and job placement field.40 The Kresge Foundation followed, in 2011, with a three-year general operating grant of $300,000.41 That same year, Univicity, a California-based entity that was organized as an L3C under Wyoming’s statute, and which uses information technology to improve the effectiveness of humanitarian aid NGOs, received a $1.32 million PRI from the Kay Family Foundation in California, followed by another $250,000 PRI from the Kay foundation in 2011—both to support the development of specialized software. Later, Univicity spun off one of its projects to become a new L3C called Project Bonfire, which then received an $850,000 PRI from Kay.42 But 501(c)(3) charities are meant to be the primary direct recipients of project and operating grants from private philanthropies, and the Ford, Kresge, and Kay grants to L3Cs appear to be anomalies. An L3C looking for foundation grant support might be better off as a public charity, even with the burgeoning “sector-agnostic” interests of some foundation leaders.43

After all is said and done regarding finances, L3C access to foundation PRIs like those of Ford, Kresge, and Kay is the Holy Grail for these hybrids—and, in fact, has from the start been the generative theme behind the creation of L3Cs, regardless of the frills of other kinds of private financing and investment that L3C advocates tout. All of the state L3C legislation is written to match the U.S. Treasury Department’s definitions of PRIs.44 As described on the webpage of the Vermont Secretary of State, “The basic purpose of the L3C is to signal to foundations and donor-directed funds that entities formed under this provision intend to conduct their activities in a way that would qualify as program-related investments.”45 The constraint is that foundations can use debt or equity investments that count toward their required qualified distributions, or “payout,” only if they contribute to the foundations’ charitable purposes.

Some L3C advocates want foundations’ awarding of PRIs to L3Cs to be easier and more automatic. They decry the need, for instance, of the IRS opinion letters that foundations frequently seek as legal cover for making PRIs—presumably seeing them as a reason why foundations do not often make such investments in general, much less PRIs to L3Cs. Indeed, with the support of the Council on Foundations, L3C lobbyists have promoted federal legislation that would make PRIs easier for foundations in general, not only reducing the need for IRS opinion letters but also allowing L3C

...
recipients to voluntarily self-monitor and report on their PRI-funded activities. (In a way, that matches the minimal regulatory functions built into state-authorizing legislation for L3Cs, in which there is little in the way of reporting, and regulation would be largely self-imposed.) There is nothing automatic about PRIs, however, given the need for foundations to be able to underwrite debt or equity investments—a categorically different and more complex task than underwriting foundation grants, and more complex for monitoring as well. The reluctance of many foundations to make PRIs is fundamental: the aforementioned predisposition toward making grants rather than debt or equity investments (which they can make from their endowments as mission-related investments with more flexibility than the strictures of PRIs); discomfort with the notion of underwriting debt and equity (more of a banker’s skill set than a grantmaker’s); and an aversion to assuming the monitoring and reporting requirements involved in fulfilling the expenditure responsibility dimensions of PRIs.

New IRS guidance offers several model examples of private foundations using PRIs for for-profit small businesses, demonstrating that PRIs are not restricted to nonprofit recipients but are still meant to fulfill charitable objectives, not income or profit generation. That this recent IRS guidance on PRIs doesn’t satisfy L3Cs demonstrates what L3Cs want: a much more flexible approach to PRIs, more latitude on the definition of what constitutes charitable purpose, and less IRS regulation of the content and process of how recipients use PRIs.

**Going Forward**

Many of the people creating L3Cs are well-intentioned individuals who are motivated by the idea of using for-profit business models to achieve socially beneficial goals. But they are pursuing these models relying more on image and branding than substance, on the assumption if not contention that nonprofits are an inferior means of achieving social goals, on a desire to escape even the minimal regulation and oversight of public charities, and on the all-consuminge objective of getting access to private foundation program-related investments.

While foundations can and should do more program-related investments, they should be doing even more in the way of grantmaking, which is still their foremost institutional function in the charitable sector. While foundations can and should be making socially beneficial PRIs to a range of potential recipients (including certain for-profit entities), as fitting the IRS instructions, foundations need to remember and reprioritize their commitment to nonprofits as their primary constituency for grants and PRIs. While foundations may use their assets for debt and equity (contributing to their required 5 percent payout), they should be devoting much more attention to using the other 95 percent of their assets for mission-related investments, to push the corporate sector to higher levels of social responsibility.

That being said, L3Cs do not seem to be an improvement on the capacities and functions of public charities. 501(c)(3)s are not precluded from earning revenue, they are not precluded from accessing program-related investments, and they can even partner with for-profit entities to accomplish a wide variety of socially beneficial purposes. The logic that L3Cs are superior to nonprofits because of their for-profit decision-making structures is not supportable. Neither is the notion that business people are somehow more intrinsically accountable and market-oriented than nonprofits. Whatever L3Cs are actually achieving is already well done by the nonprofit sector across the country. There’s nothing new except owners who, in theory, will be able to personally benefit from whatever profits the entities might generate.

Ultimately, the L3Cs lead toward a couple of serious problems for the accomplishment of charitable functions in our society. There are already challenges with transparency and accountability for nonprofits; L3Cs represent a movement backwards in charitable accountability, avoiding the relatively limited transparency measures applicable to nonprofits by choosing the all-but-nonexistent accountability regimen that states apply to L3Cs. Moreover, the L3C model fundamentally angles for access to foundation PRIs. One might argue that foundations should be engaged in more mission-related investment, devoting their investment assets to socially responsible business ventures, but there is no compelling argument.
for foundations to divert PRIs—which count toward their mandated qualifying distributions/payout—from nonprofits to sui generis for-profit L3Cs. L3Cs are an attractive brand for some potential investment sources, but are they an advance over the 501(c)(3) public charity organizational structure? The evidence over the past few years is unconvincing.

Notes
5. While the Mission Center operates in downtown St. Louis, Missouri, it is actually one of 217 L3Cs organized and registered in Michigan, according to a February 16, 2014, tally by interSector Partners, L3C (see note 4, above).
7. See www.missioncenterl3c.com/.
12. See www.guidestar.org/.
15. See document filings for Melana Development 1, L3C (www.secretary.state.nc.us/search/CorpFilings/9805589), Melana Development 2, L3C (www.secretary.state.nc.us/search/CorpFilings/10191187), and Melana Development 3, L3C (www.secretary.state.nc.us/search/CorpFilings/10392281). North Carolina Department of the Secretary of State: Corporation Division, accessed February 18, 2014.
17. Per filing search on Wyoming Secretary of State website, accessed February 17, 2014, wyobiz.wy.gov/Business/FilingSearch.aspx. Search for L3C as the word in the filing name.
24. Per chart provided by Americans for Community
The calculation of profit for owner-organizers of L3Cs is made more difficult by the possibility that the owner-organizer could pay him- or herself a salary as part of the entity’s operating costs, plus a cut of the profits. For example, the California-based Univicity’s charitable funders—the Kay Family Foundation (private foundation), and World Vision (public charity)—hold A shares and decision-making authority on the L3C’s board. The executives of Univicity receive salaries from the firm and hold “B Shares” in lieu of higher salaries, though if the firm is profitable they benefit from their ownership of the shares. Cf. Roxanne Phen, The Future of Philanthropy: Hybrid Social Ventures (Muskegon, MI: Americans for Community Development, 2011).


27. Laura Otten, “A Tough Hybrid to Swallow.”

28. Ibid.


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Celebrating “Small Batch” Social Enterprise

by Brian Cognato

People take on the shapes of the songs and the stories that surround them, especially if they don’t have their own song.

—Neil Gaiman, Anansi Boys

The stories we tell shape what we see. They provide examples, pose questions, and help us understand ideas—like morality, feelings, and values—that are difficult to address head-on. We know this intuitively in our personal lives, guided by fables and parables, but it’s no less true in our professional ones, where stories help us choose the heroes we follow and navigate complex ethical and strategic dilemmas. This article compares two different stories that have developed to help define the “child star” of the social sector: social enterprise. Each story communicates a very different set of values, and one, which I will call “heroic” social enterprise, has taken root in the popular imagination at the expense of its alternative, “small batch” social enterprise. It’s up to those of us who care about the values of small batch social enterprise—such as inclusion, community, and local sensitivity—to tell their story and ensure they maintain their place in social enterprise practice today.

Brian Cognato is pursuing an MA in Public Administration at the Trachtenberg School of Public Policy and Public Administration at George Washington University. He thanks Rindala Mikhail and Dr. Jasmine McGinnis Johnson for their feedback on earlier drafts of this article.

A Powerful Story: “Heroic” Social Enterprise

One narrative of social enterprise will be familiar to even casual observers of the social sector—anyone who reads Fast Company or subscribes to www.good.is. Its protagonist is a courageous, charismatic, and brilliant social entrepreneur (our “hero”) who takes risks and succeeds against the odds. It begins with a clear, intractable problem to be solved, and the solution is the application of market forces, particularly efficiency and innovation. The desired result is more than just the improvement of individual lives; it is “scale” or a “global movement,” as the founding entrepreneur upends traditional categories to create a new equilibrium.

This is the story of Muhammad Yunus launching Grameen Bank with funds from his own pocket. It’s Matt Flannery and Premal Shah of Kiva teaming up to democratize philanthropy. It’s Blake Mycoskie, the TOMS team, and TOMS wearers directly handing children in need their first pair of shoes. (TOMS’s most radical innovation may be how it lets everyday consumers play the “hero” role in this kind of story.) This is the place where “social enterprise” and “social entrepreneur” overlap—the domain of The Skoll Foundation, Ashoka, and The Omidyar Network; The Economist, Forbes Magazine’s...
Whereas heroic social enterprise celebrates efficiency, innovation, risk taking, and independence, small batch social enterprise prioritizes inclusion, community, sustainability, and fairness.

This “heroic” story of social enterprise is powerful enough to have broken out of practitioner circles and taken root in the popular imagination, and we should all be thankful for that. Few tropes unite like a good hero’s tale, and few dreams inspire as much as the dramatic solution of a seemingly intractable problem. With the market playing the role of the solution, this story can find a particularly receptive audience here, in the United States, where it dovetails with the innovation zeitgeist of Silicon Valley. Experts have, fairly, critiqued TOMS’s model, and TOMS has recently acknowledged that criticism; but, at the very least, the organization has found an effective way to motivate others to invest in the betterment of a stranger’s life.

An Alternative: “Small Batch” Social Enterprise

There is an alternative story, however; and, though probably familiar to practitioners, it lacks the broad audience of heroic social enterprise—at least in the United States. It is a story defined by modesty and locality, one that may be familiar to today’s artisan craftspeople and makers (thus the term used here, “small batch”). In this story, the protagonist isn’t an individual but rather an entire community, and sustainable, incremental improvement is as valid a goal as the dramatic resolution of a specific problem. The community finds a way to make market forces serve their goals, unlocking underutilized potential for context-specific progress. It is a story that recognizes that some solutions need to be custom-made, and that market forces are a means, not an end. It’s a story that often lacks a charismatic entrepreneurial figure, instead finding the potential for social change in collaboration among diverse groups. While new paradigms and scale are possible in small batch social enterprise, it also recognizes that seemingly small advances in things like community wealth, income, and dignity have real value to those who benefit from them.

This is the story of co-ops and Community Development Corporations (CDCs), and the partner neighborhoods of Enterprise Community Partners, which attempts to bridge the private and public sectors to develop affordable housing in thriving communities. Art Enables, which showcases the art of individuals with disabilities, is an example in this writer’s home of Washington, D.C. Much of this article was written in a coffee shop operated by Oriberry, a small batch social enterprise that sells high-quality coffee through direct partnerships with farmers in Vietnam’s rural highlands. If these aren’t household names, that shouldn’t be surprising: when you partner individually with low-resource farmers, growth is slow, at best. But, as Anna Davies has pointed out, growth shouldn’t be an end in and of itself.

By swapping locality for scale, small batch social enterprises can achieve a sustainable impact while forgoing wide recognition.

A Question of Values

The differences between these stories are not only differences in style—they are differences in values. Whereas heroic social enterprise celebrates efficiency, innovation, risk taking, and independence, small batch social enterprise prioritizes inclusion, community, sustainability, and fairness. If stories shape who we become, as Neil Gaiman suggests, then an imbalance in the stories we tell about social enterprise can have far-reaching consequences—particularly for those who come to the field without “their own song”: a corporate social-responsibility representative with a marketing background; a board member who devotes a few hours to his or her organization each month; a first-time student of nonprofit management. The stories that educate these newcomers to the field will have real implications for the projects they fund, the decisions they make, and the jobs they seek.

To illustrate, think about how each story interacts with the questions of accountability and empowerment. A heroic social enterprise can be accountable to beneficiaries—if the entrepreneur so chooses; but if he or she truly believes in market principles, the social enterprise is first and foremost accountable to the market, which may or may not overlap with its proposed beneficiaries. That’s the TOMS dilemma: a model might sell, but that doesn’t necessarily mean it’s what the people who are supposed to benefit want or need. It’s a supply-centric model, as individuals with unusual talents...
or passion devise and implement solutions to other people’s problems. While that story empowers those with the means to solve a problem, it disempowers both beneficiaries—who wind up playing the role of problem-to-be-solved—and those who might not have the resources or ambition to be a charismatic, risk-taking entrepreneur.

In contrast, the small batch social enterprise prioritizes the community it serves. It is accountable to them first and foremost, and market forces are valuable only insofar as they lead to improvements in their lives. A social enterprise from this perspective might never scale, and a small batch social enterprise would think that’s okay. It might not be as efficient as it could be, and that would be okay, too. Inclusion and organizing are time- and labor-intensive processes, and their benefits aren’t always easy to quantify. They are, however, empowering to their targeted beneficiaries and those who don’t fit the “entrepreneur” mold, as small batch social enterprises give them a platform to combine their talents with others to create a greater impact.

**A Hybrid Form Requires a Hybrid Tale**

None of this is to say that there is anything wrong with the heroic story of social enterprise—quite the opposite: it is crucial because of its power to inspire. And, by relying on market forces, successful social enterprises are more likely to be sustainable, and some problems are ripe for scalable solutions. Nor does it mean that organizations cannot or do not combine both elements of these stories in their work. The organizations funded by Ashoka, The Skoll Foundation, and The Omidyar Network are certainly aware of these tensions and actively grapple with them every day: Ashoka’s embrace of an “Everyone a Changemaker” model is a notable attempt to craft an inclusive version of the hero story, and recent Skoll awardee Jockin Arputham offers an excellent example of how one hero’s story—in this case, that of a street-child-turned-community-organizer—can bring attention and resources to community-organizing efforts.

After all, the unique value of social enterprise is its ability to combine these two stories and balance the values they communicate. If we want to maintain that balance, however, those of us who find the values of small batch social enterprise compelling must actively celebrate and champion that story. In some ways, it might be a more difficult story to tell. Sensitivity isn’t as photogenic as innovation, and community isn’t as sympathetic a protagonist as a hero. It has compelling elements, though, and connections to the trends of today. The name I chose here, “small batch,” alludes to one possible branding route, but writers with more marketing savvy than this one can no doubt improve on that. No matter the name, these stories won’t tell themselves, and fans of small batch social enterprise and the values it prioritizes must take it upon themselves to break the story out of the world of practitioners and into the popular imagination.

**Notes**


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Hybridity and Nonprofit Organizations: Next Questions

by Steven Rathgeb Smith, PhD, and Chris Skelcher, PhD

In this article, the authors propose five possible hybrid models that can offer insight into management strategies to cope with the increasingly complex environment facing nonprofits, as well as potential ways to manage the contestation between different logics that arises with hybridity.
Editors’ note: The ideas outlined in this article are developed more fully in “Theorising Hybridity: Institutional Logics, Complex Organizations, and Actor Identities—the Case of Nonprofits” (in Public Administration, Wiley, advance access 2014). The authors acknowledge the support of ESRC grant RES-451-26-0995.

The development of hybrid nonprofits poses new challenges for managers, boards, staff, and volunteers, but relatively scant research has been devoted to analyzing the implications or developing strategies for management. The purpose of this article is to explore the concept of hybridity with respect to nonprofit organizations—especially the evolving role of nonprofit managers and staff. Our basic argument is that hybridity reflects the increased turbulence of the nonprofit environment, encouraging new

Steven Rathgeb Smith, PhD, is executive director of the American Political Science Association; Chris Skelcher, PhD, is professor of public governance at the University of Birmingham, United Kingdom.
Institutional logics [. . .] are abstract but become observable in the concrete social relations of actors who use, manipulate, and reinterpret them to their own advantage.

Institutional Logics Approach to Understanding Hybridity in Nonprofits

The concept of hybridity as guide for research and practice can be advanced by taking a lead from nonprofit and public management academics working within an institutional logics framework, and scholars in the organizational and management studies fields who also use this approach. In brief, Roger Friedland and Robert R. Alford present the logic of institutions in the following way: “Each of the most important institutional orders of [. . .] society has a central logic—a set of material practices and symbolic constructions—which constitutes its organizing principles and which is available to organizations and individuals to elaborate[. . . .] These institutional logics are symbolically grounded, organizationally structured, politically defended, and technically and materially constrained, and hence have specific historical limits.”

The concept of hybridity as an empirical property of all organizations—and, if this is the case, then the explanatory value of the concept is diminished. The concept of hybridity has not generally been used in the nonprofit or public management literatures in a way that enables theory development or testing; rather, it has principally been used as an empirical descriptor. Overall, the concept “hybrid” is used very loosely in this literature, lacks theoretical purchase, and appears to be in somewhat of a conceptual dead end.

Background

Hybridity is very useful at a symbolic level in conveying the changing landscape of nonprofit organizational forms. It suggests, for example, that taking government contracts reduces the purity of the original nonprofit form, or that a nonprofit social enterprise with substantial earned income reflects the idea that this type of organization is not motivated solely by altruism. Yet this very concept of hybridity is problematic when applied to the academic analysis of changes in nonprofits and the operative lessons for practitioners of hybridity—especially in an environment of increased contracting out and more pressure to generate earned income. Two conceptual issues are apparent. First, in the nonprofit and public management literatures, hybridity is typically defined in relation to the hierarchy/market/network framework—often reformulated as government/business/civil society. It is defined as some combination of two or more of these concepts. For example, scholars have suggested that social enterprises are hybrids embodying both nonprofit and for-profit elements.

However, the economics and management literature from which this tripartite framework emerges demonstrates that serious problems exist in operationalizing these theoretical distinctions—especially the intervening “network” concept. Second, and relatedly, the definition of hybridity in relation to empirical cases is problematic, because “pure” types tend only to occur as theoretical ideal-typical forms. It can be argued that hybridity is an empirical property of all organizations—and, if this is the case, then the explanatory value of the concept is diminished.

The Institutional Logics Approach to Understanding Hybridity in Nonprofits

The concept of hybridity as guide for research and practice can be advanced by taking a lead from nonprofit and public management academics working within an institutional logics framework, and scholars in the organizational and management studies fields who also use this approach. In brief, Roger Friedland and Robert R. Alford present the logic of institutions in the following way: “Each of the most important institutional orders of [. . .] society has a central logic—a set of material practices and symbolic constructions—which constitutes its organizing principles and which is available to organizations and individuals to elaborate[. . . .] These institutional logics are symbolically grounded, organizationally structured, politically defended, and technically and materially constrained, and hence have specific historical limits.”

Institutional logics, therefore, are abstract but become observable in the concrete social relations of actors who use, manipulate, and reinterpret them to their own advantage. Overall, the institutional logics approach comprises a meta-theory with five core elements. First, society is understood as an inter-institutional system of theoretically distinct sectors, each with its own institutional logic. Thus, these logics include the market, corporation, profession, state, community, family, and religion. These different logics lead to the second key characteristic: the actions of individuals within organizations, such as nonprofit managers, are shaped and constrained by different institutional logics. Third, organizations are social entities through which the logics of
Different logics structure the “rules of the game” within a nonprofit, directly and indirectly affecting the distribution of access, power, and status within a single organization or wider organizational field.

**Five Models of Hybrid Nonprofits**

Based on research into hybridization in the nonprofit sector, and adding new insights from the literature on institutional logics, we propose five types of hybrids based on particular patterns of contestation (see figure 1, following page). The first three types represent the way in which contestation is organized. These types are (1) segmented, vertically layered contestations between the apex and the base of the organization; (2) segmented, parallel contestations between functional groups within the nonprofit; and (3) symbolic, as expressed through communicative strategies. Through contestation, nonprofits may also move from one type of hybrid to another. Also, plural logics and the internal politics of the nonprofit can lead to (4) a blocked hybrid type, in which the contestation among logics cannot be resolved, or to (5) a blended hybrid type, where a novel and contextually specific logic emerges. In this case, contestation can be constructive and add value to the effectiveness and productivity of the organization.

**Segmented-layered.** Following from figure 1, the “segmented-layered” hybrid model is characteristic of nonprofits with some separation between the two institutional logics. As noted in the table, one example is a nonprofit providing professional services funded through philanthropy or government contracts but which also has a for-profit subsidiary that generates market income. Community Wealth Partners, a for-profit subsidiary of the nonprofit organization Share Our Strength, is one of the more prominent examples. Many different variations exist on this basic layered model. A church might own a parking lot that generates substantial income to support the work of the church but does not fundamentally lead to contestation between the different logics. Yet contestation may occur when the church considers the sale...

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**Different logics**

structure the “rules of the game” within a nonprofit, directly and indirectly affecting the distribution of access, power, and status within a single organization or wider organizational field.
The normative strength of different logics across institutional domains is also likely to affect the development of hybrid structures in nonprofits. One example of the layered model, with slightly different characteristics, is a nonprofit design firm specializing in nonprofit facilities with a for-profit design subsidiary. At one moment in time, the nonprofit parent might be relatively the same size as its for-profit subsidiary, but growth of the nonprofit part of the organization might lead to a relative isolation of the for-profit entity.

**Segmented-parallel.** The second, “segmented-parallel” model generally refers to more horizontal structures and entities. For example, many nonprofits, including churches, have created affiliated foundations to support the activities of the organization financially. The nonprofit board, for instance, may have very diverse representation and be elected by the membership, while the foundation board members are wealthy appointed individuals. Some larger multiservice nonprofits have programs that are highly dependent upon government funding (and hence subject to extensive government regulation). These multiservice nonprofits might also have service programs highly dependent upon market income while others are supported entirely through donations (such as an emergency food program). Thus these programs would operate under quite different institutional logics within the same organization.

Overall, we would expect nonprofits with a segmented (“layered” or “parallel”) form to offer nonprofits an opportunity to create an internal environment that would minimize the conflict among staff and volunteers who may share the same vision of the organization—such as providing human services to the disadvantaged—but in a way that allows staff to embrace different logics. The widely heralded Greyston Bakery in Yonkers, New York—part of the nonprofit Greyston Foundation—is a for-profit bakery employing the disadvantaged (a segmented-layered structure), allowing the organization to operate as a social enterprise with two quite different logics.12

The normative strength of different logics across institutional domains is also likely to affect

<table>
<thead>
<tr>
<th>Hybrid type</th>
<th>Characteristics</th>
<th>Possible contested logics</th>
<th>Example</th>
</tr>
</thead>
<tbody>
<tr>
<td>Segmented-Layered</td>
<td>Vertical segmentation within the organization between one logic at the management apex and another at other points in the organization</td>
<td>Between the professional logic of expert decision makers and the market logic of revenue generation</td>
<td>Where a nonprofit provides specialist technical services and is run by professional experts in the field, and has a for-profit subsidiary on which it is heavily dependent</td>
</tr>
<tr>
<td>Segmented-Parallel</td>
<td>Horizontal segmentation so that different logics apply in different organizational functions or governance structures</td>
<td>Between the democracy logic of members and the mission/faith logic of fundraisers</td>
<td>Where a nonprofit has a membership structure—with members forming the majority of the board—and emphasizes inclusiveness, while its affiliated foundation board composed of philanthropists focuses on mission to generate gifts</td>
</tr>
<tr>
<td>Symbolic</td>
<td>One logic expressed in the organization’s external communications/profile, and another in its practices</td>
<td>Between market logic and family logic</td>
<td>Where a nonprofit has adapted its communications to speak the language of market forces but retains a strong paternalistic approach to staff management</td>
</tr>
<tr>
<td>Blocked</td>
<td>Organizational dysfunction arising from inability to resolve tensions between competing logics</td>
<td>Between democracy logic and state logic</td>
<td>Where a nonprofit developed by a small group of staff retains a strong norm of informal, collective decision making yet is required through its contracts with government to adopt a more conventional corporate structure with formal hierarchical roles</td>
</tr>
<tr>
<td>Blended</td>
<td>Creation of a unique and contextually specific logic from a combination of those that are available</td>
<td>Combines two or more logics to create a new outcome</td>
<td>Where a nonprofit with government, philanthropic, and earned income provides training for the disadvantaged through a restaurant</td>
</tr>
</tbody>
</table>
the development of hybrid structures in nonprofits. Strong adherence to specific logics may encourage nonprofits to segment the governance of the logics it incorporates. For example, a nonprofit organization with substantial market activity may face regulation from taxation authorities using different regulatory frameworks in relation to each aspect of its activities. Since the principle of regulation is to ensure due process, we hypothesize that an increasing burden of regulation is associated with increased external pressure on the hybrid to segment its various activities—even to the extent of formal organizational separation between activities that reflect different institutional logics. A nonprofit providing technical assistance to other nonprofits for fee income will face pressure to separate these activities if the income becomes substantial or if the nonprofit would like to emphasize this revenue stream for future growth.

**Symbolic.** The third, “symbolic” model is exemplified in organizations whose actual practices diverge from their stated objectives or policies. In some nonprofits, this symbolic model might be a classic principal-agent problem, wherein the principal (e.g., a government funder or the nonprofit CEO) has specific expectations about the delivery of services, and the “agent” (such as an agency social worker) has responsibility for implementing the programs administered or directed by the agent. Because agents such as social workers retain some autonomy, it is quite often the case that the agency may be representing itself to government as implementing specific program priorities demanded by government; but, in practice, social workers may be following their own professional judgment. Another example is the common practice in many nonprofit organizations with a faith affiliation to display religious symbols on the walls. However, the actual services provided by these organizations may be entirely secular. Many contemporary nonprofits market themselves as social enterprises with a high degree of entrepreneurship and market logic, but in practice these nonprofits may be highly dependent upon government and/or philanthropic funding. Normative strength among logics is also a factor in our symbolic hybrid model. Thus, nonprofits might try to implement new business-oriented logics for their programs, and long-time staff and volunteers may symbolically comply but in practice actively resist the imposition of these new business norms.

**Blocked.** The fourth, “blocked” model refers to nonprofit organizations with organizational dysfunction due to the clash of different institutional logics (a common example is noted in figure 1). Many nonprofits started as informal collectives with a high degree of inclusive decision making and relatively flat organizational structures. The imperatives of growth and government funding tend to pressure nonprofits to adopt more corporate and hierarchical forms of decision making, which can then provoke serious staff conflict and turnover. Other examples can also pertain to organizational growth. For instance, nonprofits are prone, as they grow, to becoming more diffuse programmatically, especially if funding has been substantial. However, growth almost inevitably plateaus, and at this time nonprofit executives are likely to scrutinize different programs for their financial viability and sustainability, leading to cutbacks in programs that are too small or are weakly linked to mission-based priorities of the organization. But these program cutbacks can be very controversial within the organization, prompting staff dissension and possibly exit from the organization. Another example is the hiring of a new executive director with a vision and expectation for the nonprofit that differs from that of the current staff; the clash between the different logics of the executive and the long-time staff can create significant internal dysfunction. Other examples of a blocked model may not be dramatic but can illustrate an organization with serious governance issues. For example, a nonprofit may create a program at its establishment that exemplifies a community logic. Over time, the program may lose funding and begin to generate losses for the organization. But the staff may be reluctant to end the program, so the losses continue, creating financial problems for the organization.

**Blended.** The fifth, “blended” model combines elements of institutional logics to create a novel outcome. Minkoff, for example, sees hybrids as “bridging” between the legitimacy
If hybridity is a universal characteristic of nonprofit organizations [...] then the concept requires researchers to develop a more robust theoretical approach that can be used to guide research and practice in nonprofits.

If hybridity is a universal characteristic of nonprofit organizations—as Brandsen, van de Donk, and Putters, as well as Adalbert Evers, argue—then the concept requires researchers to develop a more robust theoretical approach that can be used to guide research and practice in nonprofits.

In this article we develop a way of undertaking this task by using the literature on institutional logics. This conceptual framework offers a fruitful line of inquiry, because it recognizes that many nonprofits embody plural institutional logics, and that latent and overt contestation—in which institutional logics interact with individual and group identity and organizational structuring—can result. For the staff and volunteers of nonprofits and public and private funders of nonprofits, this research approach also has a direct benefit: it will enable them to understand more about the ways in which organizations manage plural institutional opportunities and constraints, and the strategies through which organizational sustainability can be enhanced. This effort is particularly important in the current environment: government funders have reduced their funding; competition has increased for public and private funds; many nonprofits face pressure to raise earned income through market activity; and social enterprises, mixing market and philanthropic logics, are widely publicized as offering a more innovative approach to addressing social problems. Thus, hybridity, representing plural logics within nonprofit organizations, is offered as a solution for nonprofits concerned about sustainability and effectiveness. Pressure to incorporate multiple logics—including a market logic—within nonprofits is, arguably, also on the rise. The five proposed hybrid models offer insight into management strategies to cope with the increasingly complex environment facing nonprofits, and potential ways to effectively manage the contestation between different logics. Consequently, further research into these models could yield direct benefits for practitioners and advance the theory of nonprofits and our understanding of hybridity.
Notes
15. Minkoff, “The Emergence of Hybrid Organizational Forms.”

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**Dear Dr. Conflict,**

I believe that a bit of conflict in an agency is a good thing if you use it to open up discussion (and do it in a respectful manner). That said, I am a new ED at an agency where conflict seems to be completely hidden.

The agency has been through a rough patch, with the last ED being removed due to sexual harassment and after ruling for a number of years with an iron fist. This era of domination seems to have created a stifled culture where staff do not—or are not able to—openly discuss conflicts. Any action or issue that causes a flicker of conflict is buried and then treated by staff in a passive-aggressive manner with one another or via gossip.

We have been doing some training on basic communication as a start, and working on some agency values (which did not exist) to begin to get at this idea. But what other tools can I use to help create a culture where we have healthy conflict and fair fights?

**New Kid on the Block**

Dear New Kid on the Block,

What could be better than a culture that supports healthy conflict and fair fights? Culture can be very hard to change, however, and the “iron fist” culture that you inherited is one of the toughest. Staff behavior reflects the difficulty you face.

Some may advise that you confront your staff and show them the way through modeling. That may work, and it could be a good short-term solution, but Dr. Conflict advises you to take a long-view approach and do it right.

When it comes to definitions, Edgar Schein says culture is “a pattern of shared basic assumptions [. . .] to be taught to new members as the correct way to perceive, think, and feel.” Kim Cameron and Robert Quinn call it “how things are around here.” It reflects the prevailing ideology that people carry inside their heads. It conveys a sense of identity to employees, provides unwritten and often unspoken guidelines for how to get along in the organization.”

Dr. Conflict describes culture as the humidity of an organization. You can’t see humidity in the air but you sure can feel it, and it affects the work you do. And what’s the humidity at your place? Stifling.

So where to begin? Start with a clear-headed diagnosis of your culture. John Kotter and James Heskett use two levels to define the elements of culture. Easy-to-change group behavior norms are “patterns or style of an organization that new employees are automatically encouraged to follow”; difficult-to-change shared values “tend to persist over time even when group membership changes.” Your culture seems to be the latter, since your predecessor was responsible for the behaviors your staff exhibits now.

Schein says that culture has three levels: the first level is artifacts that you can see, including “visible and feelable structures and processes”; the second is espoused beliefs like “ideals, goals, values, aspirations, and ideologies”; the third is the basic, underlying assumptions that are “unconscious, taken-for-granted beliefs and values [that] determine behavior, perception, thought, and feeling.”

Take a moment now and look around. What artifacts do you see? Do you see open or closed doors? What about inviting places for people to gather? What visible things do you see or feel that might be affecting open communication?

What about the espoused beliefs and values? You are right to be working on them, but wrap it up pronto; your values “become the foundation of the organization’s culture.” Be sure to “behavioralize” them—to make them seeable in action. For example, if you say that trustworthiness is a value, then seeable behaviors might be keeping promises, telling the whole truth, and owning your actions.

Once you have a general handle on your culture, you can use a nifty tool called the Organizational Culture Assessment Instrument (OCAI) from Cameron...
and Quinn to map your culture across four quadrants: clan (collaborate), adhocracy (create), hierarchy (control), and market (compete). Then, decide on your preferred culture. (Your letter implies that you desire more of an adhocracy culture, where “people stick their necks out and take risks.”)

Cameron and Quinn advise you now “identify key stories and incidents that characterize the preferred future culture” and then decide which one or two to use for illustrating the path. They then suggest that you develop an implementation plan with key strategies, small wins to achieve quickly, skills needed to lead the change, measures for accountability, and a communication plan. Be sure that your values and behaviors match up with what you want.

Schein offers six primary embedding mechanisms: (1) what leaders pay attention to, measure, and control on a regular basis; (2) how leaders react to critical incidents and organization crises; (3) how leaders allocate resources; (4) deliberate role modeling, teaching, and coaching; (5) how leaders allocate rewards and status; and (6) how leaders recruit, select, promote, and excommunicate.

Remember, every move you make confirms the agency’s values—and your staff is watching you carefully: how you answer the phone, the clothes you wear, the language you use, how you treat staff, the board, clients. As Schein warns, “It is not necessary for newcomers to attend special training or indoctrination sessions to learn important cultural assumptions. They become quite evident through the daily behavior of leaders.”

Dear Dr. Conflict,

In our area, there is a coalition of service providers who have worked together for decades. Recently, a new ED came into one of our member agencies and has wreaked havoc by spreading untrue rumors about our coalition board members, misrepresenting her agency’s services and capacities, and calling employers of board members to malign them, among other quite pathological actions.

She responds to no attempts at peaceful discussion of these matters. When some of us went to the board president of that agency, unsurprisingly she wanted nothing to do with us—citing that she wasn’t responsible for what she didn’t know about nor wanted to know.

It’s a small community and we are very concerned, mostly because of the important nature of the agency. It’s a thirty-year-old domestic violence shelter and the only one within a hundred miles of anywhere—but no one in the coalition will refer anyone to it. So, not only is she making us crazy but, worse, people are not getting the help they need. It's awful.

Horrified

Dear Horrified,

In the old days, you’d solve this problem with the proverbial concrete shoes, and that’s exactly what Dr. Conflict advises you to do now—metaphorically, of course.

Get your coalition members together sans the ED. Map each member’s available political power. Does anyone know the CEOs of the biggest companies in town, city council members or mayor, other influencers and funders, their spouses or significant others? Even better, are any of these power brokers on the ED’s board or know her board president?

In sum, you are going to build an alliance of very powerful people to get your agenda implemented to reform or remove the offending ED. Pick the three or four most powerful and ask them to join you and a few other coalition executives for a frank conversation. Together, form a strategy to fix the problem. Then, turn up the heat. Politics aren't always pretty but they can be effective, and they are necessary on occasions like yours.

Notes
5. Ibid.
8. Cameron and Quinn, Diagnosing and Changing Organizational Culture, 19.
9. Ibid., 51.
10. Ibid., 160.
11. Schein, Organizational Culture and Leadership, 236.
12. Ibid., 250.

Dr. Conflict is the pen name of Mark Light, MBA, PhD. In addition to his work with First Light Group (www.firstlightgroup.com), Light is executive in residence at DePaul University School of Public Service, where he teaches strategic management, human resource management, and ethical leadership. JohnWiley & Sons published his most recent book—Results Now—in 2011.

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The Tyranny of Success: Nonprofits and Metrics

by William Schambra

Contemporary grantmaking is obsessed with metrics, yet clear distinctions between failure and success are not often easily made. As Father Gregory Boyle describes it, “Salivating for success [. . .] keeps you from truly seeing whoever’s sitting in front of you.”

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“The tyranny of success often can’t be bothered with complexity.”
—Father Gregory Boyle, founder of Homeboy Industries, Los Angeles

Over the past year or so, the Nonprofit Quarterly has hosted a lively conversation about the merits of metrics, strategic philanthropy, and other cutting-edge practices associated with sophisticated contemporary grantmaking. (It is worth noting that NPQ is almost the sole venue for this sort of spirited, balanced back-and-forth about issues that are too seldom discussed in the nonprofit world.)

As useful as the discussion so far has been, we’ve only begun to deal with the larger problem beneath questions of method and technique. That problem is—as Jesuit priest and founder of Homeboy Industries, Father Gregory Boyle, puts it—the “tyranny of success.”

Modern philanthropy famously demands success in the form of tangible, objective, measurably positive outcomes. Each new generation of grantmakers comes onto the scene and utters this sentiment as if it had never occurred to anyone before. But, of course, it’s been at the heart of philanthropy since John D. Rockefeller enunciated it one hundred years ago.

This demand, in turn, requires nonprofits or those who audit or evaluate them to make sharp distinctions of their work into success and failure. And yet, especially among hard-pressed populations that have always been the peculiar charge of the nonprofit sector, that distinction often is not so clear. What today looks like a success in a few months may turn into a failure, and what today looks like a failure becomes a success. More important, failure and the way it’s accommodated contribute decisively to success. But the measurers have no way to countenance such complexity.

In order to construct the elaborate edifice of Big Data, there simply must be, deep down at its very foundation, a clear, distinct separation of the sheep from the goats, an assignment of “1” (success) or “0” (failure). Just as the vast digital world is built on “0s” and “1s,” so is the empire of metrics. The most remote and abstract regression analysis depends on that initial, radical division—no hedging, no hemming or hawing, just putting it down on the scoring sheet as a “1” or a “0,” leaving the rest to the evaluators at foundation headquarters or at the university.

But this grand divide isn’t as simple as it seems. Alicia Manning, program officer with the Lynde and Harry Bradley Foundation in Milwaukee—where I once worked—recently took me to meet George Bogdanovich, cofounder of that city’s Community Warehouse. Among many other things, the warehouse accepts donated surplus construction material, appliances, plumbing fixtures, and so forth, and sells them at reasonable prices to those who are rehabilitating houses and stores in the inner city. They’ve now begun using some of the materials to prefabricate doorframes and sink cabinets, which provides jobs while teaching entry-level carpentry skills. All Warehouse employees have come out of prison or off the streets.

As happens so often when I visit frontline nonprofits—okay, sometimes it happens because I raise the question—we started discussing the...
problem of measurement: the demand that nonprofits classify their efforts into either success or failure. This clearly is a problem that George wrestles with regularly and without any prompting from impatient funders.

He brought up the example of Joe, a pimp and drug dealer who had been one of his first employees. Things had gone well for a while, but then there had been a couple of thefts. George chose to follow the advice dispensed by the director of the recovery community where Joe lived: “Fire his ass.” Even as we stood in the drafty warehouse talking the question over, though, George was awaiting the call he gets from Joe every year around Christmas. He always checks in, telling George how things are going, and thanking him once again for giving him the opportunity for his first job out of prison—even though George had, indeed, fired his ass.

“So,” George asked—probably more of himself than of us—“was my experience with Joe just a failure?”

“No way you don’t count that a success,” Alicia immediately insisted.

In moments of pridefulness, I refer to Alicia as my student, since twenty years ago I took her around on her first site visits among Milwaukee’s grassroots leaders. But the fact is, she has far surpassed whatever I had to offer her and now navigates with ease among the Bradley Foundation’s smallest inner-city grantees. Her grant recommendations are based less on numbers than on the “local wisdom” that she gathers with her own eyes and ears and finely tuned BS-detector. She has no problem dealing with the inadequacy of “1s” and “0s” and the ambiguity that Joe poses to classification. But how many other foundation program officers, academics, or evaluators can claim that hard-won skill?

I first struggled with this problem in the 1990s as Alicia’s predecessor at the Bradley Foundation, helping to support the National Commission on Philanthropy and Civic Renewal, which became the namesake for my present center at the Hudson Institute. Chaired by now-Senator Lamar Alexander, half of the commission’s membership had been drawn from grassroots leaders whom Alexander had met on his travels or whom Bradley had come to support in its efforts to stimulate interest in faith-based civic institutions. The commission visited each of the grassroots members’ projects in turn.

Commission member and Episcopal priest Father Jerry Hill, for instance, had initiated a program in Dallas, the Austin Street Shelter, which ministered to a very marginal group: the vulnerable, mentally ill homeless (that is, homeless individuals who were all too likely to be victimized in the mainstream shelters) in that tough part of town. It was nothing at all fancy—a warehouse-like structure where the homeless would come each evening to pick up a pallet and sleep on the floor. Sponges and a bucket of bleach water stood beside the stack of already clean pallets, for those who wanted to wipe them down again. But around the periphery of the main room were smaller, semiprivate sleeping quarters for those who wished to begin their journeys off the streets.

Father Hill introduced us to one such journeyer. She had been a Braniff stewardess until the airline went belly-up, leaving her jobless in a bad economy. That began a downward spiral to the streets. There she became known as the “Bug Lady,” because of the vermin in her hair. By the time she reached the shelter she had become so unstable that female staff had to help her shower. But now she was on her way back up, with her own bed in a semiprivate room, and a job—saving up so she could move to her own apartment.
The whole process—the climb from the streets to the semiprivate room and now possibly onward to full independence (a climb by no means yet complete, and by no means guaranteed to have a happy ending)—had already taken over a year and countless hours of intensive staff attention, racking up who knows how much per capita cost.

The commission’s final report concluded that we need to be more generous toward the work of smaller, often faith-based groups like the Austin Street Shelter that do so much of the unheralded heavy lifting among America’s most vulnerable and marginalized. Still, its number one recommendation for philanthropy (John D. Rockefeller, yet again) was to focus on overcoming the gap between American generosity and the “actual impact of giving on those in need,” a gap that “must be closed by reorienting our giving toward organizations that get, and can demonstrate, real results.”

But how, I wondered, did the commission’s own example of the Austin Street Shelter fit into its demand for “real results”—for success? After months upon months of concentrated, intensive staff time and effort with the Bug Lady, do we finally just tally her up as a “1”? Is that even remotely like the “1” also used to depict, say, the depressed college dropout who quickly recovers from his fling with drugs and gets back on his feet with minimal help from the staff?

And if, in spite of monumental efforts, the still-fragile Bug Lady slips back onto the streets, do we now count her as a failure? Do we erase the “1” and replace it with a “0,” discounting entirely the shelter’s time, investment, and promise of initial progress that might bear fruit later on?

Our assignment of “1” to the Bug Lady is at once far too inadequate a way to describe the shelter’s work and yet far too firm and final, given the realistic prospects for someone in her situation. But the shelter’s outcomes-oriented funders would insist nevertheless that it make these sorts of stark and sterile judgments, even among those least susceptible to being sorted so conclusively into successes or failures.

Another example of the insufficiency of “0s” and “1s”: This past fall, I attended a memorial service in Denver for the late Bob Coté, founder of Step 13, a program aimed at bringing alcoholics and addicts off the streets. Coté could be cranky, outspoken, and cantankerous—utterly defiant of the pieties and orthodoxies of the large social service establishment. He broke onto the national scene briefly in the 1990s, testifying before Congress against the federal practice of mailing SSI checks to local bars, where they would become, in essence, running tabs for alcoholic recipients. The Social Security Administration was subsidizing “suicide on the installment plan,” he vociferously charged.

I had always wondered where he had acquired this burning animus against SSI, and in the testimonials to Bob I heard the reason: he had himself come off the streets in the 1980s, and brought a dozen other guys with him into sobriety. One of them was Billy, his proudest success, an old drinking pal who was the “smartest guy he had ever met”—able to spout pages of Shakespeare from memory. But once sober, Billy had signed up for SSI. And, for the first time, he could afford the “good stuff”—Crown Royal—if he so chose. He did. He was dead within months of leaving Step 13.

A success become a failure, a “1” replaced with a “0.” And yet, far from discouraging Coté it gave him the fire to testify before Congress and, more importantly, the determination to redouble his efforts to bring more of his old acquaintances off the streets. To the end of his days, Bob talked wistfully about losing Billy; a small plaque devoted to Billy’s memory hangs on the wall of Step 13’s main meeting room. Without that “failure” and the resolve it enkindled, how many successes would never have happened?

Failures that we should count as successes, toehold successes that tremble perpetually on the edge of failure, and failures that stoke the energy to keep striving for success. These nuances and complexities leave nonprofit leaders troubled and uneasy about the demand to freeze-frame their work into “1s” and “0s.” Everything about their daily experience tells them that success and failure are far more complicated and nuanced than that.

No one captures this problem more directly or bluntly than Father Boyle. Homeboy Industries’ work focuses on young Hispanic people caught up in L.A.’s powerful gang scene. It offers a dizzying array of social services and enterprises, including a day-care center, graffiti removal, silk-screening, a farmers’ market, catering, a bakery and café, a grocery, and tattoo removal.

Like all the groups we’ve been discussing, Fr. Boyle has any number of “success stories” to tell, many of them recounted in his recent Tattoos on the Heart: The Power of Boundless Compassion. When readers arrive at chapter 8, promisingly titled “Success,” we of course expect a final crescendo of successes, especially after the teaser opening lines: “People want me to tell them success stories. I understand this. They are the stories you want to tell, after all.”

Then he does tell us stories, six of them, about Scrappy, Raul, Shady, Manny, Ronnie, and Angel—all young people whom Homeboy Industries had been easing out of the gang scene. Each of the stories begins with hope and expectation, as Fr. Boyle and his staff take heart from promising first steps toward more
productive lives. Each looks to be a “win” for Homeboy—a “1.” By the time chapter 8 concludes, however, each of their lives has been snuffed out by gunfire. “Success” doesn’t give us a single happy ending.

Fr. Boyle isn’t being morbid. He’s challenging at its root what he calls the “tyranny of success”—our unforgiving system of “1s” and “0s.” He draws some comfort, he maintains, from Mother Teresa’s famous reminder that “we are called upon not to be successful, but to be faithful.” He adds, “This distinction is helpful for me as I barricade myself against the daily bread of setback[...]. For once you choose to hang out with folks who carry more burden than they can bear, all bets seem to be off. Salivating for success keeps you from being faithful, keeps you from truly seeing whoever’s sitting in front of you.”

Scrappy’s gangland-style execution while working on a Homeboy graffiti crew, for instance, prompts these ruminations from Fr. Boyle: “Was he a success story? Does he now appear in some column of failure as we tally up outcomes? The tyranny of success often can’t be bothered with complexity. The tote board matters little when held up alongside Scrappy’s intricate, tragic struggle to figure out who he was in the world.”

Fr. Boyle’s faith tradition directs him toward the biblical figure of Jesus, of course, who challenged the world’s framework of success and failure. Jesus snubbed the rich and powerful, seeking out instead the company of prostitutes, publicans, the blind, halt, and lame, and other marginalized individuals of his time. As Jesus stood with them, Fr. Boyle insists, so we are called to stand with the unemployed, the adjudicated, gang members, and other marginalized figures of our time.

Yes, of course, we work for success in bringing about healthy changes, he maintains. But we cannot come to regard those changes as the sole purpose of the work. “You stand with the least likely to succeed,” he continues, “until success is succeeded by something more valuable: kinship.”

I discussed these matters recently with my mentor, Bob Woodson, founder of the Center for Neighborhood Enterprise (CNE), which works to strengthen grassroots groups around the country. As a strong believer in measurable outcomes, he comes at this from a slightly different angle. He makes the case that this isn’t an “either/or” question, and that faithfulness and success are, in fact, intertwined.

I was in his office several months ago when he had to take a call—“had to,” because it was from a prison pay phone. Sammy had once been part of a major success story for CNE—a neighborhood truce it had negotiated that quelled gang violence in one of Anacostia’s toughest neighborhoods. But unlike so many others from that truce who had gone on to productive lives, Sammy had lost his way and was now finishing up a ten-year stint in prison. Bob had to work hard to overcome his initial hurt and disappointment, but finally he had and now talked to him regularly. As I listened, he offered to put some money into Sammy’s commissary account and to fix him up with some suits when he was released.

Later, I pointed out to Bob that, even after hearing him speak for thirty years, I had nonetheless never heard about this aspect of his life and work. Sammy had never appreciated his willingness to stand with those who hadn’t made
it—his unheralded determination to be faithful to them until they were ready to try again.

But as he explained, were he just to stand with the successful, there would be far fewer of them. Those who “carry more burden than they can bear” don’t yield their fates readily to outsiders—those whom society trains and pays to “fix” others through programmatic interventions. They might, however, share their burdens with those for whom they’ve come to feel kinship—those who were once on the same destructive paths but left them and are now ready to stand faithfully and unflinchingly beside others who are ready to leave, through all their advances and setbacks, their small wins and occasional substantial losses.

This doesn’t mean the sort of tolerance for any and all infractions that verges on enabling. But it does mean knowing when to make stern demands for more responsible behavior and when to display mercy, to give second chances. Even Fr. Boyle, who confesses that he is a softie, must nonetheless occasionally “fire [someone’s] ass.” But this is how he approaches it. “I call the person in and say, ‘The day won’t ever come when I will withdraw love and support from you. I am simply in your corner till the wheels fall off. Oh, by the way, I have to let you go.’ They always agree with me. Nearly always.”

The tension between faithfulness and success, however, can never be entirely resolved. As Fr. Boyle notes, “I’m not opposed to success; I just think we should accept it only if it is a by-product of our fidelity. If our primary concern is results, we will choose to work only with those who give us good ones.” Groups like the Austin Street Shelter, which set out initially to minister to the hardest of hard cases among the homeless, might be tempted to mix in more of those who are only momentarily down on their luck—who require far less effort and attention than the Bug Lady and who show results far more readily—in order to boost the “1s” that can be reported to funders in thrall to the tyranny of success.

But the temptation to “cream” isn’t the worst aspect of the tyranny of success. The much larger burden it imposes on those who work at the outermost margins of society, I think, is that it taps directly into and aggravates an inner turmoil experienced by the most effective grassroots leaders. As suggested by our examples, they already torment themselves every day—and, more than likely, deep into the night—with the question of success and failure. “Was I too tough today? Too soft? Did I ask too much? Too little? What could I have done differently?”

These questions don’t disturb their rest because funders have raised them; they are questions that, as faithful servants, they already incessantly put to themselves, and probably more sharply than any funder ever could. The suggestion that it takes the imposition of an external metrics framework to awaken their yearning to be effective is at best a well-intentioned misunderstanding and at worst a gross insult.

When faithful nonprofits lose someone—to drugs, homelessness, gang violence—they’re upset not because it messes with their tally of “1s” and “0s”; they’re disappointed, perhaps even heartbroken, because they were hoping, betting, counting on that person to make it this time, perhaps against a long history of failure, relapse, and disappearance. In turn, that degree of faithfulness and trust by the nonprofit staff and other program participants may well be, in the darkest moments for the person on the edge, the sole factor that keeps one foot stepping in front of the other in the long, seemingly impossible climb back to a healthy life.

Ironically, one way the tyranny of success does not manifest itself is in the ruthless defunding of “losers” in the name of supporting only “winners” among grantees. For all the tough talk from foundations and evaluators about paying only for outcomes rather than efforts, the fact is that this resolve seldom gets beyond verbal swagger, as surveys for the Center for Effective Philanthropy have repeatedly found. Indeed, one of the reasons frequently offered by foundations for not releasing publicly the results of their evaluations is that it might embarrass poorly performing grantees.

If the day ever comes when metrics bluster at last acquires some teeth—a day fervently wished for by so many philanthropy leaders—we may well begin to cull out the smallest, least “efficient” nonprofits working with the most vulnerable. Then the tyranny of success will have at last consolidated its domain.

Meanwhile, success’s tyranny manifests itself more subtly, I think, in the remorseless demand for good news from the front line, the insatiable appetite for stories about winners rather than losers. Program officers—and here I report from personal experience—make site visits and listen with smug self-satisfaction to stories about the wonderful changes that have been wrought with the foundation’s help. Photographers and public relations specialists come down and capture in word and picture heartwarming scenes for the annual report. The measurers render those stories into “0s” and 1s” and ship them off to the foundation or university for further processing.

But once the program officers, report writers, photographers, and evaluators have left the site loaded down with success stories—probably without touching the plastic platters of food and drink that were purchased at some sacrifice for the occasion—the nonprofit’s staff is left to deal alone with the daily diet of bad news. They must bear by themselves the quiet awareness of the kinfolk they’ve lost
or are losing, the “failure stories” no one wants to hear, the setbacks for which a “0” is hardly adequate to describe the hurt and disappointment they cause.

Not only that, we even tend to dismiss as “unprofessional” the inner turmoil that failure may induce in frontline leaders. They shouldn’t get so involved, we advise from afar; they shouldn’t take failure so personally. It’s the peculiar luxury of program officers, evaluators, and writers to retire quickly to their downtown suites bearing neat packages of good-news numbers without ever becoming intellectually or emotionally involved in the complex and ambiguous process that produced them in the first place. After all, they can say to themselves, they’re simply being rigorous, objective, neutral, and detached—all of which are prerequisites of professionalism.

But, as Lisbeth B. Schorr pointed out years ago in *Within Our Reach: Breaking the Cycle of Disadvantage*, the most successful social service workers are precisely those willing to step outside self-imposed professional limitations and bureaucratic boundaries in order to form immediate, personal bonds with clients—bonds that are essential to but by no means contingent upon “good outcomes.” As she put it, “these professionals have found a way to escape the constraints of a professional value system that confers highest status on those who deal with issues from which all human complexity has been removed [. . .] This suggests a fundamental contradiction between the needs of vulnerable children and families and the traditional requirements of professionalism and bureaucracy.”

As a nation, we’ve learned to compensate for the constraints of professionalism—at least in theory—through “third-party government,” which channels relatively inflexible and unresponsive federal programs through local nonprofits. They, in turn, can be counted on to introduce the flexibility and responsiveness we know to be essential to success. Insofar as federal social programs are effective, chances are they’ve found ways to preserve their flexibility and individually tailored adaptiveness in the face of bureaucratic professionalism’s relentless drive to regulate, rationalize, and regiment.

The tyranny of success is reflected not in a ruthless exposure of failure—as many have noted, there’s very little of that. It is reflected, rather, in our denial of failure—in our determined averting of eyes from its omnipresence, our refusal to acknowledge its direct but complex connection to success. The outcomes-oriented among us find ways to stripmine the “good stories” from frontline nonprofits while leaving behind slag heaps of “bad stories” for them to dwell upon alone, in their difficult hours of self-criticism. We find ways to reap the benefits of deep, often painful personal commitment by frontline leaders without ourselves having to share their suffering. Indeed, we praise ourselves for keeping that suffering at arm’s length through the norms of professionalism. But in rare moments of honesty we confess that those norms must be violated on a regular basis if we are, in fact, to do our work.

**Note**


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Boards as Bridges

by Brent Never

Board members can be bridges to the resources you need to stay funded. Here the author outlines two types of board structure to consider before approaching prospective candidates.

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The recent Great Recession has helped nonprofits rethink how they engage and interact with current and future funders. What was considered to be solid, long-term funding from state and federal agencies is now more difficult to retain, and the United Way and other federated campaigns are less likely to provide long-term support. Nonprofit leaders have been struggling to develop strategies to find, and successfully secure, the funding necessary to meet the increased need for services that go hand in hand with tough times.

Here I dissect one of those techniques: using board members to champion nonprofit organizations to external stakeholders who may be able to open purse strings. This is not a new idea. Organizations have been placing the mayor, influential clergy member, or luminary of philanthropy on boards for decades. Even if they know the mayor would never attend a board meeting, he or she will stand as a symbol of an organization’s quality. Advisory groups and task forces are yet more (and, in cases like the inactive mayor, more appropriate) tools for increasing the visibility and legitimacy of nonprofits that ultimately lead to funding.

I also discuss the phenomenon of board members as bridges to new resources, and two reasons why nonprofits may want to use bridges. The first is to bring information into the organization. This information typically revolves around funding opportunities or the happenings of other organizations in the field. The second is to bring information out of the organization to funders, such as highlighting the wonderful job that the nonprofit is doing in its good works. But not all organizations need the same type of bridge, and many would be better served thinking about board members as strategic resources with different strengths and weaknesses. Below I outline two types of boards and how each requires a different kind of board member.

Two Lenses on Ideal Boards

If board members are to be successful bridges to resources that are either untapped or need to be reinforced, the process of selecting these individuals becomes critical. Those involved in governance often think about choosing board members the way professional football teams think about drafting rookie players: What skills will this new member bring to the team, and what resources can this person help us attract? The type of member that you need for the team largely depends on your team’s current strengths and how you want to steer the organization in the future. Do you want to reinforce strengths or do you want to buttress weaknesses? Here we’ll draw on two theories in order to explore what might work best for your organization.

The Ideal Representative Board

There are two ways of thinking about how best to structure nonprofit boards in order to connect with external constituencies. The first comes out of sociological studies of networks of connections. We all possess an address book of contacts, some of whom we know very well—like our family members—and some who are only distant connections—the brother-in-law of my barber, who is a good plumber. Mark Granovetter, a Stanford sociologist, set out to understand how people draw on contacts to find a job. He found that people with larger networks are better able to understand what is going on in the larger environment.1

While there are many ways to measure how “good” a network is, the most important deals with its efficiency. Think of network connections as resources in themselves. It takes a certain amount of...
effort to tend to them, to make sure that you are in their good graces—or that they even remember who you are. An efficient network is one where every person connects you with a different resource pool.

You can also think about this from the point of view of redundancy. A redundant contact occurs when you have more than one connection to a single person. In effect, you are putting in more effort than is necessary to make a connection to that individual. The implication for nonprofit boards is that, ideally, they should look at their board members as a means for obtaining the greatest spread possible in connections.

It is helpful to think about the structure of board networks on a continuum. This model exists on one end. Organizations that have a diverse revenue structure might consider using this model, because they must be able to reach far and wide to activate a very diverse set of resources. For example, the American Cancer Society receives a great amount of its funding for education and research from individuals who participate in their varied fundraising events. The outreach to involve as many people as possible in these events is made easier with a well-connected board. Another type of organization that would fit this mold is an advocacy organization for individuals and families with an illness, such as the National Coalition for Cancer Survivorship. Board members can be viewed as the vital representatives of those who have experienced that particular malady. It follows that an effective board is one that incorporates the widest collection of experiences in order to help the organization better articulate the needs of its constituents. We see the ideal representative board (see figure 1) as one where each board member, represented as a dark circle, has a set of unique connections with whom they can communicate.

The Ideal Resource Board

A second lens on boards comes to a dramatically different interpretation of how they should be structured. We know that organizations exist to the extent that they can attract resources. The more desperately an organization needs a resource, the more it needs to bow to the demands of that resource provider—a situation that should sound familiar to many nonprofit leaders! Resource dependency is a theory that has been applied to nonprofit organizations repeatedly because it explains their positions in a web of resources so well. That said, organizations should concentrate their efforts on the critical resources and not waste time on the unimportant ones.

If you think about boards as the means for reinforcing those connections to the most important resources, the concept of efficiency matters quite a bit less. Consider an organization that receives its funding from a handful of vital sources, such as the local United Way and a large benefactor (see figure 2). It would intuitively make sense to have several board members that have contacts with the same few key resource providers.

While the social network theorists would see this as an inefficient and redundant network, resource dependency scholars would view it as shrewdly understanding that redundancy can result in stronger bridges to those few important resources. The implication of the theory is that organizations with concentrated resources should think not only about the size of the address book but also, more importantly, about who is contained in those networks.

The Concept of Structural Holes

Although counterintuitive, the concept of structural holes is essential for how nonprofit organizations bridge to necessary resources. While the social network theory talks about having

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**Figure 1:** Ideal representative board, with an efficient distribution of network ties

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**Figure 2:** Ideal resource board, where directors have redundant networks, tying the organization to key stakeholders
Efficient networks as bridges to distant resources, Ronald Burt has a different idea. Burt gets at the value of a connection—basically, why are some connections so essential to organizations while others have little value? Burt says that we shouldn’t be measuring the bridge—or connection—in the network but rather paying attention to the hole over which you build the bridge.²

Consider an organization that relies on three large individual benefactors for the vast majority of its funding. The board should not worry about having an efficient network; rather, it will want each of the three benefactors to be connected to the organization by several points of contact. So the value of a bridge is equal to the resources that you wouldn’t be able to access without it. One step that a nonprofit organization can take is to create an inventory of its resource environment in order to understand the value of any structural holes in the network.

Bringing Legitimacy to the Organization
While one role of networks is to receive information from the environment (such as when a new funding initiative arises or a competitor shuts its doors), networks can also project information outward to the environment. Nonprofits exist in a world where their legitimacy matters. While merit certainly plays into the allocation of state contracts and private philanthropy, there is no question that the perceived legitimacy of your organization is also essential to securing those funding streams.

This process of isomorphism—or organizations tending toward looking like each other because that represents a “legitimate form”—can easily be seen in their propensity for raising funds through special events. Consider the number of charity races or annual dinners that go on in your community every year. (In fact, in certain sectors, without a charity race your organization might seem substandard.)

Board members can bring this legitimacy to your organization. This goes back to the earlier idea that, while you may know that the mayor would never attend your board meetings, having a person of this stature on your board signals to the community that your organization is important. The question then becomes, when should you be appointing people as figureheads and when should you not? The answer partly depends on what your organization needs vis-à-vis the resource environment. If your funding comes entirely from United Way, having the mayor on your board would have very little effect on funding allocations, given the program evaluations that United Way uses to make its decisions. But if you are seeking to distinguish your organization as the leader in a certain type of service delivery—particularly in the minds of the thought leaders in your community—having a luminary on the board could help cement that legitimacy. In the end, boards should consider the level of engagement they need from a board member before approaching prospective candidates.

How to Approach Building a Networked Board
Boards are not built in a day, as any leadership team knows well. We have all run into the boards that are populated by well-meaning, passionate individuals without the skill set necessary to help the organization move forward. We’ve also seen boards populated by members who, on paper, look like a dream team but in reality are not passionate about the organization’s work. So the question becomes, who should be on our board, and how do we build an effective one?

The answer is complex, but start by taking an inventory of where your organization is today in terms of funding and life cycle, the type of individuals on the leadership team, and the constraints that your organization faces in the resource environment. Just as successful businesses routinely scan their environments for competitors and potential clients, nonprofit organizations should also routinely take a treetop view of what other entities are out there doing similar tasks. But climbing that tree in order to peer over the horizon can be hard. Nonprofit organizations can be so intent on providing services, or serving a community, that they forget to lift their heads up and conduct a fundamental scan. Leadership teams should also look at themselves. What skills does each of the members bring to the boardroom? What skills are needed but missing? And, most importantly, how do team members interact with the resource environment?

I trust I have challenged a few nonprofit organizations to take a more nuanced approach to their boards. There are no one-size-fits-all solutions to how boards should work. At the same time, boards can be much more than watchdogs over the books. They can provide those essential links to the environment necessary to ensure access to funding streams.

Notes

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Thoughts on the Relevance of Nonprofit Management Curricula

by Judith L. Millesen, PhD

We live in a time of massive institutional failure, collectively creating results that nobody wants. Climate change. AIDS. Hunger. Poverty. Violence. Terrorism. Destruction of communities, nature, life—the foundations of our social, economic, ecological, and spiritual well-being. This time calls for a new consciousness and a new collective leadership capacity to meet challenges in a more conscious, intentional, and strategic way. The development of such a capacity would allow us to create a future of greater possibilities.

Otto Scharmer

What is the state of nonprofit management education today? From the ways we establish community value to a renewed emphasis on networking and an expanded menu of organizational designs (among other things), how we work in the sector is changing at a faster pace than ever.

In an effort to establish how curricula are, or are not, keeping up with the changes, I interviewed nine practitioners with extensive experience in the sector: Phil Cass, CEO of the Columbus Medical Association and Foundation; Deborah Frieze, former copresident of the Berkana Institute; Hildy Gottlieb, cofounder of Creating the Future; Mark Kramer, founder and managing director of FSG Social Impact Advisors; Heather McLeod-Grant, principal of McLeod-Grant advisors and coauthor of Forces for Good: The Six Practices of High-Impact Nonprofits; Allen Proctor, consultant and founder of Proctor’s Linking Mission to Money; William Trueheart, president and CEO of Achieving the Dream; Katherine Tyler Scott, managing partner of Ki ThoughtBridge; and Peter York, CEO, Founder and Chief Idea Guy at Algorhythm.

Generally speaking, the group seemed somewhat disappointed with the current state of nonprofit management education, at least in its attention to a rapidly changing context. As one interviewee—Hildy Gottlieb—offered, “Having degree programs in management as an end unto itself reinforces the notion that all that matters is means, with the assumption that somehow, if you have strong means, the ends will magically take care of themselves.” Peter York posited that, increasingly, nonprofit organizations don’t control the market on social change, and predicted that there will be quite an amalgamation of private and nonprofit businesses all competing to address social issues. In his opinion, “People are talking about impact investing, and they don’t care if you are for-profit or nonprofit as long as you demonstrate impact.” Although the group recognized that many graduates are entering the workplace with useful technical skills—from project management to budgeting and finance—they collectively articulated concerns that today’s programs lack attention to the broader context in which these skills might be deployed to improve conditions in communities and accomplish real change.

Nonprofit management education is not evolving fast enough to keep up with the rapid changes in the sector, lacking attention to the broader context in which the management skills programs might be deployed. Here the author outlines five key ideas for properly preparing the next generation of nonprofit leadership.
Five Key Ideas

Most of the nonprofit leaders I know, and that represents a fairly sizable group, have not gone through programs that have anticipated the radical changes that we are facing in many dimensions of our work today. And I am not just talking about the severe cutbacks to resources by public entities and the decline of resources available to nonprofits because of a bad economy; I am talking about the anticipation of radical changes in the demands of our local, regional, state, national, and international economies to have differently educated individuals who can function in a global economy.

William Trueheart

When interviewees were asked what a program might look like if they had the freedom to create a learning experience that would properly prepare people for a career in nonprofit leadership, their answers were clustered around five key ideas. First, leaders need to understand how to establish an organization’s community value. In order to garner the support needed for survival, the community needs to understand and embrace “how the organization contributes to the common good; how it creates a net community benefit.” Second, our programs must teach students how change happens. Students need to look to the future so that attention and resources are focused on the outcomes that must be achieved. Third, students need to learn how to work collaboratively and collectively as part of a group. Effectively addressing complex social problems requires a multisectoral coordinated response. Fourth, programs must recognize the importance of selecting an appropriate organizational structure and business model. So much of what we teach is fixated on philanthropy as a sole source of revenue, and that is simply not realistic in today’s environment. Students need to emerge from graduate programs with a basic understanding of organizational design options, capitalization, pricing, and various business models that can be used to achieve social impact. Fifth, students need to practice. They need to be immersed in authentic learning experiences where there are opportunities for reflection, self-directed discovery, and peer learning.

1. Establishing Community Value

We need to understand deeply the purposes for which nonprofits exist . . . what product or service we are offering to create a better world. That piece gets missed too often, as does the notion of really understanding the values and the purpose of what we are up to and the theory of change behind what we are designing our organizations to fulfill. And then, by the way, we can get to the mechanics.

Deborah Frieze

Without exception, every person who was interviewed emphasized that in order to be a successful leader, program graduates must ensure that their nonprofit is what Allen Proctor describes as a “reliable provider of a service that fulfills a useful need in the community.” On its face, this work is dynamic. As communities and circumstances change, program delivery must shift as well. Deborah Frieze explained that in order to deliver on our public value promise, we “need to figure out what communities actually need as opposed to what the nonprofit sector has been pitching that they need.” This is not easy work. It requires people to challenge their worldview—to let go of what they think they know and discover new ways of seeing and interpreting what is happening. At its best it requires constant iterations on practice and, every now and then, a complete deconstruction of what is in service of what could be.

For this, nonprofit leaders need to know the disciplines of self-reflective practice. “A nonprofit curriculum must immerse students in their own leadership, into themselves,” according to Katherine Tyler Scott. “They need to understand what is core and important to their own character and the values that guide them in their decision making.” These very values can either foster innovation and creativity or restrict and constrain thinking, but Frieze believes that this understanding of oneself is in service of understanding other voices and the facilitation of collective voice: “We need to really immerse ourselves into the community, not simply pass through as a voyeur.” And we must be able to state what is informing us, not as immutable truth but as our perspective, including the information we believe to be important. Phil Cass described this process through the lens of Theory U, a concept developed by Otto Scharmer, which explores the inner place from which leaders operate. According to the theory, leaders must identify the assumptions we have come to accept as reality and how those assumptions guide their thinking and participation. Tyler Scott went on to say that “this kind of work provides students with an opportunity to engage in reflective thinking and discernment: skills they will use for the rest of their lives. There will be no job that will not benefit from having this kind of skill.”

Perhaps one way to contextualize public value is to incorporate the associational history of the sector into the curriculum. As Tyler Scott noted, “Not many people have an understanding of the history of the sector. It’s almost as if they just landed yesterday. People need to know the root of why it was
created, why it is important, and why it is important that it continue. They are our best advocates for the sector when they get out. History provides students with a richer context for the work they do. They are not starting over; they are part of a huge community of people, generations of people who have tried to make society better." The more students know about the history, the more they can begin to think about their own worldview, says Tyler Scott. That is what they take with them from the academy into practice; it is what influences how they lead, how they serve, and how they decide. Tyler Scott believes we should encourage students to think critically about the meaning of their public-sector work and their roles and responsibilities in continuing the traditions that are going to create a better world.

This leads us to another important aspect of establishing community value: acting as a venue for creating a different future. This addresses different issues in different settings, but the methods for the establishment of commonly held vision are a critical and powerful knowledge and skills base, according to Gottlieb: "If we start by teaching how to create significant improvement in our community conditions—if we focus on ends first—it’s not negating teaching management, it’s just putting it in context. We focus on teaching the means within a focus on the ends. Organizations are just tools we use to create the communities we want. If we focus on the tool with no focus on the reason we have the tool, then we wind up with this finely crafted and well-maintained hammer that never builds a house.”

2. Understanding How Change Happens

We tend to have a curriculum now that assumes people are going to graduate and go into a nonprofit organization—and work within that organization using a very traditional [service-delivery] model that has not changed in twenty or thirty years. That’s not the future. That’s not where we see momentum and change and innovation happening. The knowledge and skills to leverage change are what people need to learn, and this is not in the nonprofit curriculum today.

Mark Kramer

It is certainly true that not all nonprofit organizations are about change, yet for those people who are planning to lead organizations that are about social change, an understanding of how change happens—and how to develop the tools needed to make change happen—is essential. Frieze noted that in her experience, change does not happen from the top of the system but rather from deep within it—when people move forward to solve a problem. Gottlieb expanded on that idea, suggesting that change has to happen simultaneously top down and bottom up, and it has to happen across all aspects of the social change arena.

William Trueheart shared a compelling story of how change happened in the Pittsburgh public school system. In 2002, Trueheart was one of three foundation CEOs who elected to suspend funding to the local public school system in Pittsburgh, because the group lacked confidence in the school board’s ability to run the district. Although this was a bold move on the part of the funders, they realized that in order for real change to take place they were but one cog in a very complex wheel; without interest and support from a broad range of stakeholders, systemic issues would never be addressed. Early on they recognized the need for a political dimension to their work, yet there were no political entities at the table. They knew that in order to create the kind of transformational change they were seeking, they needed to educate the broader community on the larger issues—not just that the schools were failing to deliver on their promises but also that there were underlying flaws in the system. This recognition led to a conversation with the mayor, who was then able to work with the foundation leaders to identify a team of thought leaders interested in addressing the systemic challenges. The Mayor’s Commission on Education was formed, and Trueheart served as cochair of the Commission.

The Commission, made up of representatives from community, business, civic, religious, and educational organizations, conducted an analysis of the school system. The findings released by the Commission almost one year later led to unprecedented mobilization of community-based advocacy groups exerting political pressure to elect a new school board, which eventually hired a new superintendent, who wound up closing a number of grossly underperforming schools that were costing the city millions of dollars. Moreover, the Commission worked with the new superintendent and the new school board to completely restructure the system. One such innovation was the creation of “Learning Academies,” in which the very best teachers were paired with the students who had the most significant needs. The results have been impressive.

Complex problems are by definition intricate. No single entity anywhere in the system has the requisite authority or control to impose solutions, and no single organization has the capacity to implement a solution. Addressing the complex social problems of today requires us to engage people involved with the issues in designing the solutions that will ultimately change
community conditions and perhaps fundamentally alter the way work is done. Moreover, future leaders need to understand that the impetus for change can emerge at any place in the system. Gone are the days when we only make social progress in America through the nonprofit sector; in the future, real social change will happen at the intersection of community, nonprofit, public, private, and philanthropic interests—and our future leaders need to navigate this territory.

3. Working Collaboratively

Students don’t understand how groups work... how systems work. There are many people who do not understand group dynamics. I am not talking about just doing a project and coming back to the classroom and reporting on it, but really looking at how groups work, the roles in a group, the things that impede, the things that enable, how you intervene when there is conflict, how you deal with lethargy... the things they will need to deal with for the rest of their lives.

Katherine Tyler Scott

With all of the recent activity in this sector involving networking, collective impact, and boundary crossing—not to mention new, more reciprocal ways of managing staff and volunteers—future leaders must know how to create and manage partnerships. This was emphasized by Mark Kramer, as he reflected on how social change happens. York added that in order to foster social change, when leaders come to the collective table they need to recognize when to give up their individual autonomy—their identity as an organizational leader—and join in a collective agenda. This is not always an easy call.

Cass noted that true leaders recognize that they cannot be the person with all the answers but rather should be the “facilitator of collective intelligence.” Future leaders must also recognize that in order to move forward in a genuinely participatory way, it is important to engage in real relationships with people, where there is a desire for mutual understanding and collective learning. Manipulative interactions, where one party is trying to understand another so that information can be used to force action, does not build the kind of trust that is essential for authentic participatory practice. Leverage is often created at the collective table.

4. Selecting an Appropriate Organizational Structure and Business Model

One of the things that dismays me is that there is so much emphasis on fundraising, when the vast bulk of a business is running the business. Let’s talk about the business, how it was set up... Maybe it started as a completely grant-funded organization that did what was required in terms of infrastructure, management, skills. Maybe it started as an advocacy group doing education programs. What does that say about how the business is structured? Maybe it is a museum or a performing arts group, which requires a whole different way to structure the business. We never talk about that. We talk about nonprofits as a homogeneous thing, and they really aren’t.

Allen Proctor

There are a myriad of organizational designs in use in the nonprofit sector, and the menu is being expanded daily as technology provides more options useful to organization. The ability to think creatively about design options goes far beyond discussions about hierarchy, ranges of traditional governance choices, and partnerships and mergers. Teaching through case studies about what design elements are necessary to support a high-engagement organization is both dynamic and exciting.

These organizational designs clearly must include an enterprise model, and that includes a clearly conceived revenue model. In an interview published by the Nonprofit Quarterly in 2008, Lester Salamon, Director of the Center for Civil Society Studies at The Johns Hopkins Institute for Policy Studies, noted that supplementing a focus on operating income with the need to attract investment capital was a “sleeper issue” for the sector. Salamon explained that unless nonprofits can find access to investment capital, they will be unable to respond to changing needs and increasing demands. I heard these very same sentiments from the people I interviewed. Interestingly, not only did the desire to provide students with a better understanding of the technical aspects related to capitalization, balance sheets, cash flow, liquidity, pricing, financial planning, earned income, and fundraising come up again and again in my recent conversations, those I interviewed also suggested that too little attention is focused on deciding the most effective way to structure the work so that social impact is achieved.

Sharing the story of Housing First’s approach to chronic homelessness, Kramer talked about how real social impact can be achieved when the work and the business model are substantively aligned to address the problem at hand. Kramer explained that about 10 percent of the homeless population (the chronic homeless) consume about 80 percent of the resources, partly because the system has of late been largely set up to work with people and
families who are dealing with transient homelessness (people who are homeless for a brief period of time). Shelters, food banks, and emergency aid are tailored to this latter group of people; however, it is not uncommon to spend more than one million dollars per year on just one person who is chronically homeless, particularly if the individual has multiple disabilities or is moving regularly between the shelter, the emergency room, and prison. Kramer further explained that if the system were built to deal with chronic homelessness, some of these people would be provided with an apartment and social worker, who would ensure that a full complement of services were provided to address the root causes of homelessness. He argued that the cost savings would be huge and the outcomes infinitely better.

Kramer’s key point was that while it is true that we have a service model where many are working to help the homeless, for the more chronic segment of the population that service does not accurately or effectively address the need. It is imperative that future nonprofit leaders look closely not only at the need but also at how services are delivered. If we look closely at the specific needs of the chronically homeless, we can see that a different program/business model would enable us to save public money and meet needs more effectively. For Kramer and a number of others, a leadership role in a nonprofit involves adjustments to service delivery as well as to business models.

5. Practicing in the Field

As students spend time learning how to significantly improve community conditions, they will need opportunities to practice what they’ve learned. They will need opportunities to practice ways of thinking and working that actually improve conditions.

Hildy Gottlieb

While there is ample evidence to suggest that applied-learning experiences in the field provide students with a unique ability to apply the concepts they have learned in the classroom to real-world situations, several of the people I talked to had ideas about how faculty might provide similar learning experiences in the classroom. Proctor and Kramer talked about how cases could be used to lead students through complex decision-making scenarios. My understanding of their comments regarding cases is that they were not talking about the familiar “ethical dilemma” cases prevalent in the academy but rather cases that would challenge students to think critically about how best to achieve desired outcomes—cases that, as Margaret Wheatley and Frieze describe in Walk Out Walk On: A Learning Journey into Communities Daring to Live the Future Now, invite you “to examine your beliefs and assumptions about how change happens and what becomes possible when we fully engage our communities. The resources and wisdom we need are already there.”

Final Thoughts

It seems to me that there may be a disconnect between the kind of learning we expect students to emerge with and what we teach. As Frieze reminds us, there are many different types of learning environments. Perhaps the academy might practice a little of what we preach and experiment with different models and assess the degree to which alternative educational models produce the kind of learning described in the preceding paragraphs.

As I thought about all I heard, I continually returned to Frieze and Wheatley’s description of a learning journey. What if nonprofit management education were an immersion in an “experience” rather than a course-based curriculum? I wonder if the way many programs teach nonprofit management might not be counter to what we are trying to accomplish. We ask students to be thoughtful and reflective so that they can create a future of greater possibilities, yet we put them through a technical, course-based process that focuses attention on the means.

If systems are to sustain themselves they must focus on their niche purpose and their context in order to adapt and continuously learn. It may be that some nonprofit management education is too focused—not on purpose but rather on the more dry and secondary methods to fulfill the purpose, and in an environment that is evolving quickly or even long gone. If this is true, it robs students of the sense of adventure we should all have when we dive in to help lead a social purpose organization, and it would be a disservice to the sector.

Notes


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