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The Nonprofit Quarterly strives to provide nonprofit leaders at every level, paid or voluntary, a means to exchange innovative ideas and informational resources—so that they can more fully realize their organization’s mission.

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Welcome

This issue of the Nonprofit Quarterly focuses on governance, and the topic is apropos for two reasons:
• the IRS has recently issued a draft of a new Form 990 that for the first time includes governance-related questions; and
• an independent report on a lack of oversight at the Smithsonian Institution was released on June 28, and it’s a doozy.

Like many such forensic reports, it’s a scald tale of intrigue, self-enrichment, and quid pro quo relationships at the highest level—and all on the public dime. The transgressions involve many of the areas that the IRS has questions about: increasingly problematic interrelationships with business, hidden and overgenerous employee compensation, and conflicts of interest—not to mention willful blowing of policies.

While it is critical for your board to pay attention to this stuff, there is much more to board effectiveness. This issue delves into several of these governance concerns in the following:
• the inadequacy of standard best-practice prescriptive in addressing board design and culture and in meeting the needs of small organizations;
• the characteristics of highly effective and highly ineffective board chairs;
• the oppositional role of the board;
• the primary responsibility of the board to create the best possible outcomes for program beneficiaries.

We are also proud to host a "new" governance model (see "Engagement Governance for Systems Wide Decision Making" on page 38). We use the word "new" with a caveat, because we believe that this model of distributed governance is not unique to our sector and many communities have used this model in modified form. Unfortunately, the governance literature doesn’t address how distributed governance might work better.

In this issue, you will also find an installment of the Nonprofit Ethicist (page 4), a critique of the Pew Foundation, an update by National Correspondent Rick Cohen on the group of foundations famously exposed for their misdeeds in the Boston Globe Spotlight series (page 67), and a memo from Joe Pratt of the Minnesota Council of Nonprofits proposing an online project to ensure those who make millions of dollars are exploiting the poor and who then attempt to redeem themselves through philanthropy (page 75).

And as a special treat, we’ve created our very own board horseshoe in handy place mat form, which you can tear out and use. How’s that for an appetizer, and many thanks to our friend and mentor David Beza for this concept.

1945-2007
NPF boldly dedicates this issue to our dear friend, Joe Breitenklifier. He was both good and beautiful and a blessing to us all. NPF is deeply grateful for his friendship.
The Nonprofit Ethicist
by Woods Bowman

Dear Frustrated,
The Ethicist has seen a lot of situations where one wants to do a necessary yet unpleasant job and either waits for someone else to see or kills it. This sounds like one of them. But you must follow your byline. If there is a proper way to remove the difficult board member, encourage the concerned board members to address their issues and ask for your help.

Association Steward

Dear Association Steward,
I am to deposit all income in one bank account. (Other wise, you would need to open a separate account for each and every donation you receive.) It is incumbent on an organization's managers, however, to properly account for all funds received and not to use money given for x purposes on y purposes. That said, because controls and reimbursement practices sometimes do not fit with reasonable nonprofit cash flow, many organizations use the cash they have in hand to tide them over during less profitable periods until already committed—money arrives. But this is a slippery slope. Problems occur when restricted income is used for impermissible purposes without the firm commitment of other money to cover those purposes. Helpful speculations on grant requests are not helpful. What if it is a dangerous game that can end in raised careers and defunct organizations. People who ran Ponzi schemes share the same fate for the same reasons.

Dear Nonprofit Ethicist,
After our founder retired in 2009, our organization found itself in a non-supportive board situation that forced us to restructure our management. We have reduced our permanent replacement. Some directors quit because they were underpaid and micromanaged by the board.

I was hired in September 2009 and inherited the board from the founder. The founder refused to provide any help. There were no donor records to speak of, except for one that was turned over to the board's financial advisors. The organization had a little more than $350,000 in reserves. I don't know where it came from, but there were no viable programs other than donor management. No, quality staffing relies on technology, anticipated phone systems, and management systems or program evaluations.

The board, however, believed that all was well. To close the doors open and maintain some cash in hand, I suggested we get a line of credit while we rebuild the organization. Board members refused and said that they were trying to keep the organization out of debt. We are up our reserves trying to keep the doors open and pay salaries, taxes, insurance, and so on. Even though the organization had substantial reserves, the operating budget had developed a growing deficit before I arrived, and no one was willing to account for it. Not surprisingly, that deficit grew to almost $10,000.

Well, four years later, that board is gone, as are two subsequent boards that we built. But the organization has survived, funding in on the rise, and this year it appears that we will break even. This has been the most stressful four years of my life, and there are other directors out there with similar experiences. What can executive directors like me do in these situations?

Survivor

Dear Survivor,
Well, to begin with, the six intervars might have been your charge to resolve an unsatisfactory situation. I have two words for you: don't argue. There is no substitute for seeking the right questions up front. (When people buy a house, they usually hire someone to check it out for them, drainage, problems, etc. The same principle applies here.) At a minimum, every candidate for an executive director position should review the past three years of an organization's financial statements and the associated management letters provided by the organization's auditors. Just walking around and chatting up the staff privately would probably reveal a lot as well. As you well know, quality staffing involves getting to know the people in the organization's structure. Does that sound reasonable, or do you not want an executive director candidate talking to you staff? It is a bad sign.

Now, on another note, I'm not letting you off easy. First, it is dangerous to make use of reserves if you are not sure where they come from, because nonprofit reserves are often restricted in some way. No one needs to be brought up on charges of misappropriation. Second, unless you are earning more on your reserves than you are earning on the use of credit, you might want to consider investing your reserves or your board's position on borrowing and investing money likely made good financial sense. Nonetheless, congratulations on putting through this crisis point.

Dear Nonprofit Ethicist,
What are the important steps for senior nonprofit executives to take when constructing and collaborating with consultants—when they hire to facilitate these events that will include large numbers of staff during times of great internal change—to ensure that the open dialog and the best methods promoted in announcements will not be eroded with micromanaging the process? How ethical is it to offer employees hope that their voices will be heard and then to coerce consultants to silence them or neglect the emotional side of their experience?

Quizzical

Dear Quizzical,
I've just bought this book, although the problem is as much about the ethics of hiring a consultant. If a consultant is hired by an executive director who would like to establish a long-term relationship with the organization for instance, is it reasonable to expect that the consultant will not be without the interests of that position? If a consultant identifies leadership as a block to progress, should the consultant understand the limitations on the position or go with the consultant's assessment of likely situations and/or circumstances? There may be an inherent conflict of interest in many of these relationships. Even so, it is the Ethicist's opinion that too many organizations are being sold short by a lack of due diligence and clear and consistent guidelines. This kind of slipshod is expensive and depends on funds that are vague and not in the form of a consulting report or a consulting agreement. What kind of client does a consultant serve if they do not receive something in return for their services? If the organization has a financial reserve, the board's position on borrowing money likely made good financial sense. Nonetheless, congratulations on putting through this crisis point.

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

References of this article may be found online at nonprofitquarterly.org, using code 141201.
Board Stories Involving Humans

Even in the most institutionalized nonprofit boards, with a standardized board design and plenty of administrative support, it is not unusual to find trustees in a kind of mild-to-severe fog. A survey by the Chronicle of Higher Education finds that 40 percent of university trustees admit to feeling "slightly" or "not at all" prepared to carry out their duties. No organization would aspire to this state of affairs at the staff level, yet an energetic but badly focused board member can leverage more control and cause more disruption than most staff. And a low-energy board is just a drain.

In what ways do nonprofits need to elevate the thinking about the development of their boards? Do we focus on the wrong stuff? This article suggests that we do and presents a series of stories that focuses the reader on critical but neglected aspects of board development.

Those Pesky Human Beings

"No [board] design is automatically great," says David Renz, a national expert on nonprofit boards. "It's just a start, and then you add the people—and then it often gets really went, and that's the way it is. Structure does not and cannot guarantee performance, although it can certainly get in the way. The reality is that a group of talented and committed people can make even the loudest structure work because they develop processes—sometimes very informal ones—to get around the flaws." The same is true in the reverse, of course: a talented group driven more by individual ego than collective mission can make even the most rational of structures a joke.

This observation probably resonates with

Ruth McCambridge is NPO's editor in chief.
What makes this board work? Each board member is well versed in the realities of life for the women whom the organization serves because board members have actively learned about these challenges.

Constituents Above All Else
A battered women's shelter based in a small Midwestern town has a 60-member board that is conscious and comprises only active volunteers, who contribute at least four hours a week to the organization. Few of these volunteers have overwhelming influence—they are a community crew from full-time students to professors and accountants—but the board can and does mobilize on a moment's notice. The board is not always in accord. There are no term limits: when board members object to the organization's direction, they vote with their feet. Decisions are made by modified consensus. To outsiders the board structure might seem untenable, but it has some characteristics that make it work quite well:

All board members have the common experience of having participated in a 12-hour training program that focuses not only on the practical at the shelter but on the theory behind the practice. This is required for any volunteer (and therefore any board member), and all board members have direct experience with the women who stay at the shelter.

What makes this board work? Each board member is well versed in the realities of life for the women whom the organization serves, because board members have actively learned about these challenges. They watch how situations unfold over time, the women's interactions with the police, the courts, the schools and their families. They are adept at judging the impact of budget decisions and organizational strategies because they have this knowledge and because their training gives them a grasp of program options in general and puts the theory of this particular program in context.

This board framework would not work everywhere, but it has some intriguing elements in terms of board members' deep understanding of programs, constituents, environment, and a design that is well suited to the particularities of the organization. A description of the structure sounds luminously untenable to many. But when this organization suddenly lost most of its funding, the board mobilized itself and all of its friends and, within six months, had significantly improved the organization's financial position from where it was pre-crisis.

Agreements on the Focus and Role of the Board are Malleable
The Sailors' Beacon Preservation Group is dedicated to restoring and maintaining a lighthouse in the Pacific Northwest. The board is a mix of local blue- and white-collar professionals, including fishermen, architects, insurance agents, and farmers. The organization has a strong founder who is now the executive director, and the board struggles to provide a balance through its governance function. Some new board members rotate out quickly in frustration over a lack of board control, especially if they have had experience on other boards. Others remain on the board for years at a time—there are no term limits—and are highly engaged in helping the grassroots effort to maintain the lighthouse and develop education programs for the public on maritime history. These board members provide flexibility for the strong founding leader and engage in high-level conversations that ensure a focus on mission. They sometimes lock horns with one another or with the director, but in general the board members who stay enjoy serving on a board that has developed a culture that reflects the needs of the lighthouse and of the public.

This group was not always effective in its governance role, however. During the 80s-1990s, there was intense conflict between the founding executive director and board members, who wanted to share the reins. An organizational consultant helped the board with some classic role definition, enabling members to recognize that there was quite a bit of board business that they had neglected and that they could strike a balance if they defined their governance work within parameters rather than focusing solely on the work of the executive director. There was a strategic planning meeting on a cold winter's day at the lighthouse, where the board and executive director agreed to a strong vision and mission. For the next decade, board members were deeply oriented toward the mission, and every boardroom decision was made with that mission in mind.
The boardroom is a space locked in conflict and fraught with danger. People either stay out of the line of fire or join a side. Real conversations take place in the parking lot on the way out. No amount of retreat is going to affect the tenor of the room until those who inhibit it admit that they are the problem...
Human beings tend to carry epic stories forward as fables with morals, and they will force-fit outcomes to their expectations, even when that means reporting failure. Does the board lack the courage to lead, or does it follow a weak executive? Does the board appoint a good president or does its membership elect board representatives? Not only do these questions matter, but the stories that explain how the organization arrived at its present state also matter.

Cultural attributes cannot always be structured or seen, but acknowledging them provides a board with more control. As Edmon Novik, the president of Gestalt International Study Center, says, "Awareness is the precursor to effective action. Awareness leads to choices."

I have discovered that people can be shy about naming such stuff—opposing instead to banish a few purveyors of disturbance from the room—only to find this troublesome mysterious proliferation of others shortly thereafter. You may recognize this dynamic from family systems therapy. The board is, after all, a group of human beings.

There is No "Away"

One NSF reader writes: "There is a bit of a disconnection in the cultural approaches between board and staff. It's not a real issue, but my board does not play a major role in the heart of the organization. While I could recruit new board members onto our board who think differently, I also have to keep our public credibility in mind. It's very hard to have a well-respected lawyer or businessman on the board for that reason. It doesn't feel right, in terms of our real mission, so it's a puzzle. I don't know what the solution is yet."

One rule of systems thinking is that there is no "away." If we dump hazardous waste, it will come back to haunt us. The same goes for bidirectional boards to the side. We are often confused when staff acts out of one set of motivations and the board out of another. Sometimes this is a function of a board's belief that it should take a certain stance to counterbalance staff behavior, but sometimes it is just a function of relative isolation (which can easily happen if the executive is the only point of contact). This duality—and the tendency of boards to be insufficiently familiar with the details of the work of the organization—often leads to executive attempts to "manage" (read: marginalize and contain) the board.

An attempt to "manage" the board often leads to its members being the last to know about organizational problems. The programs can have a terrible reputation, the funders can lose trust, and the community may have an opinion of the organization that belies its mission interests. Without the board really accepting this, it is the case. The board may have a more effective view of the organization, even if that view coexists with a sense of disconnectedness. That's what's going on.

This, of course, can lead to a revelatory moment when the board finally "sees" negative information that has been building over time. Such revelatory moments can be brutal and bloody. In one case, the attorney general cited the organization for questionable fundraising strategy after the board had been told repeatedly that the organization might have violated state law. The board was not until the staff led an open rebellion that the board had an epiphany. Until the mutiny, the board acted as though it had been unfairly singled out by the IRS and that the internal alarm bells were merely expressing personal agendas. Board members took no steps to ensure that protective protocols were in place.

On the other hand, a failure to manage how a board receives and interprets information may cause its members to focus on relatively unimportant details and lose sight of core organizational strengths. Executive directors worry that their boards won't balance the big picture with the details. This inability to rank organizational issues can play out in an organization, sometimes intermittently, and that's what the basic proposition of the policy governance model is to shift some boards and executives (a colleague recently described the Carver method to me as the "executive empowerment model").

For an executive to feel comfortable in relinquishing the role of "managing" the board, he must depend on the board chair and executive officers to frame and manage conversations and that requires that the character, background, and, most importantly, the alignment of board and staff.
board members with the mission are primary criteria for recruitment and leadership. The woman's shelter exemplifies this principle. All its board members were steeped in the theory and practice of the organization. Three months of volunteering at the shelter sort out who worked well with others. And, as Harrison and Murray's article on page 21 notes, the characteristics of the board chair are particularly important. In the case of the shelter, the board chair was an unassuming, humble woman, respectful to everyone, not a gossip, quick to laugh—but steady as all get out.

In Conclusion

People are strange some for better and some for worse. So it has always struck me as next-to-insane to bring people on to a board when they have no significant experience in the work of the organization. It's a swift and easy way to bring trouble. How do we know how they work in a team setting? Do they like to build cliques and secret allies, or do they care enough about the work to spend time on it? What better way to test such things than to organize people into working committees. Do they produce? Do they follow through and bring others to the work? Are they self-aware or quick to defensiveness? "Who are you calling defensive? I'm not defensive!"

Creating committees that involve people who are interested in what you do and are well-trained has so many benefits. But among them are more advocates, more long-term donors (volunteers tend to give), more creativity, and more connections. Each committee makes the organization more dynamic and give a higher profile, and they are a wonderful testing ground to identify those human beings who can be trusted to be thoughtful, enthusiastic stewards.

Here is my first suggestion: build those committees, and dedicate real staff time to them. Make them a part of your engagement strategy. Mix up the members between staff, constituents, and interested others, and watch who rises to the surface as a prospect for board service. Use them to encourage the appropriate mingling of community activists and leaders who might productively populate a board that can be trusted with the organization's future.

My second suggestion is to think more creatively about governance in general. What role could it ideally play in your organization, and what board design facilitates that? Get past the default mindset of "boards must do this" and "boards should do that". To find the truly imaginative and inspired functions your board can and should fulfill. Most obviously, don't rely on fundraising prowess and connections as the lens for board recruitment. You may be conditioned to believe that connections are your key to a healthy budget, but recent research finds no proof that organizations that recruit for connections are any better off than those that do not. Moving away from a myopic focus on board functions can reveal potential for additional board contributions—beyond fundraising—and the strange, wonderful, and insightful people who might be recruited to realize these board visions.

There is lots of room for variation. Little is written in stone regarding the shape and use of boards. Yet decades of consulting would have us believe otherwise, and no good people waste time and money trying to fit their unique organizational cultures into prescriptive models. Governance is not a structure but a process. That process must remain resolute not only to what the constituents and the organization need but to what the dynamic in the boardroom and between the board and the executive needs to be to get the work done in the most optimal way possible.

Finally, the dedication of each board member to the accomplishment of the mission and best interests of the organization's constituents should be unquestionable. This is hard to ensure without each board member having spent considerable time in the work of the organization and with a variety of constituents. It makes sense to create testing grounds elsewhere in your organization for the quality decision makers and advocates you really need on your board.

Endnotes

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Boards in Small Nonprofits: What About Friendship and Solidarity?

by Christine Bertrand and Johanne Turbide

Since the early 1980s, numerous works have focused on governance in nonprofit organizations. Researchers' interest in nonprofit management stems from the many differences between for-profits and nonprofits, particularly regarding the concept of ownership, the availability of resources, and the assessment of performance. These differences ensure that the connection between objectives, means, and aims—as well as alignment between stakeholders and a nonprofit's objectives—are more difficult to identify in third-sector organizations. These differences explain in part why nonprofits cannot be managed with the same principles as those used in the for-profit sector.

As some of the titles within the literature suggest, many works on governance are norma-

Christine Bertrand is a CMA and completed a master's degree at HEC Montréal. She is a senior analyst at Deloitte and is involved in various humanitarian projects. Johanne Turbide is associate professor at HEC Montréal. She oversees the Community University Research Alliance project financed by the Social Sciences and Humanities Research Council of Canada, which helps nonprofits develop management tools adapted to their needs and environment.
Research on third-sector governance tends to articulate the one "best way" for nonprofits to approach governance.

Nonprofits' Use of Intentional or Best-Practice Mechanisms

In the literature, defining organizational mission and strategic planning are central responsibilities. Others include defining the organization's long-term objectives and focusing on external communication. We examine how organizations define their missions in light of market dynamics, understanding the needs of various stakeholders, acting as the organization's guardian of values, conducting the organization's affairs ethically and legally; not interfering with regulatory authorities and planning operations; and assessing the risks the organization faces.

Some research suggests that administrators should set examples by making financial contributions to an organization. In addition to setting an example, having administrators donate their own money to nonprofit projects prompts them to take their management role seriously.

Researchers also emphasize that board meeting attendance is important; when administrators attend board meetings, they become more actively involved in the organization, and their attendance increases the nonprofit's performance. It is therefore essential to keep attendance records to discover abdusent.

Other researchers stress the importance of orientation sessions for new members in order to develop a common vision; others recommend ongoing training, such as skill sets reading, interacting with other boards, presenting cases, offering courses, and so on.

But the research on third-sector governance tends to articulate the one "best way" for nonprofits to approach governance. At present, the empirical findings reflect a completely different reality; and several researchers question the one-size-fits-all formulas that are adapted mainly from for-profit practices.

John Carver, for example, says that few of the organizations he has studied could even account for the best practices they use. "Fewer than 5 percent of the boards I have encountered in the past decade were able to furnish me with board policies," he writes.

Based on a field study of 12 nonprofit boards in New York, Judith Miller concludes that board members have a tendency to manage according to personal and professional skills rather than use the organization's mission as a reference point. In a study by William Brown, 30 percent of 96 executive directors say that their boards do not consider the interests of various stakeholders; Thomas Holland's findings are similar (where a large number of study participants could not identify a single group of "institutionalizers"). And Holland concludes that this may explain why communication with stakeholders is frequently lacking.

In a study by Andrew Bluer, nonprofit leaders responding to Holland's survey believed that external communication is not a board task, rather the responsibility of the director or staff. Of course, reality often differs from the best practices identified in the literature.

While the research recommends that nonprofits should have a diversified board in order to best represent the community, a survey conducted by K.B. Fitchett reveals that members' ages, race, and education don't significantly influence the performance of the board. Furthermore, the current profile of nonprofits is inconsistent with the diversified image of boards recommended in the literature. In fact, according to a survey conducted by Martha Gorenzuk, the typical nonprofit board member is a white male between the ages of 40 and 50 years old who holds a management or professional position in a for-profit company.

While an advisory committee should select a nonprofit board to ensure proper control, Hansmann notes that "in some nonprofits this control is really only formal. In practice, the organization's board of directors determines its own successes."

The literature also recommends that nonprofits have a comprehensive policy to address financial issues. But the reality is that nonprofits often don't have the luxury of observing this best practice. In fact, Golensky found in her 2000 study that many policies are rarely applied. "Many of the respondents," she writes, "admitted that policies allowing for the removal of a board member who has missed too many meetings are rarely enforced."

Finally, case studies and other empirical research on board performance evaluation in third-sector organizations reveal similar conclusions.

While best practices recommend the evaluation of board meetings and performances, the majority of organizations in these studies don't evaluate the process, lack evaluation criteria, and don't have enough time for these efforts, given that members are often volunteers.

Our Findings: Three Small Nonprofits

With annual revenues of less than $250,000 and five or fewer permanent employees, our three case-study nonprofits are representative of the majority of organizations in Canada, where 85 percent of nonprofits have even less annual revenue. We attended board meetings in order to clearly identify the practices of these organizations with the literature on best practices in nonprofit governance. For the purposes of this study, we term these formal best practices under the rubric of "intentional." Under the broad heading of "spontaneous," we group practices that involve a nonprofit's more immediate drive for survival.

We collected data over a three-month period. For each of the organizations studied, we interviewed three individuals, attended one or two board meetings, and reviewed relevant documents (such as minutes of proceedings, financial statements, and budgets). Although the cases presented here are real, we have changed the names of the organizations at their request.

Our findings suggest that small nonprofits don't use best practices for governance as prescribed in boardbooks and training programs. Instead these organizations are driven more by spontaneous mechanisms that evolve from the two pillars of the nonprofit environment:

- organizational culture (the sharing of values and the commitment of members), and
- mission and purpose-related activity (i.e., the solidarity perspective).

In the three organizations we studied, the role of key members, responsibilities, rules, and regulations are at best considered superficial principles that do not apply to the day-to-day reality of coping with cash-flow problems, staff turnover, and the difficulty of serving constituents.

The Reality of Small Nonprofits

Founded in 1996, the New Immigrants Network (NIN) helps immigrant families and networks. NIN's mandate is to develop a supportive network for families arriving in Montreal. There are three full-time employees and a coordinator. The organization's budget is approximately $120,000.

At the time of our study, the seven positions on the board were filled by five external members and two members representing two organizations (who was often absent from meetings). Members often did not respect their mandates because they did not have enough time to give to the organization. The coordinator manages the agenda of board meetings, provides a report and feedback on past activities, and presents upcoming events. According to board members, their roles consist mainly of attending board meetings, and reviewing the minutes of these meetings and various reports. The board meeting minutes are distributed to all members of the organization. In addition to reviewing the minutes, members gather in small groups to discuss the organization's financial and operational issues. The board has 17 members and two part-time directors.

The organization's budget is approximately $300,000. The board is responsible for managing the organization's finances and ensuring that the organization is sustainable. The board also approves the organization's budget and financial reports. The board meets regularly to discuss the organization's financial and operational issues.
The solidarity perspective allows small nonprofits to operate without all the material incentives that for-profits offer. At least, in smaller nonprofit organizations, the monetary reward of the for-profit sector is replaced by the value of mutual aid and a willingness to improve the community. So how is governance exercised in this context?

Using our analytical framework, we attempted to answer this question and capture the degree to which small organizations use an intentional versus a spontaneity approach to board composition.

The Solidarity Perspective

If nonprofits are not conforming to norms of best practice, should we impose a standardized approach to their governance, particularly in the case of smaller organizations? According to Lucie Bégin, principles of solidarity differentiate nonprofits from for-profits:

The community sector is run based on a solidarity perspective that characterizes the organization's relationships to their environment; the solidarity of donors who voluntarily contribute to the funding of services, of which they are not the primary beneficiaries; the solidarity of volunteers who donate their time for the betterment of the community; the solidarity that makes cooperation and consensus the preferred coordination method.

In 1996 a group of parents from a poor area of Montreal created Snowdon Family Circle (SFC). The mission is to support parents of young children and to develop collaboration and friendship among underprivileged families. Two full-time staff members—neither of whom hold the position of director—work for the organization, which has a budget of approximately $105,000. In 1999 the organization almost closed because of a major financial crisis, but the government sent a consultant to help it recover and become better organized. The board is made up of nine members, six of which must be nominated by the beneficiaries (in concert with the consultant's recommendations). During interviews and meetings, we observed that board members had an operational agenda, in part because a director had not yet been identified.

In our three case-study organizations, none of the recommended practices were consistently observed, with the exception of including external members on each of the boards. The management approach concentrates on survival, thus formal requirements often fall by the wayside in the face of the demands of survival and service—and those demands can be severe. The lack of financial resources, for example, lends to a significant change in the mission for NIN in order to be eligible for Emploi-Québec grants programs.

In some cases, board members were hard to keep, and the lack of availability of current members were the main reasons for SPC's failure to respect the rules regarding the selection of members and length of tenure. Two board members from two different organizations argued that the most important criterion for board members is a willingness to contribute to a nonprofit's well-being rather than professional background. For the NIN coordinator, who is actively involved in the recruitment of board members, her main concern was to find board members who can help the organization get more funding, who get along well with fellow board members, and who support the organization's activities by contributing time or money. In her view, board members are difficult to find and nonprofits should retain board members who fit the criteria as long as they can, regardless of suggested tenure rules.

In all three cases, board members believed...
that their key role was to attend meetings. One DC board member noted that nonprofits should look to board members that can contribute financially too, but admitted that he had been unsuccessful in convincing his own colleagues to make yearly donations.

Our results show that there are no risk assessment and control mechanisms in place. Administrators are not very concerned about their nonprofit's relationship with resource providers and do not have reservations about insurance coverage. Little emphasis is placed on budgeting, even in the case of DC, which is experiencing serious financial difficulties. It is worth noting that DC has the most board members on its board of any of the three organizations. Lastly, with the exception of DC—whose several board members come from the business community generally know their legal obligations—most of the board members we interviewed weren't well versed in statutes and regulations.

On the other hand, for all three organizations, spontaneous mechanisms such as organizational culture, shared values, and member commitment are high priorities. All three organizations cited a culture of friendship, which confirms research by Jill Morris and Chris Conforth. The respondents even said that while the consensus dynamic is time-consuming and can undermine decision making, it is respectful and emphasizes the importance of many points of view, so they still valued it. These findings are in line with Begin's solidarity perspective, which suggests that cooperation and consensus are central to smaller and less-resourceful organizations. Bomke and Kassarjian's research revealed similar results, he found that shared values make management less hierarchical. This reinforces organizations' need to be nimble in an unstable environment.

Our study also validates Diem's concerns such as members' mutual trust and commitment. But these spontaneous mechanisms do not necessarily guarantee effectiveness and efficiency. In DC, which is experiencing financial difficulties, members realize that too much conflict coupled with few internal controls, have led to the frictional behavior of staff members.

These organizations also validate other spontaneous mechanisms such as competition and legitimacy. Competition is a decisive factor for each of the three nonprofits, since their survival depends on it. Respondents criticized the lack of funding requirements, which has led to an increasing number of small and medium-sized nonprofits relying on the same pool of funding. Legitimacy is an important mechanism in nonprofit governance, because it makes sense of the quality of work or the quality of service. Without legitimacy, the nonprofit's existence, any SPC's survival, is in doubt. Subsequently, the board established a task force to better control the hiring of employees and volunteers and the handling of finances.

Limitations and Future Research

Our research of small nonprofits confirms our hypothesis: the intentional governance mechanisms suggested in the literature do not apply to smaller organizations to any significant extent. That's not surprising given that these mechanisms don't apply to many other nonprofits as well. Our study also allowed us to better understand when certain practices recommended in the literature may be difficult to apply in small nonprofits. Among the many determining factors, the organization's formal procedures can be seen as either incomplete or a challenge to the cohesion created by trust and familiarity. Additionally, the instability of small nonprofits means that management spends a great deal of time fighting for the organization's survival rather than implementing formal control mechanisms. These nonprofits are driven by values and interests that are far removed from what books say about how to "efficiently" govern a nonprofit.

Nonetheless, the exclusive use of spontaneous mechanisms may place small nonprofits at a serious disadvantage. Future research should focus on the distinctive characteristics of a nonprofit's context. Then it may be time to advance some of the good-governance principles associated with the solidarity perspective (and a graduated adoption of intentional practices). The solidarity practices of small groups are an important asset for small nonprofits to govern with a realistic grasp of their context.

Indicators

1. The term stakeholders refers to all parties to whom an organization is beholden: sponsors, employees, clients, suppliers, the community, and so on.
8. The word "stakeholders" may be defined as "all the stakeholders within a given organization."
The Best and Worst of Board Chairs

by Yvonne Harrison and Vic Murray

Most experienced observers of nonprofit governance agree that board chairs can have considerable influence on board operations. But not much research focuses on the critical position of board chairmanship and the factors that determine its potential for positive or negative impact.

To better understand how board chairs affect their organizations, we recently completed two phases of a research project (and have plans for a third). In 2006 we undertook the first phase of this pilot study, conducting in-depth interviews with 21 respondents in Seattle, Washington, and in Victoria, British Columbia. Respondents were split nearly evenly between experienced nonprofit board members and CEOs. In 2007 we launched the project’s second phase, which consisted of an online survey of 105 nonprofit leaders representing a variety of perspectives (including those of board chairs, board members, CEOs, staff, service volunteers, and stakeholders) from across the United States and Canada to verify the results of the study.

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Our research identifies three groups on which board chairs have influence: (1) other board members; (2) CEOs and management teams and (3) external stakeholders, such as funders, regulators, and clients. Although our exploratory research doesn’t touch on this, we have developed a framework that outlines the factors that might shape the behavior of chairs, such as background (i.e., age, gender, education, and previous leadership experience); characteristics of other members in the relationship, such as the CEO; and characteristics of the organization (such as the age, mission, and culture). The organization’s larger environment—such as economic and political factors, the organization’s climate of competitiveness or cooperativeness, and so on—can also affect board chair behavior.

Phase-One Findings

Our preliminary research findings suggest that there is considerable commonality among those qualities respondents perceive as hallmarks of effective and ineffective chairs. Respondents perceive highly effective chairs as assets to their organization. Conversely, they view ineffective chairs as problematic for boards and the organization as a whole. The table on pages 26-27 features some of these common characteristics.

Findings from the Online Survey

In terms of the personal qualities of exceptional board chairs, the findings of the online survey
<table>
<thead>
<tr>
<th>The Highly Effective Chair*</th>
<th>The Highly Ineffective Chair*</th>
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<tbody>
<tr>
<td><strong>The Chair’s Attitudes and Values (as perceived by board members and CEO)</strong></td>
<td><strong>The Chair’s Impact on the Board</strong></td>
</tr>
<tr>
<td>- Is committed to organizational mission, is passionate, enthusiastic, and engaged</td>
<td>- Ensures that meetings are focused, efficient, and produce clear decisions</td>
</tr>
<tr>
<td>- Is knowledgeable about the organization’s activities and challenges</td>
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<tr>
<td>- Can see the big picture</td>
<td>- Increases board turnover</td>
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<tr>
<td></td>
<td>- Fails to resolve major problems, such as a poorly performing CEO or lost funding, until it’s too late</td>
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<tr>
<th>The Chair’s Personality Traits (as perceived by board members and CEOs)</th>
<th>The Chair’s Direct Impact on Stakeholders</th>
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<tbody>
<tr>
<td>- Charismatic and communicates a broad vision with which others can connect</td>
<td>- Facilitates funding by helping to get grants or contracts</td>
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<tr>
<td>- Is strong-willed but lucid (at ease with people of all types)</td>
<td>- Improves relationships with existing or potential partners</td>
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<tr>
<td>- Is trustworthy and calm</td>
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<tr>
<td>- Is intelligent and grapples complex situations quickly</td>
<td>- Loses the support of key stakeholders</td>
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<tr>
<td>- Has a sense of humor</td>
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<tr>
<th>The Chair’s Conduct (as perceived by board members and CEOs)</th>
<th>The Chair’s Indirect Impact on the Organization</th>
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<tbody>
<tr>
<td>- Is proactive, takes initiative in solving issues</td>
<td>- Takes the organization in a new direction</td>
</tr>
<tr>
<td>- Takes time to interact with others, doesn’t rush others</td>
<td>- Causes a paradigm shift in the organization’s thinking and behavior</td>
</tr>
<tr>
<td>- Listens, doesn’t interrupt</td>
<td>- Changes the organization from inactivity by helping to remove a major grant</td>
</tr>
<tr>
<td>- Qualifies and helps to redefine issues</td>
<td>- Helps improve staff morale</td>
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<tr>
<td>- Finds common ground when differences arise; manages conflict well</td>
<td>- Responds indicated greater diversity when respondents were asked about their experience with ineffective chairs; responses for effective chairs were more uniform</td>
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<tr>
<th>The Chair’s Qualities (as perceived by CEOs)</th>
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<tbody>
<tr>
<td>- Mentors and coaches other board members</td>
<td>- Listens poorly</td>
</tr>
<tr>
<td>- Is always available when needed</td>
<td>- Doesn’t take sufficient action</td>
</tr>
<tr>
<td>- Is open-minded and collaborative</td>
<td>- Minimizes them</td>
</tr>
<tr>
<td>- Is enthusiastic about the organization</td>
<td>- Facilitates and takes different positions depending on whom he interacts with</td>
</tr>
<tr>
<td></td>
<td>- Creates or avoids conflict</td>
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<tr>
<th>The Chair’s Relationships with Board Members (as perceived by board members)</th>
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</thead>
<tbody>
<tr>
<td>- Is always well prepared for meetings</td>
<td>- Doesn’t respect or trust the CEO</td>
</tr>
<tr>
<td>- Conducts productive meetings that are on topic, on time, and action oriented</td>
<td>- Tends to be critical and unapproachable</td>
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<tr>
<td>- Is clear about the why of the board and can communicate it to others</td>
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<tr>
<td>- Sees as a facilitator rather than a superior</td>
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<tr>
<td>- Dialogue and work as a team player and team builder</td>
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<tr>
<td>- Makes individual board members feel valued and appreciated</td>
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<tr>
<th>The Chair’s Relationships with Stakeholders (as perceived by all respondents)</th>
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<tbody>
<tr>
<td>- Has strong contacts with key people outside the organization</td>
<td>- Chats meetings but fails to follow through</td>
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<tr>
<td>- Is willing to use contacts to help the organization</td>
<td>- Frustrating, few opportunities to participate in strategic planning and decisions</td>
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<tr>
<td></td>
<td>- Sees meetings as too infrequent and allows meetings to drift away from the topic</td>
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<tr>
<td></td>
<td>- Contributions to confusion over the board’s role</td>
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<tr>
<td></td>
<td>- Is too passive, doesn’t focus on key issues, and avoids confronting problems</td>
</tr>
<tr>
<td></td>
<td>- Is too protective of the CEO and staff, doesn’t push the board to assess the performance of the organization or itself</td>
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<tr>
<th>The Chair’s Impact on the CEO</th>
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<tbody>
<tr>
<td>- Increases the CEO’s feelings of competence and boosts morale</td>
<td>- Minimizes them</td>
</tr>
<tr>
<td>- Contributes to the improved decision making of the CEO</td>
<td>- Facilitates and takes different positions depending on whom he interacts with</td>
</tr>
<tr>
<td></td>
<td>- Creates or avoids conflict</td>
</tr>
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3. Analytic skill competencies:
- Can see the big picture
- Can identify and resolve issues
- Can handle contentious issues

4. "Willingness to create" competencies:
- Has high intelligence
- Is an innovative thinker
- Has confidence

5. Ability-to-influence competencies:
- Has connections and influence with key people
- Uses connections to advance the organization

Discussion
This article highlights the characteristics of
highly effective and highly ineffective board chairs as perceived by those who work with them. The behavioral and personality characteristics of highly effective chairs are remarkably similar among the various groups of respondents to the online survey.

Respondents highlight the same qualities and skills of effective chairs as those the literature cites as desirable characteristics of nonprofit leaders in general. Our findings are also consistent with several leadership theories. Ralph Stogdill, for example, suggests that effective leaders are charismatic, cooperative, and socially and know how to influence others, while Shelley Kipnig & Patrick and Edwin Locke cite cognitive ability, motivation, and confidence as essential leadership qualities. The literature also cites the following characteristics of effective leaders, which parallel our findings:

- Being goal directed
- Having emotional maturity, self, and social awareness (also known as "emotional intelligence")
- Being creative, flexible, and persistent
- Being committed and independent-minded and understanding of the big picture; being compassionate and prosocial (also known as "spiritual intelligence")

Our findings are also consistent with the findings of Richard Leblanc and James Gillies, who conclude from a 2006 study of nonprofit boards and interviews with 100 board members that there are two types of board chairs. The first, which the authors refer to as "conductors," are effective managers because they:

- Prioritize very well in management, have a keen interest in good governance and serve as the hub of all important board activity. "They understand group and individual dynamics and possess remarkable leadership skills, both inside and outside the boardroom. They relate exceptionally well to the CEO (or executive director), committees, and other directors. They lead the setting of the agenda, run meetings effectively, moderate discussion appropriately, manage dissent, and work towards consensus and, most importantly, see the net culture and ensure effective corporate governance."

The second type, known as "controllers," are ineffective because they either exert too much influence or not enough.

So What? The Practical Implications

The aim of our research was to learn more about the characteristics of outstanding board chair leadership. But we can also draw some conclusions about how a nonprofit organization can better select highly effective chairs.

The most important step is to develop a position description for the chair's role. This should include specific responsibilities of the position such as (a) the board, both as individuals and as a group during formal meetings; (b) the CEO and other members of the management team; and (c) external stakeholders. The results of our research can serve as a foundation for the inclusion of these statements.

A position description should also include qualifications for the job, such as the required level of knowledge about the organization as well as the desired leadership characteristics and interpersonal skills. Again, the results of our research provide some guidelines on the kind of person one should look for.

One of the best ways to develop qualified board members for promotion to the chair position is by establishing a clear system of evaluation. Future chairs would be appointed to the position of chair elect or vice chair. The understanding would be that the person holding such a position would move into the chair position within a year or two. Those in such roles can then consciously understand the chair role.

Finally, it is possible to improve the chances of selecting top-notch chairs if boards are willing to carry out formal evaluations of their own performance. In such a process, members can be asked, "Which board member do you think has the greatest potential as a future chairperson, and why?"

In short, the secret to consistently appointing highly effective board chairs lies in making the process more formal and thoughtful by identifying the kind of person you want and by making a conscious effort to find and develop that person for the role.

What's Next? Future Research

While phases one and two of our research have yielded important information about the qualities that define effective board chair leadership, we have much to learn about this important position. A key unanswered question is, Which factors are most important in creating an effective board chair? Is a board chair's personality the most important factor, or is it partly a function of the kind of people who have to work with or characteristics of the organization within which the chair and the other key actors work? The third phase of our research will address these questions in greater detail.

To this end, we are looking for current board chairs, executive directors, board members, and external stakeholders who can discuss their experience of being, or relating to, board chairs. The problem in that there are very few publicly available lists of such people, which is why we are turning to the readers of The Nonprofit Quarterly for help.

If you are the kind of person who finds such research worthwhile and are willing to help us gather future data, you can take a brief two-minute questionnaire that indicates your willingness to assist in the next phase of this research. The link is accessible from the Center for Nonprofit Leadership's Seattle University's Web site at www.seattleu.edu/artic1ngpl.

Reprints of this article may be ordered from store.noonprofitquarterly.org using code 10950.
Loyal Opposition

by Patricia Bradshaw and Peter Jackson

The true value of governance lies neither in leadership nor in followership, but in the unique role of "loyal opposition."

When it comes to governance, boards of directors tread a very fine line. Those who seek to lead the organization run the risk of usurping the role of the CEO. Those who follow the CEO's lead run the risk of abdicating their responsibility and joining the ranks of management. In fact, the true value of governance lies neither in leadership nor in followership, but in the unique role of "loyal opposition."

For many years, boards of directors of Canadian corporations and public institutions were criticized as being "parasites on the fish" (decorative but not useful) or an old boys' club, where protection of fellow members and mutual back-scratching ranked ahead of any other obligation. Largely ignored by organizational theorists until 10 or 15 years ago, boards are now intuitively understood to be important, but their function is still not fully conceptualized. This lack of clarity is problematic for individual directors striving to increase due diligence and fiduciary responsibility and for regulators and quasi-regulators seeking to establish guidance on good practice.

Certainly, it is no longer appropriate (if it ever was...)

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Every strong leader needs a sounding board, an outside mirror that will help in monitoring the increasingly unpredictable environment.

The concept of loyal opposition means being opposed to the actions of the government or ruling party of the day without being opposed to the constitution of the political system. In Japan, the United Kingdom, and many other Commonwealth countries, the leader of the party possessing the largest number of seats in Parliament while not forming part of the government is termed the loyal opposition. Their constitutional function is to scrutinize government legislation and actions. While explicitly opposing the ruling party policies at every turn, the leader of the opposition is not opposed to the government's right to rule.

was) to rubber-stamp every senior management proposal. But, boards that seek to exert more control and influence over the executive team may only escalate political maneuvering. As a result, power either remains with the executive team or shifts into the hands of the board—or there is knee-jerk thinking among the two groups. While organizational politics are a reality, power struggles of this type are detrimental to the board's ability to exercise its mandate most effectively.

Rather than look at the role of the board of directors, it's helpful to focus on the functions of governance, leadership, and management. If an organization is to operate effectively, each of these three functions must be performed by someone or some group.

Organizational theory recognizes that the leadership function is about creating a transformational vision of the direction in which the organization should be heading and "telling the story" in a compelling fashion. Power comes to leaders who create a cohesive, inspiring story that all will follow and believe, and strategic direction falls out of that vision. The more compelling the story, the less the vision is questioned and the stronger the leader. John Kotter's ability to create a story about Nortel that so few questioned or doubted is an example of both the power of charismatic leadership and the risks of being believed too much.

The management function is to implement the vision and bring the strategy into operation. Together, leaders and managers must ensure that stakeholders, both inside and outside the organization, see the strength and wisdom of the direction established and that the confidence of shareholders is never shaken.

So what is the function of governance within this framework? Directors know that they should not meddle in management, but they might not understand that governance is distinct from leadership. Many directors are also strong leaders in their own right and may see little alternative to the board fulfilling or supporting the leadership function. Well intentioned, sincere, and committed, they slide into the leadership function by creating the vision themselves or by guilting the CEO, especially if the CEO is seen as weak.

The function of governance is to protect the organization from a too-successful leadership role. The compelling vision created by a charismatic leader can become a type of prison—a tunnel vision. Leaders become the hero or heroine in the drama of their own creation. As
both the producer and the star, they cannot step back from the script that continually unfolds to see if the story line is still coherent. In a world of uncertainty, rapid change, and environmental chaos, plots can quickly become outdated, but the writer may not notice. Business schools teach case studies of companies that missed changes in their environment, in technology, in the demographic profile of customers, or in society’s values. Aspiring managers are taught to monitor and scan their environment and also to be self-critical and aware.

The challenge, of course, is that a truly visionary and compelling leader has to believe his own vision. Ambivalence is quickly detected, and leaders who express doubt are accused of not walking the talk or of not being strong and dynamic. If you see them as a winner and a leader of distinction, it is almost impossible not to be caught up in the scene. We can say, “Reflect, humble, share your weaknesses and be self-conscious,” but this is asking leaders to be heroic beyond what is reasonable or even realistic. One person simply cannot do it all.

Instead, every strong leader needs a sounding board, an outside mirror that will help in monitoring the increasingly unpredictable environment. Reflection and questioning, reframing and reasserting are key responsibilities of the governance function. Therefore, a board’s performance of that function can challenge the leader’s vision, ask whether it is in alignment with the environment, assess the risks implicit in it, and obtain assurances that management is implementing it effectively. A board can also confront the leader with different interpretations of the script. The story line will grow stronger and more compelling as the leader defends the vision and adjusts it based on the meta-level critique of the board of directors.

Governance should be a “radical” function that seeks to challenge the root assumptions of leadership, to address those matters that are normally taken for granted or are not discussed. Governance involves deconstruction of the deep structures of power (the glass ceilings, the unspoken privileges, the inequities that are no longer visible) and the creation of more inclusive and productive solutions to the questions and dilemmas of leadership.

A robust governance function is a challenge to the vision from which the leader derives power, and some leaders may find this personally threatening. Loyal opposition is not always voiced in friendly tones, but the clash of opposition ideas can be as productive as auto-vote suggestions. Far greater is the risk of offended sensibilities in the relationship to the organization when no governance function is being performed. Governance is absent if the board acts on the direction and fulfills the functions of leadership itself, or if the board and executive share the leadership, or if the board merely rubber stamps the executive’s vision. No governance is being performed if the board unilaterally depends on the vision and sees it as an objective reality. The outcome is an organization that has been led by an untested worldview, under a leadership blind to uncertain events that may change it.

Top management is not the only place where leadership functions can be performed. Middle and lower management are not the only place for the fulfillment of management functions, and the board of directors is not the only place for governance. Each function can be performed at many levels. Employees, for example, can deliver invaluable critiques of the existing vision (if the leader is humble enough to listen), based on their day-to-day, front-line experiences in working with customers, suppliers, competitors, and other stakeholders. As well, different organizations at varying stages of development may assign functions differently. For example, a volunteer-driven nonprofit agency may have members of its board of directors play a key role in shaping the organization’s vision.
More Than Monitors: The Board’s Role in Sustainability

If the board has to think about the short-term financial health of the nonprofit, then its survival is probably at risk, and cash is always the first place to go. The board may not need to be involved in cash management, although when the risk level is high, those board staff roles can and sometimes should mix, but it needs to assure itself that it is being done well.

Besides asking for a cash projection (the amount of money slated to come in and go out of an organization and when), the board should look at the following: (1) whether and for how long the organization can make payroll, (2) whether and when the organization can reasonably expect to pay creditors for planned expenditures, and (3) how to ensure that the nonprofit doesn’t take on debt in an effort to stay afloat. This is an important oversight, but it should be noted that being “economically sustainable” is not putting its resources to best use in terms of mission.

In your experience, how do nonprofit boards generally approach discussions of organizational finances?

Brewster: Well, the danger in that boards—or rather, individual board members—focus on what is of particular concern to them to the exclusion of everything else. You often end up with a bunch of adversarial conversations, where various board members champion their points of view or the particular services they care about, with the overall welfare of the nonprofit placed somewhere in the distant background. A good board, led by its chair, will instead focus on what is necessary to achieve short-term financial health—and that is an issue—

and long-term sustainability.

Regarding short-term financial health of the organization, what should boards pay attention to?

Brewster: Cash—pure and simple. If the board has to think about the short-term financial health of the nonprofit, then its survival is probably at risk, and cash is always the first place to go. The board may not need to be involved in cash management, although when the risk level is high, those board staff roles can and sometimes should mix, but it needs to assure itself that it is being done well.

What should boards focus on if they are concerned about long-term sustainability?

Brewster: If you’re concerned about sustainability, then there’s a few things you have to consider: (1) how long can the organization survive with the resources available, (2) is it being wasteful, and (3) how to ensure that the nonprofit isn’t taking on more debt than it can afford. This is an important oversight, but it should be noted that being “economically sustainable” is not putting its resources to best use in terms of mission.

The worst threat to nonprofit sustainability is when your program is crap.

Board members can be disruptive when they represent key stakeholders’ experience and views in this war, but it can also lead to highly productive and innovative interactions between board and staff. I recall one thorn-in-the-side board member who had a say with severe developmental disabilities. The board member had what many would consider an unreasonably high expectation of service quality. He hounded them on and on for a policy change by which all decision-making committees in the organization should include an advocate who would speak for those who couldn’t speak for themselves. He was relentless in his pursuit, but I think the board learned to respect his efforts.

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Engagement Governance for System-Wide Decision Making

by Judy Freiwirth, Psy.D.

Because nonprofits are ultimately organized to benefit their constituencies, they have a responsibility to include their primary stakeholders—them constitutents—in organizational decision making.

Increasingly nonprofits have come to recognize that traditional governance models are inadequate to respond effectively to organizational challenges. This article argues that the structure of most boards of directors prevents nonprofits from being effective and causes them to lose their connection and accountability to those they serve.

Why is a more inclusive governance framework useful to nonprofits today? With their roots in this country’s early voluntary associations, nonprofits are vehicles for ordinary people to accomplish common interests. Thus nonprofits have natural constraints that can advance the organization’s work with funders and government, subsidize the organization’s work through voluntarism, and direct the organization’s perspective on how to address problems and move into the future. Even though many nonprofits have become professionalized, these qualities provide organizations with programmatic accuracy and viability. And because nonprofits are ultimately organized to benefit their constituencies, they have a responsibility to include their primary stakeholders—their constituents—in organizational decision making.

But the hierarchical structure of most nonprofit boards ignores this central fact and in many cases does not allow constituents direct involvement in the decision-making process. This can rob organizations of their programmatic accuracy, legitimacy, and most important, their champions.

Traditional nonprofit governance approaches are modeled after corporate governance systems, creating a strong demarcation between board and staff, with the executive director serving as the only link between them. Traditional approaches also create a class system within nonprofits. The executive director often becomes the sole connector to the external world and filters information about the organization’s constituency, which can result in board disconnection and inhibit effective governance.

Moreover, the trend toward professionalized boards comprising “experts” can deepen the class differential between the board and the community, further exacerbating the board’s disconnection from those it ultimately serves.

Beyond the Board

Responding to the need for new governance models, a network of practitioners and researchers from across the country has developed an expanded notion of governance that is built on participatory principles and moves beyond the board of directors as the sole locus of governance. Although it is still a work in progress, “engagement governance” is a framework in which governance responsibility is shared throughout an organization’s key sectors: staff, board, and other community actors.

The four governance functions are the following:

- Advisory functions range from whole-system strategic envisioning, and coordinated planning to input on trends and priorities.
- Advisory functions range from joint decision-making to policy and strategy advocacy activity regarding policy or program.
- Evaluation functions range from shared participation in design and implementation to feedback and evaluation.
- Advisory functions range from stewardship and resource development to defining resource needs.

The four governance functions are the following:

- Advisory functions range from whole-system strategic envisioning, and coordinated planning to input on trends and priorities.
- Advisory functions range from joint decision-making to policy and strategy advocacy activity regarding policy or program.
- Evaluation functions range from shared participation in design and implementation to feedback and evaluation.
- Advisory functions range from stewardship and resource development to defining resource needs.

The Alliance for Nonprofit Management’s Governance Advisory Group members who contributed to the framework development include Michael Burns, Anne Davis, Jenna Comstock, Sue Drumm, Mary Hailey, Richard Lackner, Tim Lawrence, Jeff McKeen, Debrah Orme, Brenda Stanzi, Diane Prinzivalli, Eugene Reddy, Karen Rhee, and Paul Zelizer.

Legend

- Desired community impact = primary purpose of governance
- Concentric circles = stakeholder groups engaged in shared governance
- Elliptical circles = governance function
- Dotted lines between circles = open communication flow and transparency
- Solid arrows = roles and responsibilities of each stakeholder group
- Dotted lines = shared governance roles and responsibilities of each stakeholder group
- Grey boxes = roles and responsibilities of each stakeholder group
- Yellow dots = roles and responsibilities of each stakeholder group
- Red dots = roles and responsibilities of each stakeholder group
- Blue dots = roles and responsibilities of each stakeholder group
- Green dots = roles and responsibilities of each stakeholder group
- Orange dots = roles and responsibilities of each stakeholder group
- Purple dots = roles and responsibilities of each stakeholder group
- Pink dots = roles and responsibilities of each stakeholder group
- Brown dots = roles and responsibilities of each stakeholder group
- Black dots = roles and responsibilities of each stakeholder group
- White dots = roles and responsibilities of each stakeholder group
- Blue lines = governance function
- Red lines = governance function
- Green lines = governance function
- Orange lines = governance function
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- White lines = governance function
- Blue arrows = governance function
- Red arrows = governance function
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- Black arrows = governance function
- White arrows = governance function
- Blue text = governance function
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- Black text = governance function
- White text = governance function
- Blue box = governance function
- Red box = governance function
- Green box = governance function
- Orange box = governance function
- Purple box = governance function
- Black box = governance function
- White box = governance function
- Blue circle = governance function
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Engagement governance more closely reflects the essence of nonprofits by creating vehicles for constituent empowerment and community change.

The Premises of the Framework

Above all, the nonprofit sector should advance democracy and self-determination rather than dependency and disempowerment, and the framework of engagement governance uses this premise as its starting point. Our group defines governance as "the provision of guidance and direction to a nonprofit organization so that it fulfills its mission and reflects its core values while maintaining accountability and fulfilling its responsibilities to the community, its constituents, and government with which it functions." The following are some premises of the framework:

- Because nonprofit governance frameworks tend to replicate outdated, top-down structures, they often run counter to democratic values and impede an organization’s achievement of its mission. If those directly affected by a nonprofit’s actions are left out of decision-making processes, the resulting decisions can be inconsistent with constituency needs, thus undermining organizational mission.
- Governance is a function and a process, not a structure, so its functions need not be located solely within the confines of a board. Traditionally, governance literature has centered on boards of directors. But legally, there are few requirements about who can partner in governance or participate in a board. Thus, a nonprofit has leeway in deciding who will serve on a board, how members will be elected, and which decisions will fall under a board’s purview.
- Application of engagement governance depends on many factors, including the organization’s constituency, mission, stage of development, adaptive capacity, size, and community readiness.
- Governance is about power, control, authority, and influence. With engagement governance, decision making—and thus power—is redistributed and shared, creating joint ownership, empowerment, and accountability. As a result, those closest to the organization’s work—constituents and staff—are partners with the board. This redistribution of power makes nonprofits more relevant, responsive, and creates a dynamic community presence.

The Framework’s Design Principles

While this framework uses a variety of governance approaches based on organizational needs, there is a basic set of design principles that any organization should incorporate into its new system of governance:

- A results-oriented approach in contrast to traditional governance models in which the primary focus is the effectiveness of the organization, our framework situates the desired community impact at its core. This reorientates results as the central focus of nonprofit governance.
- Shared authority among stakeholders. In a community-engagement governance framework, there are three layers of an organizational system: (1) the primary stakeholders (i.e., the constituency that the nonprofit serves), (2) the organizational board, staff, and volunteers and (3) the secondary stakeholders (i.e., funders, legislators, other nonprofits, and constituents). As depicted in the Community-Engagement Governance diagram on page 38, each layer plays a significant role in this shared-governance system. The framework allows for various kinds of participation by all three layers in the system. An organization determines, along a continuum, which layers of the organization currently make governance decisions, which participants should be involved in future decision making, and how decisions will be made. Policy changes, for example, might first be discussed within groups representing the interests of each layer and then be represented by the board on a group or, in very large organizations, within a cross-sectional group chosen to represent each sector. Critical organizational and strategic decisions—such as key strategic directions or new initiatives—are generally made together by active constituents, staff, and board members.
- Open systems, ready access. An open system provides ready access to information needed for effective decision making at every level. The Community-Engagement Governance diagram illustrates an open system between concentric circles, representing the ongoing information flow, transparency, and communication among the stakeholders and organizational components. After experimenting with this framework in various organizations, we’ve learned some key lessons, including the importance of ongoing communication and transparency at all organizational levels.

Next Steps

The engagement governance framework continues to evolve as we get feedback from practitioners and governance experts. We hope that you will offer your thoughts and experiences. We are already receiving feedback about engagement governance, including questions about the definition of "community" and the makeup of stakeholder layers, how to set up systems for shared accountability, how best to resolve differences in inclusiveness, and how to address issues of cultural competency and class differences in this shared-governance model. Our next step in developing the framework is to design processes that help organizations shift to this new governance framework.

We look forward to your feedback on how to help nonprofits become more inclusive, accountable, democratic, and influential.

Endnotes

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 Nonprofit Risk Management: Insurance and Beyond

 by Melanie L. Herman

 Any organizations give the process of assessing risk and creating a plan to manage that risk short shrift. When nonprofit leaders buy insurance coverage, they may believe that doing so is equivalent to managing organizational risk. But hoping insurance just finances risk exposure; it doesn't manage risk.

 Melanie L. Herman is executive director of the Nonprofit Risk Management Center, a non-profit resource center based in Washington, D.C., that helps nonprofits address risk management concerns. She welcomes feedback about this article and can be reached at Melanie@nonprofirisk.org.

 While executive directors live and breathe their organizational mission, they are understandably less enthusiastic about tending to the business transactions that could introduce risk exposure, such as purchasing property and liability insurance or leasing office equipment. Indeed, pondering the numerous what-ifs and combing the lengthy documents associated with an organization's risk management activities can be mind-numbing. But a commitment to understanding and protecting an organization from risk can be the difference between surviving the incident and being destroyed by it.

 That said, nonprofits also need to educate themselves about purchasing insurance and...
look beyond the details of insurance policies to understand the risks that jeopardize their survival (see "More Than Monitors: the Board’s Role in Sustainability" on page 30 for examples of such behavior). Insurance policies may provide the funds to compensate victims, replace damaged or destroyed property, and cover the cost of a legal defense. In turn, a broader risk management strategy can enable a nonprofit to sidestep avoidable accidents, respond with compassion when a consumer or volunteer suffers an injury, and cope effectively with the intense media scrutiny that may follow a scandal. The risk of harm to reputation exists not only for organizations that are poorly run but also for those that are well run and pushing the boundaries in their work.

That puddle of water on the floor at headquarters is an accident waiting to happen. The practice of allowing minimally trained volunteers on-site access to vulnerable clients creates a gaping hole in your safety program. Nuts-and-bolts issues—such as proper training of staff and implementing accountable processes—are primary concerns for most managers, but equally important are some foundational interests, such as how an organization represents constituency interests and whether it brings intellectual rigor to its programs. While on the surface these issues don’t seem related to risk, they contribute to the reputation of the organization and program quality, which in turn can help a nonprofit weather the storm of damaging events.

Risk Management and Nonprofit Claims
At the Nonprofit Risk Management Center, we contend that risk management is a discipline for dealing with uncertainty. The discipline of risk management encompasses seven perspectives and activities, including planning for contingencies, minimizing carelessness, accidents, and mishaps; and examining past losses to avoid similar situations in the future.

Contrary to common perception, the kinds of claims filed against nonprofits often involve ordinary events and circumstances such as these:

- An elderly client breaks a hip after tripping on loose carpet in a nonprofit’s adult day-care lounge.
- A parent threatens legal action when his teenage son is dismissed for bringing cigarettes to an after-school recreation program.
- A member of a volunteer-run support group threatens legal action after being ousted from the group for posting unflattering comments about members on a personal blog.
- The owner of a station wagon brings a claim against a nonprofit after the organization’s van backs into her car, causing $5,000 in property damage.
- A former office manager of a nonprofit claims that her dismissed violated state and federal civil rights laws.

Thankfully, catastrophic claims—those alleging serious harm and seeking millions in damages—are rare in the nonprofit sector, and most nonprofits will never face them. Large and complex nonprofits are far more likely than their smaller counterparts to confront a claim alleging negligence in the delivery of professional services, a violation of civil-rights laws, or a claim seeking six-figure damages.

Why Purchase Insurance?
No matter how well they plan for a bright future, all organizations must prepare for situations beyond their control. In these cases, an insurance policy may provide funds to defend a nonprofit and compensate an injured party. In addition, an contractual and statutory insurance requirements, nonprofits purchase insurance so that they have a source of funds to compensate those who have been harmed while participating in the nonprofit’s activities or programs, to protect board members and other volunteers from personal liability, and to meet requirements and expectations of funders and other stakeholders. I disagree with the cynic who says that purchasing insurance makes a nonprofit a target for litigation; an organization’s exposure to risk doesn’t increase just because it pays insurance premiums. But an organization’s investment in insurance does improve its ability to recover from a loss.

Getting the Most From Your Premium
As we’ve discussed, understanding potential harm to a nonprofit means weighing possible risks in the context of an organization’s mission and environment. Purchasing insurance is no different. In order to get insurance coverage that makes sense for your nonprofit, you need to weigh various considerations, including the size and complexity of your organization, its sector and needs, and the conditions of the market. For a more complete list of the most important purchasing factors, please see our Web site.

Insurance Buying Dos
- Find an agent or broker who specializes in nonprofits and whose guidance you trust. Few nonprofit boards would accept unprofessional or unprofessional service from an outside attorney or auditor, yet too many leaders accept poor service from insurance advisors. There are top-quality local, regional, and national firms. Don’t settle for less-than-professional service.
- Take the time to understand what you’re buying. Many nonprofits purchase insurance with little understanding of what they have bought. Many executive directors readily admit that they have limited understanding of key features of their organization’s coverage. Seek help from your agent, broker, or insurance consultant, and insist that answers to your coverage questions be submitted in writing.
- Ask your agent for a schedule of insurance. Your schedule of insurance should itemize your policies, limits of insurance, premiums, special policy exclusions, and policy features. The schedule should also list recommended coverage not in force.
- Ask about a better deal. Unless you inquire about your premiums, the cost of your insurance renewal is not likely to go down. Before submitting your renewal applications, ask your agent or broker about the average renewal premiums of organizations with operations similar to yours.

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You should also ask your agent about how you can obtain a reduction. In many cases, the best option is to shop around. If your current agent or broker claims that only one insurer will write your account, it’s time to find a new adviser—someone with better contacts in the industry. Also, keep in mind that you are looking for the best value, not the lowest premium. Changing carriers to save a few dollars may be an unwise move.

- **Stay up to date on market conditions**. ("Hart" versus "soft" insurance markets). Currently nonprofit insurance buyers are facing soft market conditions; that is, renewal prices are generally steady or decreasing and companies that specialize in nonprofits will compete to write your account. Contact your agent a couple months ahead of your renewal date to find out what your agent expects regarding renewal premiums and whether he plans to approach more than one market or company specializing in nonprofits.

**Insurance Buying Don'ts**

- Don't assume that your carrier is committed to the duration. Unfortunately, common causes of a walkaway carrier (i.e., a nonrenewal) include: filing a claim or reporting the possibility of a claim. In other instances, a carrier may lose interest in a segment of the nonprofit sector (such as foster care, for example) after facing a large claim. Even though your nonprofit wasn’t the agency filing the claim, you may suffer the consequences.

- Don't assume that your premium will go down over time just because you're claim-free. Price reductions are often reserved for those who ask or threaten to shop elsewhere.

- Don't do too trusting. Nonprofit leaders who are truly committed to protecting an organization's assets and reputation take time to understand their insurance coverage. Fulfilling your duty to the organization you serve requires no less. The statement "Don't worry, you're covered" is never true 100 percent of the time. Don't wait until you have filed a claim to learn this.

Reprints of this article may be ordered from nonproqr@quarterly.org, using code 19029.

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Corporate Philanthropy 2007: Finding the Compatible Intersection

by Andrew Crosby

Billions of dollars are donated each year through a combination of corporate foundations, and corporate offices, and those figures are on the increase (see "Trends in Corporate Philanthropy" on page 52), but is the price of entanglement potentially too high? Government regulators such as state attorneys general express concern about "cause-related marketing" relationships in which much higher paybacks accrue to corporations than to nonprofits, and recently the Senate Finance Committee issued a report criticizing pharmaceutical companies' grantmaking to medical schools. Outside of government, nonprofit watchdog have warned grantseekers about the explicit and implicit strings attached to corporate support and the potential damage such support can inflict on the reputations of nonprofits. Thus nonprofits are wise to approach these relationships as a mature partner with a realistic understanding of the exchange proposition. Corporate fixation on "strategic" philanthropy means that potential partner companies, from the local furniture store to the biggest corporation, will try to extract the greatest value they can from their grants. Nonprofits need to maximize benefits and protect against potential risks with the same vigor as their corporate partners.

To help you with your consideration of risk versus benefit, we have provided a partial checklist in the box on page 54, but first scene discussion from nonprofits that have benefited from corporate money.

What's It All About?
"We as nonprofits have to do our homework," says Tim Sheahan, president and CEO of the Boys & Girls Clubs of Metro Denver. For those that do, the rewards can from their grants. Nonprofits need to maximize benefits and protect against potential risks with the same vigor as their corporate partners.

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What's It All About?
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Trends in Corporate Philanthropy

Navigating the shoals of corporate philanthropy might require some good mapping of the shoreline and landscape. The following facts may serve as a cartographic survey of the world of corporate philanthropy today:

- In 2006, total foundation grantmaking topped $34 billion, with some $14 billion coming from corporate foundations. That's less than 30 percent of the nearly $143 billion in charitable giving from the corporate world. In 2005, in terms of foundation giving, corporate grantmaking increased 16.5 percent, in part because of Hurricane Katrina and tsunami-related grantmaking, the largest one-year proportional increase since 1997. In 2006, corporate philanthropy continued to climb another 6 percent.8

- An increasing chunk of corporate grantmaking comes from the pharmaceutical industry. In 2005 a dozen pharmaceutical foundations accounted for more than $3 billion in donations for medications for people in need. Four of those pharmaceutical foundations now rank in the top 10 largest grantmaking foundations in the United States.6 Some critics might suggest that the high prices of prescription drugs renders their manufacturers' charitable deductions for in-kind donations a dubious form of philanthropy.

- Overall, in all grantmaking terms, the largest corporate grant maker continues to be Wal-Mart Stores, Inc. In 2005, Wal-Mart became the first corporate to give away more than $200 million in cash in one year. Other big foundations ranking among the top 10 grant makers are Ford Motor Company, Wellis Fargo, and Citigroup. Among the largest corporate grant makers by industry, overall—regardless of whether they use corporate foundations as their vehicles—are Bank of America, Allstate, Washington, Exxon Mobil, Target, and Johnson & Johnson.9

- Corporate philanthropy is dominated by a relatively small number of large corporations. In 2002, 95 corporate foundations with net income of more than $51 billion accounted for 40 percent of corporate charitable donations, 10 corporations alone accounted for almost 20 percent. Corporations that are particularly open to philanthropic grantmaking are "consumer-sensitive" retail firms that see giving as increasing their market share and revenue growth, "corporations that advertise extensively, and highly regulated firms.10

- Not only do a relatively small proportion of corporations account for a large proportion of corporate grantmaking, corporate philanthropy doesn't necessarily reach all geographies evenly: One study of nearly 3,000 corporations in 30 cities indicates that 77 percent of corporate charitable giving stays within corporations' headquarter communities.11

- There is significant growth in corporate "cause-related marketing": that is, attaching a corporation's name and brand to non-profit activities through marketing, advertising, purchase-triggered giving, licensing of charitable logos, and sponsorships. Between 2002 and 2006, cause-related marketing sponsorships in the United States alone increased from $16 million to $1.34 billion.2 More than 80 percent of Americans say that they would switch corporate brands, with price being constant, to help support a "cause," and 75 percent say corporate commitment to causes is an important factor in deciding which products and services to purchase.3

They want to know what they're going to get out of it and whether it will come out of the marketing budget or philanthropy budget.5

A recent study conducted by the Center on Philanthropy at Indiana University and sponsored by the Target Corporation entitled "Corporate Philanthropy: The Age of Integration" concurs: "Overall, the companies consider support for nonprofit organizations a key business function, not a marginal activity."7 The report identifies several trends within corporate philanthropy, including the following:

- A representation of the essence of what the company stands for rather than an effort to boost revenue in direct ways.
- A way to strengthen the corporation's internal and external relationships, with different goals for internal and external relationships and, frequently, different management strategies applied to these relationships; a "triadology" among corporations, nonprofits, and the public (comprising consumers and community members), with all participating at nearly equal "volume";
- Negotiation with nonprofits as formal, multiyear partnerships with contracts and terms in place and with both partners participating in the responsibility;
- An approach that emphasizes building capacity or changing a field of knowledge or practice rather than supporting change in the lives of individuals.

These corporations want to maintain a positive image and want various constituencies within the public to view them as good corporate citizens.

According to the report, corporate philanthropy is one way to build legitimacy. Giving may be focused on strengthening close links such as employees, cus
tomers, suppliers, vendors, shareholders/owners and local community (sites), while other giving may be focused on strengthening more distant links such as the global community/inter-
Lock Before You Leap

Often the hardest part is beginning the conversation and getting the attention of a potential business supporter. How should nonprofits go about deciding whether to get involved in corporate partnerships and philanthropy? There are several questions to consider:

1. Does seeing and accepting corporate funds clearly fit your agenda and give you desirable flexibility in their use?
2. Do corporate funding and sponsorships come with a quid pro quo to support the business and its products? If so, consider this carefully, not only in the present but in the long term as well, because your nonprofit and the corporation will be exposed to the failures and successes of each other.
3. Does your organization have a process for conducting due diligence in researching potential corporate funders to ensure that it is appropriately informed about issues and is prepared to reject potential funding?

national public, regulatory policy makers, opinion makers in media, market, and the general public.

"We're finding that corporations are much more targeted, and have defined their interests a lot more in the past," says Lavallee. "And, they have also more narrowly defined their philanthropic interests as well. For example, in education or health care, they might seek programs more closely aligned with their mission and industry. They still participate in philanthropy, but they're looking for something much more connected to their business objectives." According to the Center on Philanthropy at Indiana University's report, corporations are focusing corporate giving programs into efforts that show the essence of what they stand for. For example, Procter & Gamble sponsors the motto "Live, Love, and Thrive," and Wachovia's is "Employee engagement, stronger communities, diversity," and IBM's is "Innovative use of technology to solve problems." So, explains Nishbach, "if a corporate donor wants to reach moms with kids, because that's who hires most of their stuff, and they say that that's their brand, and they're pretty clear about that. Not every organization can go in and get general operating support from that donor. It has to be about "How are you going to reach moms and kids?" And it can be across the arts, and it can be through other means, but at the end of the day, the organization must clearly demonstrate how they are going to help the company appeal to moms and kids, because that's who the company wants to impress."

Step Right Up

"Matching the organization's needs with the strategic goals of the donor... that's the core," says Lavallee. "We care carefully about the partnerships that we enter into as well as making sure that it's going to feel right to the people who are supporting us currently. This is where a competent development organization can add value, by researching your own donor or patron base and seeing if you have existing relationships with the donor organization, individuals who might provide a better understanding of the things that are important to the donor. Often these are right in front of us. Also, connecting with the local chamber of commerce, you'll find a number of businesses large enough to be very interested in some level of philanthropy, but maybe less than that huge, megacorporation that happens to have a headquarters in your area."

Timing is also important, notes Lavallee. "Understand the business cycle. There are times of the year when they spend this money, and if they don't spend it, they lose it. So you need that window of opportunity, you're probably out of it until the following year."

What's in a Relationship?
Nonprofit-corporate partnerships pose their own communication challenges. Differences in style and process, combined with the changing field of grantmaking toward more automated processes mean that nonprofits entering this area will have to adapt. Increasingly, larger companies are using online applications and screening as well as relying heavily on Web sites to communicate grants and partnership priorities. According to the Center on Philanthropy at Indiana University's report, many funders see these mechanisms as a way to be "more transparent in their decision making about corporate support for nonprofits." Yet for some organizations, the establishment of a relationship before an application is submitted is critical in developing a partnership. "We've had limited success with those kinds of online applications," says Lavallee. "What we've been most successful with is where we have some sort of personal relationship with the foundation or the organization." He adds that once a relationship is established, "it's important that the executive director not be the only point of contact. Bringing board members into the right time you can really impress the corporate donor and help put the request for funds over the top." Nishbach notes that it is also important to "have almost an account manager-type person that knows that if the partner has a question about what's going on, they have one main contact to begin with once the deal is cut."

Check for Rocks Before You Dive In

"Be sure your prospective partner is not involved in something that might be in conflict with your mission," says Lavallee. Then take it slowly, advises Shewan. "If you're a new organization diving into this lake, move slowly and understand the way it works so you don't go after a whole bunch of corpora-
Almost Crimes: The Boston Globe's Foundation Exposé Revisited

by Rick Cohen

The article updates four well-known stories of corporate misdeeds. They have all the usual hallmarks of such tales: bad blood between siblings, notorious self-dealing, and interlocking directorates, as well as embittered spending and personal gain disproportionate with the stakeholder value produced. The organizations in question inhabit a sector that is largely hidden from public scrutiny—charitable foundations. In these institutions, ethical misbehavior is particularly distasteful, which would likely lead the philanthropic organizations to act in consultation to work in the public interest in the public interest.

In 2003, the Boston Globe was one of the first U.S. newspapers to publish a series of investigative articles on philanthropy. The series brought to light the ethical lapses and self-interests at play in charitable giving. This led to a series of investigations, a court case, and a change in the way charitable giving is practiced today.

The article highlights how charitable foundations have been criticized for their role in shrouding the true intentions of wealthy donors and corporations. It also discusses the impact of these investigations on the philanthropic sector and the need for greater transparency and accountability.

The article concludes with a call to action for greater scrutiny of charitable foundations and a push for more transparency and accountability in the sector.
readers (and members of Congress) into overestimating problems among foundations. An alternative interpretation is just as plausible: the Globe series demonstrates the inadequacy of the existing regulatory framework, since so many of the examples were beyond the scope of government oversight and enforcement; and even for the few instances where foundations may have crossed the line into potential illegality, enforcement of the laws applicable to foundations is uneven at best.

This review highlights three kinds of foundation accountability stories that followed the Globe series where strong enforcement and prosecution led to real consequences, where a family whistle-blower exposed exorbitant trustee fees or other misuse of foundation funds, and where a group of people intermingled business and nonprofit entities, creating a web of corporations that invested in one another with philanthropic funds. The individuals involved received benefits from multiple corporations tangled in these webs. These stories have been few check and balances in the Globe cases, and in one instance the foundation boardroom comprised only a wife (acting as CIO) and a husband (acting as board chair).

These stories are not the only follow-ups that could have been pursued from the series. There are others that could have also been profiled with comparable tales of less-than-admirable behavior or accountability. The purpose of examining what happened to some of the cases highlighted by the Globe series is not to sensationalize, but rather to underscore that the public should be concerned about some continuing questionable practices, which should raise a red flag for enforcement agencies and legislators alike.

**Cabot: Yankee Gall**

The avatar of the Globe series has to be Paul C. Cabot, the Paul and Virginia Cabot Charitable Trust. In 2001, Paul Cabot paid for his daughter’s $200,000 wedding in Boca Raton with foundation funds. Hardly hurting for money as an investment banker, Cabot supplemented his wealth between 1998 and 2003 with more than $6 million in trustee fees. He must have liked his perks: hardly hurting for money as an investment banker, Cabot supplemented his wealth between 1998 and 2003 with more than $6 million in trustee fees.

**Cabot Update**

Between 1998 and 2002, the foundation’s average annual grantmaking was $900,000, more than $1,000,000 less than the lowest trustee fee Cabot received during this period. In 2003 the foundation topped its grant total to $60,000, but Cabot took only nine months of fees; he resigned from the board in October and handed the foundation over to his unpaid sisters. In a footnote to the foundation’s annual report, however, it was revealed that the foundation had only recently been formed, but Cabot had already received $9 million in fees.

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LOOMIS, MA ONLY 30 MINUTES FROM BOSTON, CONVENIENTLY OFF I-91
Cobalt Trust Grants and Executive Compensation, 1998–2005

<table>
<thead>
<tr>
<th>Year</th>
<th>Paul Cobalt's Trustee Compensation</th>
<th>The Trust's Annual Grants</th>
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</thead>
<tbody>
<tr>
<td>1998</td>
<td>$510,202</td>
<td>$383,000</td>
</tr>
<tr>
<td>1999</td>
<td>$800,263</td>
<td>$570,000</td>
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<tr>
<td>2000</td>
<td>$1,038,233</td>
<td>$327,000</td>
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<tr>
<td>2001</td>
<td>$1,418,278</td>
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</tr>
<tr>
<td>2004</td>
<td>n/a</td>
<td>$270,000</td>
</tr>
<tr>
<td>2005</td>
<td>n/a</td>
<td>$165,000</td>
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</tbody>
</table>

more than three times the amount of grants paid out. It is the kind of information that jumps off the page of a 900-page book. By Cobalt's making bail of the foundation's investments and taking the bulk of the institution's resources to maintain a lavish lifestyle, the foundation's assets plunged annually, visible even in a cursory 900-page review by the IRS.

But it took the Boston Globe, and then the Massachusetts attorney general, to dig into the Cobalt Charitable Trust and force change.

Not only did Cobalt leave his own foundation before the end of 2003; in 2004 the attorney general got Cobalt to agree to repay the foundation $4 million. To make the required restitution, Cobalt

nonprofits in New York, this Massachusetts enforcement action (along with actions against the Copeland Family Foundation and others profiled in the Globe series) may well be the nation's most aggressive and comprehensive state government effort to clean up foundation abuses, largely due to the Globe's articles. But the attorney general's call for more powerful legal tools to deal with the nation's foundations died in legislation and never got a vote in the Massachusetts legislature.

The Charles Foundation: Proclaiming "the Glory of God"

Although by its own admission the Charles Foundation was established to proclaim "the Glory of God" through grantmaking to nonprofits around the world, the Globe found that the CFO of the foundation, William J. Charles (grandson of the founding Charles), was making not only a part-time $170,000 salary at the foundation and an even higher amount to the family's real estate development firm (Sun Bay Homes, Inc.). This was recorded not only on the foundation's 1998 but in litigation filed against Charles and the foundation by his sister, alleging that he had improperly taken compensation not revealed to other foundation trustees and also invested Foundation funds in Sun Bay Homes.

The sister appealed to the Florida Supreme Court, alleging as a "whistle-blower" who had in part lost her position on the Charles board precisely because she complained about her brother's allegedly improper financial compensation and investments with foundation funds. She revealed that her brother had taken $185,000 annually in additional secret compensation from the foundation and undisclosed six-figure payments. Further, undisclosed "discretionary" cash payments were made to two of the Charles sisters.

According to her petition, the foundation reacted to the suit as follows:

Mr. D'Amato was then wrongfully terminated. The Foundation withheld explanation of the change in his salary in October 2001, and later cut off her medical insurance as well as that of her blind husband and children. It threatened her with the police if she persisted in her association for extortion and attempted to intimidate her with судебные прения. The foundation has done everything possible to try to keep her from bringing this suit, and has spent over a million dollars in legal fees on behalf of their clients. As the trial court noted, the Respondents are doing all they can, using Foundation funds, to silence the whistle-blower.

The Florida case did not address Charles's alleged misuse of funds or the effect on the public mission of the foundation. Rather, D'Amato was limiting the court to require the Foundation to provide indemnification to her as a foundation trustee, as it had done for her brother.

Charles Update

So did the court battle cause the Charles Foundation to reform its practices? In the Charles Foundation's 2001 annual report, it was still churning up $822,000 in legal and accounting fees connected with the case.

The foundation continues to carry a heavy administrative load, spending $17.6 million in administrative and operating expenses to make $4 million in grants. William Charles's full-time foundation salary and benefits have increased to $414,000, apart from what he may also have pulled down at the development company. A trustee board member got $185,000 for her part-time service, and others got smaller amounts. Finally, as of 2006, the foundation still held a large amount of nonmarketable stock in the real estate development firm owned by the brother.
of this board member: 15.8 percent of the foundation’s total $60 million investment in securities.

What happened to the suit? The foundation’s 90th for the year 2005 classifies $835,000 expenditure as “other professional fees”; this amount equals the litigation settlement and presumably is the reason why the D’Anna suit disappeared from the court dockets after the Florida Supreme Court remand and why the entire payment was counted toward the foundation’s charitable giving qualifications.

A Web of Self-Dealing: Franklin Holding Company

The Globe also reported extensively on the Franklin Holding Company, a foundation that owned a small San Francisco hospital. It paid its CEO, between $400,000 and $400,000 annually—not illegal conduct, though perhaps questionable. The foundation, however, sold the hospital to a health care company for $20 million in 1998, and Gregory Monardo, its CEO, walked off with $9.5 million payday. The remainder was deposited in the foundation for public benefit grants. This occurred some years before the California attorney general began, like most of his peers, to examine the phenomenon of health care conversions, where some nonprofit managers were acting like for-profit corporate raiders. Note of the Franklin Holding Company board members contacted by the Globe remembered having authorized the payment. Monsordo also benefited from a personal loan from the foundation for $130,000—a clear violation of IRS rules—but appears not to have been sanctioned.

Franklin Update

In 2003, Franklin Holding spent over $4 million on administrative and operating costs and handed out $67,000 in grants. Then suddenly, Franklin Holding disbanded, with its remaining $22 million corpus absorbed into an entity called the Metta Fund, boosting the Metta Fund’s balance up to $65 million.

Why the Metta Fund? On the Metta Fund’s 90th in 2004, the officers are listed as J. Edward Tippett, the chair (working two weeks a year for $11,000 a year); Dr. Obie McIvor (working two hours a week); James Ueda (working two hours a week for $19,500); Lula Isbell (working 1.5 hours a week for $11,500 a year); and Gregory Monardo, receiving a lower compensation rate than his board peers, working four business weeks for $15,000. Based on a $35-hour week, that’s a salary of more than $471,000 for Monardo.

For the year 2004, in the 90th filed for Franklin Holding the officers and trustees were listed as usual: working two hours a week for $34,500; Tippett (working six hours a week for $43,500); Ueda (working six hours a week for $64,000); Dr. McIvor (working three hours a week for $20,000); H. Maria Smelser (working three hours a week for $20,000 a year); and, of course, Monardo (working six hours a week for annual compensation of $13,000). Monardo’s Franklin compensation that year was the equivalent of a $254,000 annual salary on a 35-hour workweek.

And they’re all on the board of Franklin Benefit, though not receiving compensation there (except for McIvor who receives a tiny consulting fee of some sort). Although quoted by the Globe as having been unimpressed about the 1998 payroll to Monardo, despite her role as an anesthesiologist who represented the doctors on the Franklin board, Dr. McIvor continues to be one of the participating compensated beneficiaries in the network of the Metta Fund health charities.

Franklin Holding, Franklin Benefit, the Metta Fund, these are entities controlled largely by the same people whose lavish compensation per hour adds up to a hefty administrative load for foundations that distribute—or distribute—relatively minimal levels of grants and don’t seem to do much else. Add on Franklin’s annual payments of $330,000 in 2003 and $230,000 in 2004 to the Metta Fund for administrative services, in addition to expensive retentions of lawyers and accountants, and another interesting interrelationship emerges. The Millennium Group doesn’t show up on a Google search, but it is listed in California’s secretary of state’s business registry as a limited liability corporation (LLC) with Gregory Monardo named as Millennium’s “agent.”

A Web of Self-Dealing: The Berger and Auren Foundations of California

A rare local newspaper follow-up on one story in the 2004 series ran in the Donner Sun which briefly mentioned the
The Globe actually noted that Aanen, the former son-in-law of Berger, had received a salary of nearly $460,000 as executive director and $54,000 as a Berger trustee in addition to his real estate profit-sharing joint. Aanen also runs his own foundations, the second largest in California’s so-called Inland Empire area of wealthy communities that include Palm Desert, Palm Springs, and Rancho Cucamonga, Riverside and San Bernardino counties. According to the Globe, in 2001, Aanen didn’t receive compensation from his personal foundation because he was paid by Berger. His defense of his generous compensation package at Berger “We have to take a salary,” he told the Globe.

H.N. and Frances C. Berger Foundation of Palm Desert, California. The Foundation recorded the details of the Globe’s take on the Berger Foundation, which had $21.6 million in administrated and operating expenses, compared with only $2.8 million in charitable distributions. It noted that these were a special allocation of extra compensation to the president of the foundation, Ronald Aanen, to the tune of $1.1 million and nearly $22.8 million was awarded to the foundation’s other trustee due to an “extraordinary real estate gain” in 2001. While the article quotes a couple of national experts who suggest that the board payments were “outrageous,” it also quotes a local expert who affirmed that Aanen’s and his colleagues’ conduct was on the up and up and that they would never do anything that hadn’t been scrutinized and approved by attorneys and accountants.

A Berger/Aanen Update
What do the Berger and Aanen foundations look like in today’s world? Aanen remains well compensated by the Berger Foundation, his salary has increased to $600,000 for his full-time work (the foundation’s 50-50 $FF-PF says he works 50-50 16-hour week). He still receives no compensation at his own foundation, but his wife, Sherry, took in $117,000 there as director of programs. The board meetings must be difficult (or they may be very difficult). Aanen is listed as the only board member and trustee of his foundation. This gives a who’s-who list to the discussion on board chairs-CEO relationships. The assistant director of programs listed as one of the two staff people paid more than $50,000 on the $800 in the Berger Foundation’s Web site, the recipient of grant applications, but her e-mail address is listed at the Berger Foundation. With Aanen at the helm of both, the Berger and Aanen foundations operate quite closely. Berger’s grant focus on perhaps the trustees work hard for their 36 hours a year, but it is worth $750 an hour? Is that the message that the nation’s nearly 1 million public charities need to hear?

Support for youth programs and colleges, and Aanen’s emphasis services for the elderly. The Berger/Aanen scoreboard reveals some hefty compensation packages for these Inland Empire philanthropists, though nothing as large as their 2001 profit sharing arrangement:

Using 40-hour full-time workweeks as the basis for calculation, counting every weekday of the year as a weekday, and assuming everyone works holidays, the hourly salaries of Berger foundation officers and trustees are comfortable. Most board members get paid as much as $760 an hour for showing up to do a job that their counterparts at hardworking, grassroot nonprofits do for nothing other than their commitment to their organizations and communities. Presumably, most of these players have other jobs or other sources of wealth and income. Perhaps the trustees work hard for their 36 hours a year, but is it worth $750 an hour? Is that the message that the nation’s nearly 1 million public charities—most of which are struggling to pay sizable salaries to entry-level employees—need to hear from well-heeled foundations based in the wealthiest communities of the nation?

In these foundations’ communities, people seem to turn a blind eye to the
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www.NewHanoverHealthNetwork.com

Aurel/Berger succeeds, because the Berger Foundation plays a huge role in filling a philanthropic need. The foundation has been key in the construction of the Bremwood Title Holding Company that's now worth a fair market value of $1.1 billion, the registered agent for Bremwood with the California secretary of state's office was none other than Berger trustee Lewis Webb.

The other nonqualified corporate stock constituted a purchase of $1.2 million of the stock of Fairchild Homes Title Holding Company, with a fair market value of only $0.1 million. The registered agent for Fairchild was also Berger trustee Lewis Webb. While the Webbs-related stocks performed somewhat poorly, the numbers suggest a significant financial interrelationship between the foundation and corporate entities associated with one of the foundation's board members, a fact that is not at all apparent from the 990. Nothing should be taken to suggest that it is an illegal relationship, but these holdings don't look much more attractive than the foundation's general compensation of its officers and trustees.

Conclusion

As these stories reveal, much of what the public thinks might be irresponsible and predatory behavior by some foundations' leaders may be legal. Scandalous behavior that strikes readers as beyond the pale of decency in the stock market or the exempt resources does not necessarily mean crossing the line of existing laws and regulations. The Boston Globe series and this update make clear the need to overhaul public policy so that some of the truly appalling practices in the series are deemed not only morally objectionable and unacceptable but also illegal. Without the support of other philanthropic community, some believe that foundation money is not in the public domain. To the contrary, it is, of course, but it is held in trust by groups who are bound to use it in the best interests of the public and those of an organization's mission. When this trust is abused, consequences should be swift and sure. In the absence of tougher regulatory standards, however, several factors stand in the way.

First, enforcement varies greatly from one state to another (as you can infer from the cases cited above) and from one attorney general to the next. Some of the charity units within those offices are ill funded and do not have staff dedicated to pursuing charity abuses. In the cases explored by the Globe, evidence of government intervention was generally scarce. The Massachusetts attorney general had long taken an activist posture toward oversight and enforcement. Consequently, it was no surprise that the attorney general and the state's chief charity officer at the time quickly looked into the profiled philanthropic miscreants, got a couple to restore some of their ill-deserved booty, and flooded legislation to put some teeth into standards for foundations doing business in the Bay State. But other state attorneys general haven't matched the level of their Massachusetts counterparts. Despite some

It was even rumored that one state attorney general's office that had wanted to pursue a case—but lacked the funds to do so—considered seeking foundation funding.

Impacting Social Policy: Understanding Advocacy

Although diplomats, public policy and foundations have a history of cooperation in the outcomes an organization can produce, some nonprofit managers and board members are unclear on how much advocacy they can do, what their particular advocacy agenda should be, or how to organize themselves for it.

Strange Accounts: Understanding Nonprofit Finance

"Strange Accounts" explains the peculiarities of nonprofit finance and provides best-practice approaches, so that the reader may become an effective strategist or manager or board member—as they should.

Board and Core Perspectives on Nonprofit Governance

Governance is one of the most important topics a nonprofit can explore because existing governance systems seldom are built to fit each organization and situation as well as they could. Indeed, we often 'borrow' governance structures, bylaws and all, from other organizations.

Heroes, Liars, Funders, and Curmudgeons

How Personal Behavior Affects Organizations

Do we expose all of us all at an individual level to emotionally sensitive and neutral words? Why do we get outraged or inflamed when our partners become driven by something that doesn't make perfect sense? And why are we often blind to the more destructive effects of our own guilt?

Available in Portable Document Format for immediate download from store.nonprofitquarterly.org.
revise the 990. The Urban Institute has long hosted a Web site (Quality 990), dedicated to making the current form more navigable. Simple accuracy and completeness would be welcome improvements in the act of the 990, since many

It is good but insufficient for foundations to promulgate standards by which they can govern themselves.

of these documents are submitted replete with errors such as missing attachments, schedules, and signatures. Nonprofits also criticize the form for its limitations as a financial report rather than a true reflection of the extent to which an organization is carrying out its mission. The 2006 recommendations of the IRS's Advisory Committee on Tax-Exempt and Government Enterprises attempt to address this concern; they call for the 990 to be redesigned in its entirety and implemented as quickly as possible.65 Yet the IRS's draft redesign of the 990, released this June for comments, does not fully address these concerns. The IRS's plan, for instance, does not include the systematic collection of information about the nonprofit sector's financial performance, which is essential for understanding the sector's overall performance.

The efforts to revise the 990 and 900-PP as sold social welfare tools for nonprofits and foundations should be speeded up and implemented.  

Third, the press isn't sufficiently focused on this area and may not believe that it has the background to interpret what it sees. In all but a handful of instances, the Globe articles received no follow-up in the hometown newspapers of these foundations.

But the Globe should be proud of its dogged pursuit of these foundation misdeeds and for the action the coverage generated, at least on the part of the Massachusetts attorney general. Following the Globe series, some of the foundations' 900-PP filings grew far more detailed, perhaps spurred to change because of fears about reporters picking up on their operations, even if some questionable behavior continued. In a few cases, the excessive salaries and excessive fees diminished. State regulators can be criticized for falling to act because of resource constraints or the lack of the necessary legal tools and regulations. But for its part, the Globe series lived up to the watchdog role of the press, shining a light on some foundations' accountability shortcomings.

It is good but insufficient for foundations to promulgate standards by which they can govern themselves. In the cases highlighted by the Globe, there was little evidence that the foundation sector's trade associations took action against charitable misdeeds. It will take more than liar's fines to be self-correcting DNA of the nonprofit sector to clean up these kinds of abuses.

As the sun and its aftermaths show, government regulators have to get up speed, the nonprofit sector's self-regulating advocates have to swing into action, those on the inside of troubled institutions have to blow the whistle, and the press has a crucial role to play in keeping accountability in place.

The effort to speed up and implement these standards is sorely needed. But the Globe should be proud of its efforts to uncover the truth about these foundations.
The New Goals at the Pew Charitable Trusts and the Fate of the Nonprofit Sector
by Marie C. Malaro

The Pew Charitable Trusts have become a major player in the philanthropic world, and their influence is felt across a wide range of sectors. In recent years, they have expanded their reach and influence by targeting specific areas of concern, such as environmental protection and education. This has led to some criticism from those who believe that nonprofit organizations should remain independent and not become too closely aligned with corporate interests.

Nonprofit Sector Declares:
Inevitable, Privileges Touched.

I see this headline appearing in the not-too-distant future. I hope I am wrong, but experience leads me to believe otherwise.

The case of my concern is the apparent lack of understanding on the part of many nonprofit leaders of some very basic information—specifically, a clear understanding of why we have a nonprofit sector in this country. I say this because there are many in the sector who consistently engage in actions that undermine the very justifications we have for supporting the nonprofit sector within our society, and I can only assume that they are doing this through ignorance. I am a frequent editor of news reports that demonstrate this major gap in the understanding of many operating within the nonprofit sector. This blind spot is seriously impacting the quality of governance within the sector.

Let me start my explanation with an example. An article in the February 28, 2007, issue of the Wall Street Journal featured an interview with Ronald W. Mallett, the well-known president and CEO of the Pew Charitable Trusts. Mallett explained his vision for the trust's commitment to providing information from art organizations that fund the arts and to the promotion of a broad-based data collection program designed to gather information from art organizations that can be used to fund centralized programming and policy.

What should these concerns be raised for? The Pew Charitable Trusts should realize that their mission is to support the arts, and they should be concerned about the future of the nonprofit sector. In her interview with the trust, Mallett stated that one of her major goals was to make Philadelphia—her adopted city—a major arts center that rivals New York City in its ability to attract the museum-going public. Toward this end, she took credit for using the trust's resources to help ensure that a small group of museums and cultural organizations dedicated to art and culture are able to operate with a minimum of government funding and support.

The Origins of the Nonprofit Sector
Our country is unique in that it fosters a large, nonprofit sector. Most countries do not only have a government sector and a for-profit sector and thus their citizens must look to either the government or to a commercial entity for their goods and services. In our country, however, there is another option available to all: goods and services provided by nonprofit organizations.

We can trace the development of the nonprofit sector back to the early settlers to this country. Most of these settlers were fleeing governments that they found too controlling, and they wanted to be sure that in this new land they would have certain freedoms for themselves. They acted on this desire by making a practice to join together voluntarily to provide certain community needs rather than wait for a governmental entity to step in and fill the void. Soon, all kinds of volunteer organizations sprang up: fire departments, counting associations, schools, libraries, and other organizations. Before long, our country was marked by a commitment to volunteer organizations. And as the country developed, laws and customs accommodated this newness of our society that we now call our nonprofit sector. It is important to note here that the "accommodations" provided to nonprofits (such as exemption from certain taxes, tax-providing laws that exempt philanthropy, the ability of nonprofits to utilize volunteers, etc.) were designed to enable these organizations to function as to provide the benefits society expects of them.

What Benefits Must Nonprofits Provide?
The nonprofit sector generates many benefits that can be measured in dollars and cents, which include the fact that nonprofits do not pay taxes. However, the benefits cannot be measured in money. The nonprofit sector offers a comfortable environment for those who choose to give a voice to social causes, and it is able to focus on carrying out its work with public approval. It is far easier for a nonprofit to concentrate on quality of service or product. In this way the nonprofit sector can expand in important ways the quality of services and products available to the public in areas where users are particularly vulnerable.

Promotes Citizen Participation. A third benefit of the nonprofit sector is that it promotes citizen participation. As a result of the nonprofit sector's efforts, it is said that we have a very vibrant democracy in our country. This is shown by the fact that we have many nonprofit organizations working on social issues and that citizens are free to participate in public causes that are of concern to them. In other words, it perpetuates our early settlers' dream of a country that operates effectively by majority rule yet offers the individual a measure of individual freedom.

Rimel's Goals Versus Nonprofit Goals
Now let us look at the goals articulated by Rimel for the Pew Charitable Trusts. Are these goals in accord with societal expectations of nonprofits? With the blessing of her board, Rimel wants to make Philadelphia a more vibrant art scene and has already given examples of how she expects to accomplish this goal. In these examples, art museums are used to interfere in the management of other nonprofit organizations in order to divert their assets to her Mecca goal. Certainly this type of activity does not further the diversity benefit expected of the nonprofit sector. There is no reason why nonprofits cannot operate in a way that benefits both the business sector and the nonprofit sector, and this is the way in which the nonprofit sector should operate. It is not fair or reasonable for any nonprofit organization to be given a special advantage over any other nonprofit organization.

Softens the Hardness of Capitalism. Another benefit provided by the nonprofit sector is that it offers the public a comfortable environment for those who choose to give a voice to social causes, and it is able to focus on carrying out its work with public approval. It is far easier for a nonprofit to concentrate on quality of service or product. In this way the nonprofit sector can expand in important ways the quality of services and products available to the public in areas where users are particularly vulnerable.

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Group subscriptions offer our very American desire to allow the individual some freedom in shaping one's community.

Why the Concern?

Perhaps the most worrisome problem in all of this is that many share Rinca's lack of understanding of why we have a nonprofit sector. Consider these examples:

- We have board and staff members of many nonprofit organizations tripping over each other in their rush to understand their board and compete in attracting paying customers. When questioned about scrapping to make berthplace pressures, these nonprofit leaders claim emphatically that their business counterparts are not in any way affecting their organizations' dedication to their mission.
- What, then, might those individuals say if government decided to revoke many of their nonprofit privileges, which are granted on the assumption that a need to engage in commercial activities inhibits the ability of a nonprofit to focus on mission? Nonprofits cannot have it both ways.

- We have more and more for-profit organizations treating nonprofits as business partners (the so-called corporate spokesperson arrangement) rather than as mere vehicles, no strings, corporate philanthropy. This trend from corporate philanthropy to corporate sponsorship could not have happened if nonprofit leaders understood how important "corporate philanthropy" is to the nonprofit sector to retain its integrity.
- And then there is the problem of the media remaining strangely silent about what is actually happening to the nonprofit sector.

This growing tendency to blur, or ignore, the role of the nonprofit sector does not bode well for our society. Of necessity, our government and business sectors are here to stay regardless of how much they are abused, but not our nonprofit sector. That third sector is fragile. It was designed to be guided by those who were willing to put public services before power and personal wealth and who appreciated why the sector has many privileges. Without informed leadership, our nonprofit sector could become irrelevant by failing to accept its role and by not merely mimicking what government and for-profit companies offer. In effect, it could throw its very reasons for being.

What Can Be Done?

We need to improve the education of those who assume major positions in our nonprofit sector. We need to include instruction to the school systems on how our nonprofit sector carries about and the role that it is supposed to play in society. We need members of the media who are well qualified to recognize these issues affecting nonprofit organizations. Those who really care about the future of our nonprofit sector should push for these changes now. Without better-informed publics we could wake up one more step behind the headline that this piece. Just think how different our lives would be.

Endnotes


Marcia C. Malaro is an attorney, educator, and author. She is a professor emerita at the George Washington University in Washington, D.C., and the former director of the university's graduate program in museum studies. Prior to working in these roles, Malaro served for 15 years as an associate director of the National Museum of American History Institution. Her areas of focus include the role of the nonprofit sector in the United States, museum collection management, museum governance, and the international movement of cultural property.

Reprints of this article may be ordered from stores/nonprofitquarterly.org, using code 108211.

ARNOVA Abstracts


Shaw, Ann (2006) Grassroots lobbying for change: Building your community. Grassroots Fundraising Journal 26 (4). "This article explains how to find, train, and motivate volunteers to carry out advocacy efforts and dismantle the bottling limitations on 10(3) organizations."

ARTS Adler, Norman (1994) The cultural renaissance that has been all around us, but for some reason, has been missed. [From ARNOVA website]

James resides in New York (2006) Critical issues facing the arts. 35 (3). "This paper argues that the history of the arts in society has often been an accurate reflection of its social and political history in the United States. It identifies the major themes emerging from the literature and discusses the implications for the future of the arts."

CIVIL SOCIETY Amerson, Chris (2005) Global civil society and the question of internationalization. 130 (3). "The authors argue that "global civil society" is well-equipped to stand in as the political dimension."

"Reducing poverty, civil society on global governance. Ruling out development politics, strategy, and terrain. 200 (3). "The authors conclude that "the World Social forum provides hints of a potentially uniting approach within the global justice movements based on the practical experience of "decolonization," "liberation," and "decolonization.""

"The article argues that "civil society involves itself in a collective democratic voluntary organization in contrast to bureaucratic and bureaucratic organizations that are types of organizations."


The authors identify strategies that "nonprofit executives and staff are engaged to manage
editors' note: The nonprofit quarterly is working with a network social justice entrepreneur for the following project. This person will receive the domain name VultureList.org and assistance with startup expenses will be held in confidence.

toc: An angel investor
F O R S: Jen Fost
R E: VultureList.org, a charity exploitation prevention project

SUMMARY: Seeking $500,000 to $750,000 for startup and five-year operating costs for operations of an interactive Web service, www.vulturelist.org, to reduce economic predation by tracking anti-social individuals—that is, "vulture donors"—who have increased personal net worth by $10 million or more by decreasing the net assets of 10,000 or more low-income persons.

VultureList.org will serve as a definitive future for exploitive economic practices by vulture donors by making their actions a matter of public record and thereby preventing charitable organizations from unwittingly being used as public fools to clean or reduce the reputations of these donors.

problem statement: Predatory businesses that exploit vulnerable low-wage workers for unnecessarily high-cost credit, mortgage, and other services contribute significantly to global poverty. A key element that perpetuates these business practices is that, at any time, the perpetrators can cleanse their records with a nonprofit "bail" by donating funds to a willing charity. VultureList.org seeks to end that practice.

The VultureList.org shares its name from "vulture funds," which the International Monetary Fund defines as companies that buy up poor nations' debt cheaply when it is about to be written off and then use for the full value of the debt plus interest, which can be 10 times the amount a company paid for the debt. While technically legal, these businesses use reprehensible business practices that take advantage of uncompromising and vulnerable communities, leaving punitive and disadvantageous terms to which more sophisticated consumers would never agree.

The following are some prospects for nominating to the list:

Michael Sherbrook, former of Debt Advisory International, said the nation of Zambia got $40 million from an American bank for forgiving old debt to Romania, which was swapped up for $3.5 million. "Profit-seeking doesn't get any more cynical than this." Caroline Power of the Jubilee Debt Campaign told the BBC's Radio 4: "Zambia has been planning to spend the money released from debt cancellation on mass-produced nurses, teachers, and infrastructure that is what debt cancellation is intended for—so to line the pockets of businesses based on rich foundations.

Paul Singer used the nation of Peru for $85 million for a debt he bought for $11 million. Now his company, Elliott Associates, is using Congo-Brazzaville for $400 million for a debt bought for $3 million."

A non-profit can donate to a willing charity. VultureList.org seeks to end that practice.

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The effort to systematically assemble data on community members has its roots in the early history of American philanthropy, when organizations recognized that—in order to direct resources where they were most needed—they sometimes also needed to track donor worthiness. In 1870 the New York Society for the Prevention of Pauperism created a list to reduce indiscriminate giving to the poor, which business leaders believed only encouraged idleness and vice. In 1876, General Secretary James Jackson reported that the list had more than 7,700 names listed. "We fed unworthy and respectable individuals alike."

Regrettably, some organizations accept contributions from virtually any source, necessitating the exposure of their ties to vulture donors. In saying, Jackson wrote, "there are few cities in the country where the individual condition of the unfortunate, the shiftless or the redundant is so well known as in St. Paul."

Implementation
VultureList.org involves a rigorous process of nomination and fact-checking, reviewed by a nominations committee devoted to fairness and accuracy. Members of the public can submit nominations that the list's criteria for inclusion, which must be substantiated by publically available information from verifiable public records or reliable media reports.

VultureList.org will maintain an online searchable database and a mapping system to identify and publicly aggregate charitable contributions, board membership and charitable activities of vulture donors, which will help prevent charitable organizations and their volunteers from becoming entangled with vulture donors. VultureList.org creates a real-time feedback loop so that nonprofit leaders have advanced knowledge before their risk legitimizing these poor business practices.

VultureList.org will encourage donors to be twice as prudent before donating to any organization identified as a vulture organization, or volunteer labor from "vultures" until the vulture donor makes restitution to its victims. Using the principle of eliminating criminal profit from their crimes, VultureList.org seeks to prevent charitable halo effects from its targets.

Consider this example. Bob Cole and Ed Gotshall, founders of New Century Financial, the now-bankrupt and second-largest U.S. pioneer of the subprime mortgage market, left 7,000 employees jobless and facilitated the movement of hundreds of thousands of low-income homeowners into foreclosures they couldn't afford and sometimes lost to foreclosure. Cole and Gotshall left the firm and sold most of their stock six weeks before its collapse.

When the Orange County Register asked Cole and Gotshall, "What are you doing these days?" they responded that they are "very involved in philanthropy" and are currently giving back to the community, "publicly promoting their contributions to the Christopher Reeves Paralysis Foundation, the Children's Hospital of Orange County, the Orange County Council of the Boy Scouts of America, the outdoor Education Center in Irvine South Coast Reporitory, and Nana Margaret Cancer Care Center." 5

VultureList.org will not permanently list individuals such as Cole and Gotshall. But when those who gain great wealth leave destruction and misery in their wake, it is inappropriate for them to become Charitable Philanthropists. In the spirit of the eighth step in Alcoholics Anonymous' 12-Step Program, (i.e., "Make a list of all persons..."

The Take-Away
by the editors

Within an organization, it is a common practice for board members to rely on executive directors, board chairs, and other leaders to make decisions on behalf of the organization. This practice is often justified as a way to ensure that decisions are made efficiently and effectively. However, this approach can have negative consequences for the organization and its stakeholders.

Boards in Small Nonprofits: What About Friendship and Solidarity?
by Christine Bertrand and Johanne Turbule

Which characteristics make a good leader and which make a terrible one? The answer to this question is not always clear. However, recent research suggests that the role of the board chair is critical in determining the success of a nonprofit organization. A strong board chair can provide the leadership and direction necessary to ensure the organization's success. On the other hand, a weak board chair can hinder the organization's progress.

More Than Mudfleas: The Board's Role in Sustainability
by Richard Reavis, executive director of the National Center for Nonprofit Enterprise

Richard Reavis, executive director of the National Center for Nonprofit Enterprise, discusses the role of boards in promoting sustainability. He argues that boards have a critical role to play in ensuring that nonprofits are sustainable in the long term. Reavis notes that sustainability is a complex issue that requires a multi-faceted approach. He suggests that boards should work to establish partnerships with other organizations, develop new revenue streams, and create a culture of innovation within the organization.

Corporate Philanthropy 2007: Finding the Compatible Intersection
by Andrew Croaky

Andrew Croaky argues that corporate philanthropy and nonprofit organizations have a complementary role to play in society. He suggests that by working together, these organizations can leverage their resources and expertise to address complex social issues. Croaky notes that there is a need to find the right balance between the interests of corporations and nonprofits to ensure that the intersection is mutually beneficial.

The Best and Worst of Board Chairs
by Yvonne Harrison and Vic Murray

The role of the board chair is critical to the success of an organization. However, the nature of this role can vary widely. Some chairs are focused exclusively on their own interests, while others prioritize the needs of the organization. The best board chairs are those who are able to balance these interests and ensure that the organization is on track to achieve its goals.

Loyalty Opposition
by Patricia Blake

The true value of governance lies not in its form, but in its function. Governors must be able to challenge the decisions of their elected leaders, ensuring that the organization is delivered on the right track. The challenge is to balance the need for governance with the need for leadership. Governors must be able to provide constructive criticism, while also supporting the elected leaders when necessary.

The New Goals at the Pew Charitable Trusts and the Fate of the Nonprofit Sector
by Marie C. Malan

The Pew Charitable Trusts recently announced a new strategy for the future of the nonprofit sector. This strategy is designed to address some of the challenges facing the sector, such as declining funding and increased competition. The Trusts' new goals focus on increasing the impact of nonprofits, improving their effectiveness, and ensuring that they are able to adapt to changing circumstances.

What would governance look like if instead of focusing on prescribed roles of management, stakeholders distributed different decision-making functions throughout the system so that decision making was more inclusive and occurred not only at board level, but also among constituents and staff? This shared decision-making model has community impact at its center and strongly advocates for ensuring that the role of governance in the organization is made explicit and not left to the interpretation of those involved.

Nonprofit Risk Management: Insurance and Beyond
by Melanie L. Herman

Some business risks are impossible to avoid and even with insurance the consequences on an organization's reputation and its role in the community can be severe. With this in mind, Herman provides readers with an approach to thinking about risk management and then buying insurance as critical consumers.

What's Wrong with Foundations Taking Over the Nonprofit Sector?
by Jon Pratt

What's wrong with foundations taking over the nonprofit sector? According to the author, when foundations get carried away and lose sight of the value of diversity by trying to streamline and rationalize the sector, the result is a disservice to the creativity and unique nature of nonprofits. Recent actions of the Pew Charitable Trusts indicate a disturbing trend that could damage this unique role.