The Nonprofit Quarterly Winter 2007 Nonprofit Behaviors and Misbehaviors Volume 14, Issue 4

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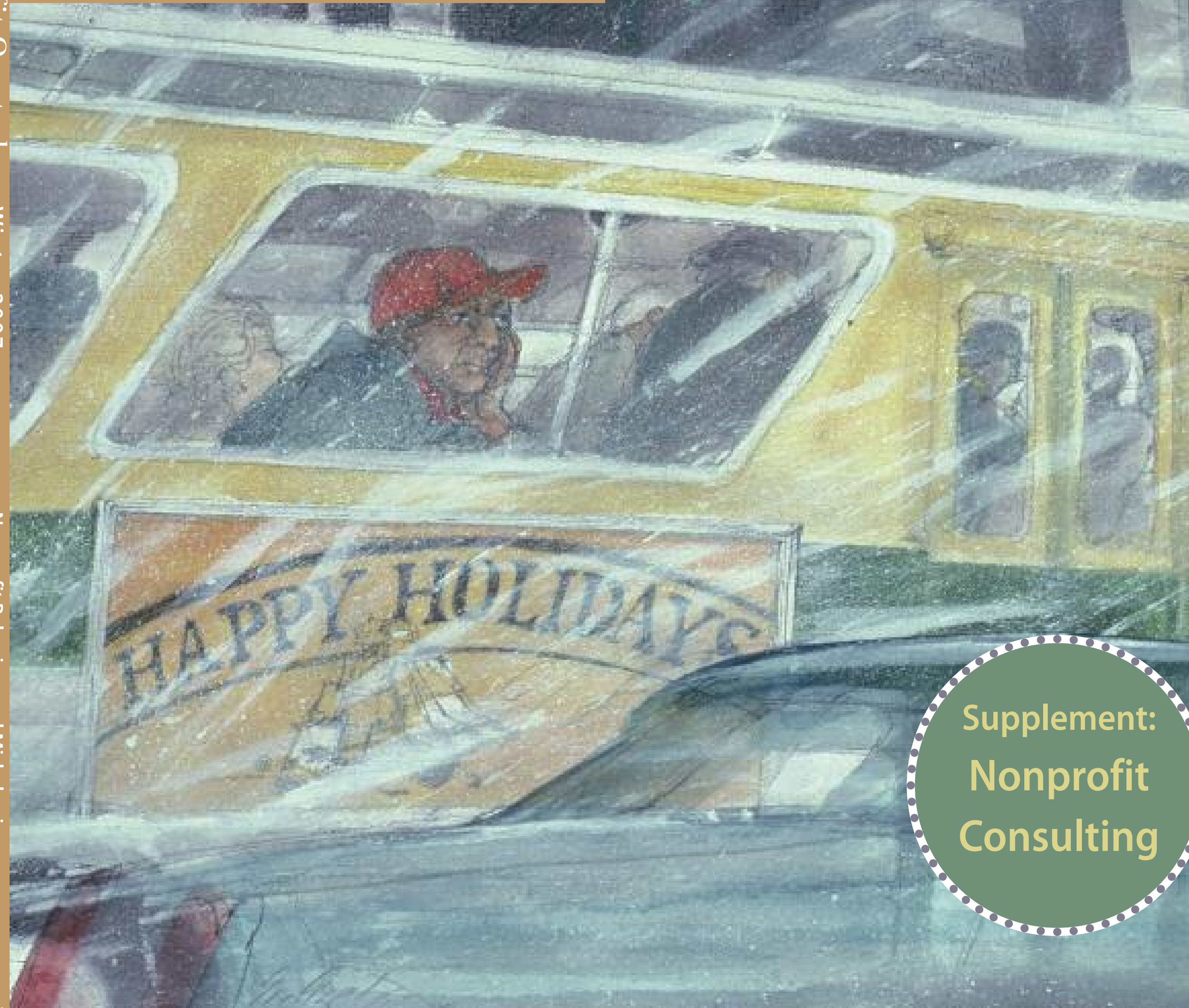
THE Nonprofit QUARTERLY



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Nonprofit Behaviors and Misbehaviors

EXTRA! Nonprofit leaders outperform for-profit counterparts

With guest commentary by Jim Collins

Nonprofit Fraud: Who commits it and how

Cohen: What is United Way doing now?

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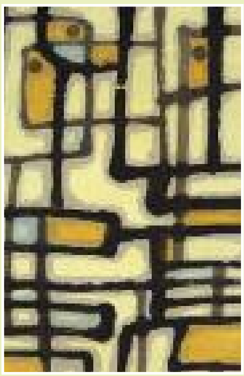

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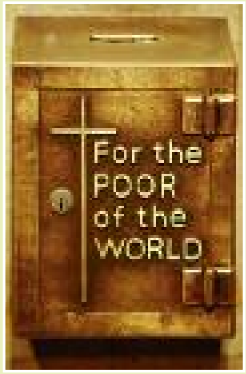

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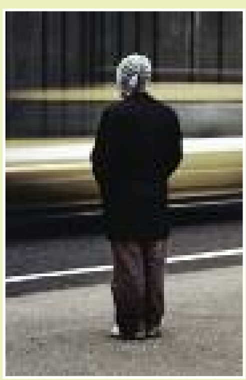

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Mission:
The *Nonprofit Quarterly* strives to provide nonprofit leaders at every level, paid or voluntary, a forum to exchange innovative ideas and informational resources—so that they can more fully realize their organizations' missions.

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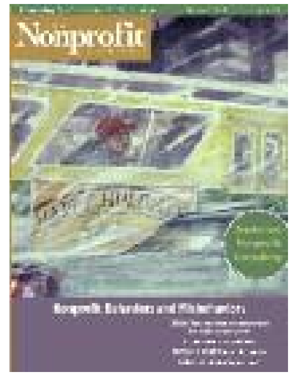
Welcome



The cover image of this Winter edition of the *Nonprofit Quarterly* is a little dark and stark, as befits the winter solstice before we light the lights and candles to cheer us. *NPQ* hopes you are safe and warm, but it wants to contribute its own bright moment to those who work in the nonprofit sector with a landmark study that indicates that nonprofit leaders out-perform business leaders. This study, conducted by Community Resource Exchange and Performance Programs Inc. compares the results of the 360-degree evaluations of the two groups, finding that, while nonprofit leaders rated themselves approximately on par with how business leaders rated themselves, peers, superiors, and direct reports actually rated nonprofit leaders higher than those of for-profit leaders in 14 out of 17 categories.

This comes as no surprise to the *NPQ* editors who understand the challenges of the role, and we were glad to find that it came as no surprise to Jim Collins, world-renowned author of the classic management books, *Built to Last* and *Good to Great*. He explains why nonprofit leaders may be perceived as more capable by those with whom they work.

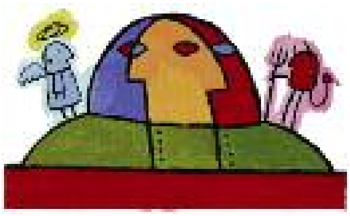
We depend on you, our readers, to share this study with your community and to encourage them to see what we see in you.

This issue also contains pieces focused on some of the less-attractive aspects of our sector, but ones you need to know about. Jeanne Bell of CompassPoint Nonprofit Services discusses nonprofit spin—where nonprofits convince themselves and others, of things that are untrue; thereby weakening themselves. A fact-based article from Janet Greenlee, Mary Fischer, Teresa Gordon, and Elizabeth Keating on how nonprofit fraud occurs and who commits it in nonprofit settings is a must read for managers and board members as is the article, contributed by Scott Harshbarger, former attorney general of Massachusetts and co-author Amy Crafts, on the inadequacy of whistle-blower policies both to protect well-meaning whistleblowers and to encourage timely identification of problems in your organizations.

NPQ national correspondent Rick Cohen provides readers with an insightful article on the community impact strategy at the United Way. As we have said before, you are what you eat, and that goes for funding as well. In that same vein, Chao Guo's article suggests that government funding weakens boards and makes them less representative of their communities. He does, however, provide guidance as to what organizations can do to temper that effect.

Finally, it is with deep gratitude and very best wishes that we are parted from our intrepid advertising director this season. Tom Loughran has been part of *NPQ*'s solid staff team for quite some time, and we will sorely miss his presence and influence as he moves to his next job.

We hope our offerings to you are welcome and useful. Turn on your lamp, settle in and enjoy!



The Nonprofit Ethicist

by Woods Bowman

Dear Nonprofit Ethicist,

I hope you can shed some light on a situation that is very disturbing to me. My former church hired a member to act as project manager on some construction work. He has tax liens outstanding and has worked under the table for years at various jobs. The church made the checks out to the man's wife, at her request and with the full knowledge of the senior pastor, administrative pastor, assistant treasurer and others, although she had nothing to do with managing the project. She uses her maiden name because of the husband's tax problems and has their home titled in her name alone.

When confronted about this, church leadership claimed that the senior pastor was not aware that this was being done, although he initialed the forms authorizing the checks to be made payable to the wife. The administrative pastor who obtained the pastor's approval, and the assistant treasurer who signed the checks, were also well aware of the tax liens and the fact that the checks were being made out this way. Church leadership gave the rationale that since other pastors' spouses participated in ministry but the checks were made out to the pastor alone, this was the same thing. However, the other checks are made payable to the husbands, not the wives. Also, this was not a "ministry" but compensation for a specific job executed by the husband. The wife has a full-time job (as town clerk!) and was not part of the construction project in any meaningful way. I don't know how the church was handling tax reporting on the salary (W-2 or 1099). Between 2006 and 2007 the total amount paid for this job was over $25,000.

This situation was reported to the denomination's district office, which allowed church insiders to conduct a very cursory, one-sided investigation which cleared the senior pastor of any

Not one of these individuals, all of whom are very close friends, objected to the practice.

"intent" or "malice." No mention was made of the two other paid pastors who also saw the authorization forms, or the volunteer assistant treasurer/elder who signed the checks. Not one of these individuals, all of whom are very close friends, objected to the practice. I became aware of all this when I started helping out with some bookkeeping tasks, and I immediately left the church.

What is your opinion about this? Are there special situations for churches where making checks payable to one spouse for work done by another is legal? Given the man's history with the IRS, it looks like the church was complicit in helping this couple hide income from the government. Am I crazy to think they were doing something wrong? Other members who criticized the pastors for allowing this situation to go on have been ostracized by the senior pastor and his buddies.

Enlightened

Dear Enlightened,

I never cease to be amazed by the shenanigans that some churches and their leadership instigate. Some of it, like this situation, is even illegal.

You are quite right on both counts: (1) making out checks to a person other than one who actually did the work is wrong and, given the man's history with the IRS, I agree that the church was complicit in helping this couple hide income from the government. The role of the senior minister is not entirely clear to me, but he is responsible for authorizing payment.

This reminds me of a study of students who were caught cheating on an examination. All students had access to the correct answers. After the cheating was discovered, the professors tested all students in the class on their moral awareness. Surprisingly, the most morally aware students were the cheaters. The reasons are open to debate, but my theory is that the most morally aware are also more adept at rationalizing their actions (e.g., this illegal act is a "ministry").

Hiring church members is touchy. It invites trouble because their "brothers *and sisters" are inclined to be tolerant of aberrant aspects of the transactions requested by a payee. Based on my casual observation, nearly all churches hire their members; in some cases people start out as employees and become members later. There is nothing wrong per se with hiring employees, but keep them off the boards that oversee them. Having a conflict-of-interest policy is not good enough.*

Dear Nonprofit Ethicist,
Is it legal (in Illinois) for a husband and wife to sit on the same nonprofit board of directors? Is it wise? Why or why not?
Conflicted

Dear Conflicted,
Only New Hampshire has a law forbidding it, but the prohibition appears to apply only to boards with the required minimum of five members, and not at all to family foundations.

It is not unethical for spouses to serve together on the same board, but it is unwise. The best boards study issues from many different points of view and have robust discussions (see "Loyal Opposition" in the Summer 2007 issue of NPQ*).*

Certainly, spouses often have different points of view, even pressing them to the point of argument, but the smart ones try to minimize areas of disagreement. A common marriage survival strategy is to defer to one's partner on most matters while taking a firm stand on a few matters. In the board room this usually results in one spouse staking out a position with the other spouse playing a supporting role or at least not openly opposing. Instead of getting two for the price of one, an organization with spouses on its board gets one for the price of two. This deal can be especially bad when the marital unit decides it wants something to turn out in a particular way and begins to scheme against the rest of the group. Why sign up for such stuff at work when we can get it at any family holiday dinner?

Dear Nonprofit Ethicist,
A national nonprofit organization recently recruited for a management-level director of programs. The position was posted internally first, per the organization's policy, and then, after no suitable internal candidate surfaced, the position was advertised nationally. Several candidates applied, including one who was a good friend of the organization's chief operating officer (COO). But none seemed quite right for the position. Meanwhile, a long-term employee of the organization was experiencing difficulty in her position as director of development, to which she had been promoted only nine months before. Because the director of development had a good deal of experience with the training programs offered by the organization, the COO decided to offer her the position of director of programs. This, of course, created a vacancy in her former position as director of development. Ordinarily, a vacant position would be posted internally prior to an external search, but that did not happen in this instance. Instead, the COO offered the director of development position to her good friend, the one who had applied to be director of programs. Question: Was it ethical for the organization to bypass its standard procedure for the posting of vacant positions in this situation and offer the position of director of development to the COO's good friend?

It's not a good idea to have relatives or good friends in a reporting relationship in the chain of command.

Wondering

Dear Wondering,
I suspect you already know the answer to this is negative. There are two reasons. First, a national organization should have a search committee to make sure it gets the best person in the country for a leadership job. Second, it's not a good idea to have relatives or good friends in a reporting relationship in the chain of command. Will the COO set comfortable goals or stretch goals for her new director of development? Will the COO mete out discipline even-handedly if her friend messes up? Will pay scales become distorted through favored treatment? Even if none of this happens, how much time and energy will other people spend watching for such potential inequities and feeling slightly resentful to have been put in the position? It's just an all-around unadviseable situation.

What was the CEO doing throughout all of this, by the way? Because he or she will have to clean up the mess if things implode in some way.

Dear Nonprofit Ethicist,
I sit on two boards (at the moment). At one of them, people insist that the treasurer's report be approved by a formal motion and vote of the board. At the other, people are equally adamant that you should never do this. Instead, in the minutes, receipt of the report should be noted, the balance recorded, and then it is filed for audit. Who is right?
Seeing Double

Dear Seeing Double,
On parliamentary questions, the go-to guy is General Henry M. Robert. "No action of acceptance by the assembly is required—or proper—on a financial report of the treasurer unless it is of sufficient importance, as an annual report to be sent to the auditors." (Robert's Rules of Order, Newly Revised 10th edition, page 461.)

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

To write to the Ethicist with your query, send an email to ethicist@npqmag.org. Reprints of this article may be ordered from store.nonprofitquarterly.org, using code 140401.

NOT a Spin-Free Zone:
Reflections on the Utility and Price of Nonprofit Spin

by Jeanne Bell

While the nonprofit sector regularly discusses and addresses programmatically issues of race and class, recent studies reveal a sharp disconnect between our values and our leadership's demographics.

There is no good definition of spin. It's easier to say what it's not than what it is: It's not the truth. Neither is it a lie. Spin lies somewhere in between: almost telling the truth, but not quite; bending the truth to make things look as good—or as bad—as possible; painting things in the best possible—or worst possible—light.

—Bill Press, *Spin This! All the Ways We Don't Tell the Truth*

In this surreal time of justifying foreign policy and disregarding global warming, it is easy for the nonprofit sector to consider "spin" a proprietary tool of the Bush administration, Fox News, and big business. In fact, our sector uses spin routinely. While ours may generally do less harm than the worst political and corporate offenders, the nonprofit sector would do well to own up to its own tendencies and to consider both the utility and the price of our most frequently told half-truths. Bill Press's definition of spin identifies two critical characteristics: first, people use spin not only to make things look better than they are but also to make things look worse than they are; and second, spin is typically in the gray zone between truth and outright lies. Like all industries and cultures, the nonprofit sector has issues it spins; sometimes because we are tired of being attacked, sometimes because we want to rationalize or downplay our bad habits, and sometimes because we aren't completely sure of the truth ourselves.

Jeanne Bell is the CEO of CompassPoint Nonprofit Services.

Spin: We are the Sector of Diversity

While the nonprofit sector regularly discusses and addresses programmatically issues of race and class, recent studies reveal a sharp disconnect between our values and our leadership's demographics. Organizations that originate in, serve, and are led from within ethnic communities do an excellent job of developing constituency-reflective boards and staffs. The problem is with the rest of the sector.

The truth is, new national board research by Francie Ostrower at the Urban Institute found that an astonishing 86 percent of nonprofit board members are white, and that 51 percent of boards are composed solely of white, non-Hispanic members.[1] *Daring to Lead 2006*, which surveyed an urban, community-based sample of nonprofits, found that 82 percent of nonprofit executive directors are white.[2] And, according to the Council on Foundation's 2006 survey of grantmakers, 94 percent of all foundation chief executives are white, as are nearly 77 percent of all full-time foundation staff members.[3] In her recent blog on the *Stanford Social Innovation Review*'s Web site, called

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“Philanthropy Doesn’t Care About Black People,” Rosetta Thurman challenged the quality of our discourse about diversity: “The expanded, copout definitions of diversity that include gender, religion, disability, and sexual orientation allow organizations to avoid the topic of race and pay lip service to the issue instead of making real cultural changes.”[4]

Just 38 percent of nonprofit executives said that their boards regularly use meetings to discuss strategic issues and debate possible direction.

The truth is that our lack of attention to—and expertise in—human resources management relative to other sectors means we have not gone about systematically attracting and retaining people of color as Fortune 500 companies have done for years. While they have responded to changes in their consumer markets and the impending war for talent, we have been disorganized at best. Michael Watson, the director of human resources for the Girl Scouts USA, contrasted our effort with the for-profit sector’s in a recent *Chronicle of Philanthropy* interview: “Businesses are investing much more in recruiting diverse talent. They attend the national career fairs, sponsor larger numbers of paid internships, are present on campus, place more ads, and spend more time at the senior management level discussing how to recruit diverse talent. They develop close relationships with the professional organizations that people of color belong to. Nonprofits will have to do more of the same to compete.”[5]

Spin: Boards of Directors Establish Strategic Direction and Staff Implement It

While it serves us sometimes to portray our organizations as being led by an independent group of volunteer community leaders, most everyone who does paid work in the sector would acknowledge that executives and management teams typically establish and continuously refine strategy. (This is not the case at all-volunteer organizations.) When we want to show Congress that we can effectively self-regulate—as with Independent Sector’s recently published *Principles for Good Governance and Ethical Practice: A Guide for Charities and Foundations*—we emphasize the role of governance in organizational strategy. But even here, the precise role of boards in strategy is elusive. The guide says that “a charitable organization must have a governing body that is responsible for reviewing and approving the organization’s mission and strategic direction.” Use of the verbs “review” and “approve” seem to align with my observation that paid staffs typically initiate strategy. But just a few sentences later, the guide says that “the board sets the vision and mission for the organization and establishes the broad policies and strategic direction that enable the organization to fulfill its charitable purpose.” Here the verb “set” ascribes more of an independent strategy role for boards.[6] On the other hand, the often discussed governance book—Chait, Ryan, and Taylor’s *Governance As Leadership: Reframing the Work of Nonprofit Boards*—suggests that it’s the generative thinking that *precedes* the articulation of strategy where boards should be heavily engaged.

The truth is, most community-based organizations are struggling to define the respective roles and partnership of paid staff and boards of directors. In *Daring to Lead*, just 38 percent of nonprofit executives said that their boards regularly use meetings to discuss strategic issues and debate possible direction.[7] The Urban Institute’s board research found that just 44 percent of boards are very active in planning for the future, and only 32 percent in monitoring programs and services.[8] Further, the truth is that the thought leaders in the social change corner of our sector have set about reevaluating governance entirely—many in the pages of this publication. In *Rethinking Governance*, David Renz argues that the “domain of ‘governance’ has been moving beyond the domain of ‘the board.’” He makes a compelling case that complex community issues are solved beyond the walls of single nonprofit organizations, and thus responsive strategies are set beyond the walls of any single nonprofit boardroom.[9] Judy Freiwirth and Maria Elena Letona are exploring “system-wide governance,” a model in which “governance responsibility is shared across the organizational system among the key sectors of the organization—its constituents or members, staff and board.”[10]

For now, the best community-based boards play an absolutely critical role in strategy formation: challenging staff assumptions and representing the broader community with hard questions about programmatic relevance and financial viability. But the pretense of the board's role as independent direction-setters creates a tension in the staff-board dynamic—a confusion about roles in which too many organizations (and planning processes) are interminably mired.

Spin: 100 Percent of Your Contribution Will Be Spent on Programs

This inane sentence is often written on a piece of direct mail or on a Web site to entice people to donate. In other words, the act of telling people that their gift is 100 percent programmatic is a *fundraising* expense. While it's true that nonprofits often target a particular fundraising campaign to a single issue or cause, it is not true that an organization can raise those funds without spending money to raise them; therein lies the half-truth. When we pretend that any single campaign happens outside the context of our organizations, we sustain the public misperception that the hard work of social change can happen without an infrastructure to support it. This fundraising double-speak establishes a dishonest dialogue with our donor bases—satisfying their hunger for a mythically "pure" charity and setting up organizations unfairly as fat cats when they tell the truth about overhead expenses.

The irony of nonprofits spinning the overhead rate issue to individual donors is that they just as frequently complain that institutional funders won't pay for adequate overhead. Can we have it both ways? Overhead rate is a red herring in the analysis of nonprofit impact. It takes anywhere from 15 cents to 30 cents of every dollar spent by most nonprofits to maintain an adequate administrative and fundraising capacity to *have* real impact. When *Good to Great* business author Jim Collins turned his attention to the nonprofit sector, he singled out our silly obsession with overhead: "It's a well-intentioned idea, but it reflects profound confusion between inputs and outputs."[11] Money—including the percentage of money directed to the functional categories of program, administration, and fundraising—is an input. Impact, or what Collins refers to as *greatness*, is about outputs. Obviously, we would all gladly pay 29 cents of overhead on the dollar to have a state-of-the-art children's museum in our city, rather than 14 cents on the dollar for a dated and dreary one.

Spin: We Would (Fill in the Blank with Something Nonprofits Should Do), But Our Funders Won't Pay for It

Get in a room of nonprofit executives and suggest that we should invest more in professional development, in developing the next generation of leaders, in technology—in you name it—and within minutes someone will complain that they'd love to do the right thing, but foundations and government won't pay for these things. Of course the majority of institutional support is for programming, but in my experience if you press executives a bit further on how many times they have asked their core funders and donors to consider a capacity investment and been turned down, the answer is often "never." Perhaps more important, if you press executives to make a cogent case for the direct connection between infrastructure and impact, they falter. Many of our leaders are still not skilled at developing people and systems; they are still more comfortable in the program and community arenas. They haven't yet brought the same energy and discipline to funding people and capacity as they have to program delivery.

Spinning the situation to suggest that there is simply no way to finance capacity building lets us off the hook for some of the most important responsibilities we have as nonprofit leaders. It is our fundamental responsibility to arrive at a business model—a portfolio of high impact program and fundraising activities that in turn attracts a sufficient mix of resources—that results in a healthy organization. No funder can do that for us. Second, it is our responsibility to find creative, affordable ways to develop the people who work and volunteer at our organizations. Claiming that we can't because our funders won't pay for it is a profound cop-out. In many community-based organizations plenty of under-utilized time could be better devoted to good supervision, good board orientation, mentoring, group discussion of new articles or books, attendance of workshops and conferences, and participation in local networks and coalitions—all at little cost. And third, it is our responsibility to be sophisticated enough fundraisers to make a strong case to our supporters to invest in our organizations even as they invest in our specific outcomes. Too many of us still apologize for investment in organizational capacity or, worse, are ignorant of ways to

When *Good to Great* business author Jim Collins turned his attention to the nonprofit sector, he singled out our silly obsession with overhead: "It's a well-intentioned idea, but it reflects profound confusion between inputs and outputs."

recover these costs through ongoing funding channels.

While it makes great sense to look for scaleable innovations in our sector and finance them well, what's begun to feel like spin is our indifference when we talk about impact and innovation to the work that can't be scaled.

Spin: Scale Is the Holy Grail

One of the results of venture philanthropy and increased attention to the nonprofit sector by consultants and funders trained in the best business schools is the tendency to conflate scale with impact. While it makes great sense to look for scaleable innovations in our sector and finance them well, what's begun to feel like spin is our indifference when we talk about impact and innovation in the work that can't be scaled. With enormous respect to a tremendous organization, how many times can Teach for America be held up in our press as emblematic before we have to acknowledge the spin factor? One can momentarily forget in these conversations that monolingual immigrants, as they have for generations, are getting legal counsel at local nonprofits—places they can walk to that are staffed in many cases by people who were in their shoes just a few years before; that this essential activity cannot be scaled for deeper impact; that there isn't a brilliant earned income strategy waiting to be discovered inside this fragile business model.

There are important and valid pressures on our sector to focus on impact. And, nonprofits can and should learn from the for-profit experience. But the preoccupation with scale also seems seductive, and therefore vulnerable to spin. It raises questions about who has access to capital for scaling and who doesn't. Which organizations' innovations get studied and celebrated, and which do not?

In *On Truth*, his best-selling follow-up to *On Bullshit*, Harry G. Frankfurt, distinguished professor of philosophy at Princeton, says that while not all lies have profoundly negative effects, "the most irreducibly bad thing about lies is that they contrive to interfere with, and to impair, our natural effort to apprehend the real state of affairs."[12] If spin lies somewhere on the continuum between truth and lies, and even if it has utility at times, we should nonetheless take care that we can see through our own bullshit when we want to. Among ourselves, we should look honestly at our "real state of affairs." If not, success in meeting our most profound sector challenges—from diversifying our workforce to leveraging in full the talent and commitment of our board members—will surely elude us.

Endnotes

1. Francie Ostrower, *Nonprofit Governance in the United States: Findings on Performance and Accountability from the First National Representative Study*, The Urban Institute, 2007, p. 12.
2. *Daring to Lead 2006: A National Study of Nonprofit Executive Leadership*, CompassPoint Nonprofit Services and The Meyer Foundation, p. 11.
3. Heather Joslyn, *Chronicle of Philanthropy* online: http://philanthropy.com/free/articles/v20/i01/01d00301.htm
4. Rosetta Thurman, *Stanford Social Innovation Review* online: http://www.ssireview.org/site/printer/philanthropy_doesnt_care_about_black_people/
5. Online interview with Michael Watson, The *Chronicle of Philanthropy* Live Discussions, January 22, 2007.
6. *Principles for Good Governance and Ethical Practice: A Guide for Charities and Foundations*, Panel on the Nonprofit Sector, Independent Sector, October 2007, p. 13.
7. *Daring to Lead 2006: A National Study of Nonprofit Executive Leadership*, CompassPoint Nonprofit Services and the Meyer Foundation, p. 11.
8. Francie Ostrower, *Nonprofit Governance in the United States: Findings on Performance and Accountability from the First National Representative Study*, The Urban Institute, 2007, p. 12.
9. *Rethinking Governance* by David O. Renz, PhD. the *Nonprofit Quarterly*, Winter 2006, p. 6.
10. Judy Freiwirth and Maria Elena Letona, "System-Wide Governance for Community Empowerment," the *Nonprofit Quarterly*, Winter 2006, p. 25.
11. Jim Collins, *Good to Great and the Social Sectors*, 2005.
12. Harry G. Frankfurt, *On Truth*, Alfred A. Knopf, New York, 2006.

What are nonprofit myths or spin that you confront most often? How do these prevent organizations from achieving their goals? What are the underlying motivations that drive this spin (e.g. 100% of funding to programs helps organizations appear more effecient than others). Share your views with *NPQ* at feedback@npqmag.org. Reprints of this article may be ordered from store.nonprofitquarterly.org, using code 140402.

Peak Performance:

Nonprofit Leaders Rate Highest in 360-Degree Reviews

by Jean R. Lobell and Paul M. Connolly

Nonprofit leaders received higher ratings than for-profit leaders based on feedback from direct reports, managers, peers, and a category called "others."

Judy Michaels[1] starts each morning with a clear vision of the day's agenda: making calls to bring in some new and much-needed dollars, having a "quick" conversation with a board member's recent college-graduate niece asking for potential job options in the sector, persuading a funder to increase the foundation's support for a key program, making another call to a funder on a renewal proposal due in two weeks, attending a management meeting to review program and budget priorities, calling the organization's legal counsel on a potential discrimination lawsuit. For this executive director of a mid-sized multiservice nonprofit with a budget of $4.2 million and a staff of 105, it will be another long, challenging, and stressful day. Before she even gets to her desk, the day will be derailed by other priorities. At 8:00 A.M., she placates an irate neighbor whose car fell victim to debris left by a construction crew renovating the neighborhoood day care center. At 8:20, a dissatisfied client waylays her at the coffee shop with complaints about advice received from a staff person. At 8:35, she makes a mental note to speak to maintenance about increasing the cleaning staff's shift time because the beautiful fall leaves have littered the building's steps and become a liability. As she heads through the front door, she is treated to an angry rant from the membership coordinator who supervises a persistently late employee.

This week it's urgent to get a permit to convert a recently acquired building into supportive housing for seniors. She will have to convince a city councilman to flex some muscles on her behalf, the foundation officer to approve funding to complete the prelicensing requirements, and the neighbors to tolerate the construction hassles for six months. And it's only Monday.

Such are the challenges of nonprofit leaders wrestling with the complexities of achieving sustainability and growth. Contrary to intuition, the smaller the nonprofit, the more intense the executive's role. The patterns of relationships are condensed among fewer people who may have less clearly defined roles. Despite the stresses, amazing individuals with incredible skills rise to the task each year to lead organizations with important missions, driven by not

[1] Her name has been changed in this article.

Jean Lobell is a managing director at Community Resource Exchange, a nonprofit social-change consulting firm. Lobell heads CRE's leadership practice and received her doctorate in organizational psychology from Columbia University. **Paul M. Connolly, Ph.D.,** is the president of Performance Programs, Inc., an Old Saybrook, Connecticut–based consulting firm that specializes in leadership and organizational assessments.


1978

The often unspoken but pervasive belief is that the for-profit sector produces better executives. But is there any truth in this belief?

Table A: **Nonprofit Leadership Study Description**

	Nonprofit Leaders	For-Profit Leaders
Leaders studied	61	2,716
Job titles of feedback recipients	Executive directors, deputy directors, and senior directors, most of whom are members of a management team	Director or vice president level, midlevel leaders in larger organizations. All are managers of managers in up to three levels
Relationships of feedback providers	74 managers (mostly board chairs and/or some other board members, accounting for the greater number of managers than the number of leaders in the study, 140 peers, and 275 direct reports	2,653 managers, 9,859 peers, and 9,958 direct reports
Source of feedback recipients	Community Resource Exchange's constituency of community organizations	Survey of Leadership Practices norm database, based on survey responses from managers in for-profit organizations (published by the Clark Wilson Group)
Business mission	Youth development, education, health, housing, and advocacy. Some were multiservice agencies that provide comprehensive services to their constituencies.	Broad assortment of industries. U.S.-based managers make up 85% of the sample; remaining 15% distributed globally.

much more than a passion to help others. What we know is that only the best and the brightest executive directors can survive.

With such hurdles to overcome, the dramatic finding that nonprofit leaders scored higher than for-profit leaders on leadership practices may not be surprising. Nonetheless, the often unspoken but pervasive belief is that the for-profit sector produces better executives. But is there any truth in this belief?

A study conducted by Community Resource Exchange (CRE), a nonprofit social-change consulting firm, and Performance Programs Inc. (PPI), a consulting firm that specializes in leadership and organizational assessment, showed that nonprofit leaders received higher ratings than for-profit leaders based on feedback from direct reports, managers, peers, and a category called "others." The purpose of this article is to explore those findings and derive some important lessons for nonprofit boards of directors and others responsible for hiring and managing leaders of nonprofit organizations.

The Nonprofit Leadership Study

Leadership in for-profit endeavors is widely studied; the same is not necessarily true for nonprofits, particularly not for community-based organizations. CRE's Leadership Practice uses the 360-degree feedback method in its leadership caucus, a nine-month leadership development program that also focuses on coaching and team building. Between 2002 and 2006, CRE partnered with PPI to develop sector-relevant norms for nonprofit leadership practices. CRE chose the 360-degree feedback survey known as the Survey of Leadership Practices (SLP). This survey was researched and published by the Clark Wilson Group and used extensively by the staff at PPI in its assessment work.

The 360-degree feedback technique is considered to be an effective leadership development tool because it focuses on assessing skills that are relevant to the leader's role, that can be seen by others, and that are responsive to development efforts. Coupled with coaching, the method helps leaders increase their competencies by illustrating how others perceive their effectiveness. Typically, there is a self-assessment as well as feedback from the manager, direct reports, peers, and other individuals. In the nonprofit setting, the board chair often provides feedback as well as managers, peers, leaders of other organizations, colleagues, members of the board, and funders.

SLP has 85 questions that measure 12 core leadership skills and provides an overall judgment of a leader's impact, power and influence. (SLP is further described in Appendix A on page 26.) The nonprofit and for-profit groups were compared using an analysis of variance with post hoc comparisons. Table A describes the two populations used for the study.

The results of this study are a twofold

Table B: **Comparison of Nonprofit and For-Profit Leaders' Feedback**

Key: Numbers shown below are the difference between nonprofit leaders' and for-profit leaders' scores. Positive numbers are shown where nonprofit managers outrank for-profit managers. Negative numbers are shown where for-profit managers outrank nonprofit managers.
* = Statistically significant difference

	Self	Manager	Reports	Peers	Others
Vision	0.03	0.38*	0.24*	0.39*	0.49*
Risk taking	0.09	0.34*	0.27*	0.41*	0.39*
Organizational sensitivity	0.18	0.35*	0.15*	0.39*	0.48*
Encouraging participation	0.18	0.26*	0.23*	0.42*	0.57*
Teaming/empowering	0.02	0.32*	0.25*	0.39*	0.58*
Persuasiveness	0.15	0.37*	0.24*	0.41*	0.48*
Feedback	0.32*	0.26*	0.24*	0.43*	0.72*
Standards of performance	0.18	0.36*	0.10	0.32*	0.12
Energy	-0.03	0.24*	0.09	0.24*	0.35*
Perseverance	0.06	0.27*	0.14*	0.26*	0.33*
Push/pressure	-0.02	0.08	0.02	0.24*	-0.07
Sharing credit	0.17	0.47*	0.39*	0.49*	0.74*
Effectiveness/outcomes	0.08	0.36*	0.29*	0.49*	0.65*
Coping with stress	0.00	0.19	0.17*	0.24*	0.6*
Trustworthiness	0.04	0.20	0.14*	0.38*	0.54*
Temporary power	-0.02	0.31*	0.41*	0.32*	0.16*
Lasting power	-0.03	0.43*	0.28*	0.37*	0.64*

Of the 14 dimensions in which nonprofit leaders outscored their for-profit counterparts, the most dramatic differences between nonprofit and for-profit leaders appeared in six dimensions that include skills similar to those often included in discussions of emotional intelligence.

bonanza. First, as originally intended, we now have an appropriate point of comparison for nonprofit leaders' leadership practices.

Second is the view of nonprofit leaders as provided by managers, direct reports, peers, and others. When rated by their own managers, peers, and direct reports, nonprofit leaders outscored their for-profit counterparts (alpha is > 0.05, which means that there is only a 5 percent chance that the higher ratings of nonprofit leaders compared to for-profit leaders is a fluke). This finding is all the more notable because nonprofit leaders outscored for-profit leaders in 14 out of the 17 dimensions of leadership practices (see Table B). If they scored higher in only 60 percent rather than 82 percent of the dimensions, it would still challenge the prevailing thinking on leadership. While it is premature to declare that nonprofit leaders are more effective, the findings call conventional wisdom into question. The challenge now is to examine the findings more closely and to consider the implications for leadership development in the nonprofit sector.

Feedback on Leaders

Nonprofit leaders showed significantly higher ratings than for-profit leaders in 14 out of 17 leadership dimensions from all groups providing feedback. Of the 14 dimensions in which nonprofit leaders outscored their for-profit counterparts, the most dramatic differences between nonprofit and for-profit leaders appeared in six dimensions that include skills similar to those often included in discussions of emotional intelligence (which are denoted by an asterix in Table C). These dimensions are characterized by sensitivity to people and situations and the use of personal versus hierarchical power.

Stakeholder input is so intertwined with nonprofit leaders' daily activities that they have learned to deal with it.

Table C: **Comparatively Higher Ratings for Nonprofit Leaders**

- Encouraging participation*
- Persuasiveness*
- Openness to feedback*
- Sharing credit*
- Demonstration of effectiveness (i.e., getting the desired outcomes)*
- Use of lasting power*
- Vision
- Risk taking
- Organizational sensitivity
- Teaming/empowering
- Standards of performance
- Perseverance
- Trustworthiness
- Temporary power

**Areas where nonprofit leaders receive significantly higher ratings from feedback givers*

Table D: **Comparatively Lower Ratings for Nonprofit Leaders**

- Push/pressure
- Energy
- Coping with stress

Nonprofit leaders scored lower compared with for-profit leaders in only three of 17 dimensions (see Table D).

Areas where nonprofit leaders scored low are worth examining more closely. The first area is "push/pressure," which is defined as pushing for results and applying pressure on others until a task is successful. The findings for this area should be interpreted in light of its context. A certain amount of pressure and energy works best depending on the situation. But that said, nonprofit leaders may not exert enough pressure and energy to get the desired results, and they tend to have difficulty coping with stressful situations.

Nonprofit leaders also rated lower on energy level. Energy is defined as demonstrating a desire to achieve results quickly. Based on PPI's other leadership studies, energy is often revealed as the tangible component of charisma. Nonprofit leaders may exhibit less energy externally or be less conscious of time than their for-profit counterparts.

Nonprofit leaders also scored low in terms of their ability to cope with stress, which is defined as maintaining command control, managing difficult situations calmly, and handling unforeseen trouble with confidence. These low scores are corroborated by another study finding, discussed later in the section on leaders' self-assessments, in which nonprofit managers consistently rated themselves lower than did those providing feedback. It seems that the nonprofit executive may suffer from self-doubt.

Leaders' Self-Assessments

When we look more closely at the self-ratings of the two sample groups, nonprofit leaders do not see themselves very differently from for-profit leaders (see Figure A, page 17). Only on the feedback dimension—in terms of being open to implementation issues, paying attention to the reactions of others, and being responsive to suggestions—do they see themselves as more skilled than do their for-profit counterparts. Considering the multiple stakeholders—board members, funders, community leaders, policy makers, clients, management teams, staff—whose input nonprofit leaders must consider on a daily basis, this is not surprising. Stakeholder input is so intertwined with nonprofit leaders' daily activities that they have learned to deal with it.

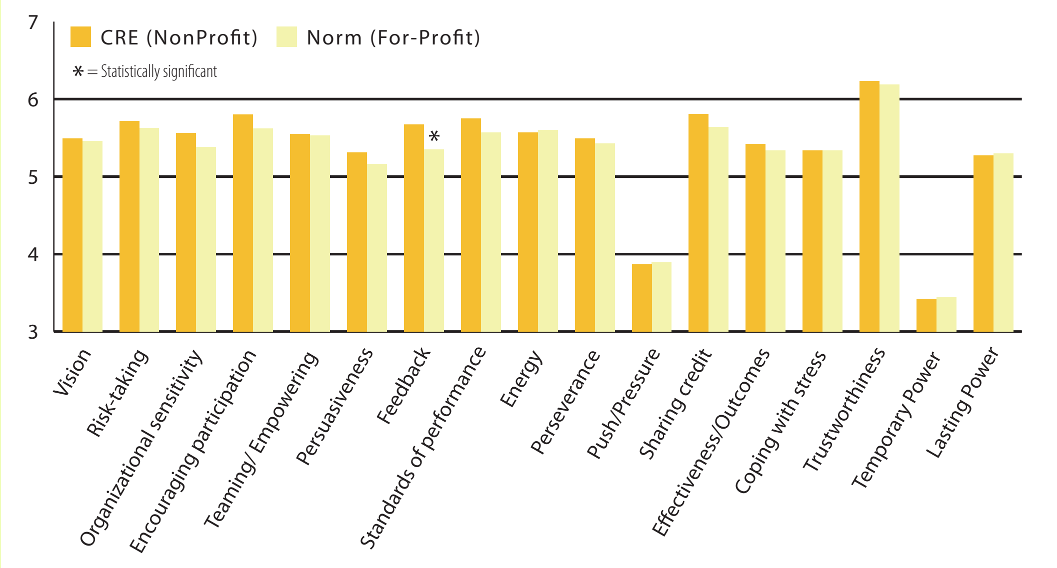
When we compare self-ratings with those of feedback givers, interesting differences surface as well. As noted previously, nonprofit leaders tend to rate themselves lower than those rating them do; they rate themselves lower on 12 of the 17 dimensions (see Table E, page 18). In contrast, for-profit leaders tend to rate themselves higher than the average ratings provided by feedback givers. They do so in 15 out of 17 dimensions (see Table F, page 19).

The relatively low self-ratings of nonprofit leaders on the ability to use temporary power, and to some extent lasting power, combined with the push-and-pull of multiple stakeholder expectations is a sure recipe for stress, which could explain nonprofit leaders' lower ratings on the ability to cope with stress. Burnout has been a major factor for executive directors who leave their jobs.

Observations and Interpretations

Several questions come to mind. Are nonprofit leaders less aware of their strengths? Are they

Figure A: **Self-Ratings of Nonprofit and For-Profit Leaders on Clark Wilson Group's Survey of Leadership Practices (SLP)**



Having learned the leadership ropes on their own with little mentoring or formal leadership development, nonprofit leaders may not realize their strengths.

harder on themselves?

Based on our observations of nonprofit leaders and our consulting work in the nonprofit sector, we believe that nonprofit leaders are indeed harder on themselves concerning leadership and management than their for-profit counterparts. Having learned the leadership ropes on their own with little mentoring or formal leadership development, nonprofit leaders may not realize their strengths.

Are those rating nonprofit leaders more generous in their scoring? If so, why? The complexity of nonprofit leaders' role, the reality of limited staff and funding resources, the intensity and breadth of day-to-day demands, and the relatively low compensation structure are known issues in the sector. With these factors as a point of reference, feedback givers—who see nonprofit leaders succeeding against all odds—may tend to rate them higher than feedback givers in the for-profit sector.

Managers' Assessments

When we look more closely at managers' ratings of the two sample groups, nonprofit leaders scored higher than for-profit leaders on *all* 17 dimensions (see Figure B, page 20). Moreover, the difference between their scores is statistically significant for 14 of the 17 dimensions. This invites questions not only about the significantly higher manager ratings of nonprofit leaders in 14 of 17 dimensions, but also, and perhaps more important, about the three out of 17 dimensions where the difference in the scores of nonprofit and for-profit leaders is not significant.

Observations and Interpretations

In viewing individuals in leadership positions (versus managerial positions), peer ratings bring the purest perspective because leadership is really about exercising influence. In the nonprofit world, the executive director-board relationship is closer to that of a peer relationship compared with the manager-direct report relationship in the for-profit world. Their relationship is not one of compliance. Board members follow an executive director's lead not because they have to but because an executive director has effectively exercised influence skills. Therefore the manager ratings and peer ratings for nonprofit leaders give us the cleanest perspective.

Where manager ratings for nonprofit leaders are significantly higher, it may be the result of perceived resource inequity as experienced by nonprofit board members, many of whom come from the for-profit sector. These for-profit and business board members understand that for-profit leaders often have more abundant resources available to them. They recognize the amazing, even heroic, work nonprofit leaders do in the face of substantial resource constraints.

At the same time, manager ratings of nonprofit leaders highlight some challenges. According to manager ratings, nonprofit leaders

According to manager ratings, nonprofit leaders demonstrate more effective leadership practices compared with for-profit leaders, except in three areas: push/pressure, the ability to cope with stress, and trustworthiness.

Table E: **Comparison of Self-Ratings and Average Ratings of Feedback Givers for Nonprofit Leaders**

Nonprofit Leaders	Self-Rating	Average across Feedback Givers' Rating	Difference between Self- and Feedback Givers' Rating	Direction of Difference[1]
Vision	5.49	5.71	0.22	<
Risk taking	5.72	5.77	0.05	<
Organizational sensitivity	5.56	5.69	0.14	<
Encouraging participation	5.80	5.72	-0.08	>
Teaming/empowering	5.55	5.64	0.10	<
Persuasiveness	5.31	5.59	0.28	<
Feedback	5.67	5.59	-0.09	>
Standards of performance	5.75	5.70	-0.05	>
Energy	5.57	5.77	0.20	<
Perseverance	5.49	5.61	0.12	<
Push/pressure	3.87	3.81	-0.06	>
Sharing credit	5.81	5.98	0.17	<
Effectiveness/outcomes	5.42	5.71	0.29	<
Coping with stress	5.34	5.62	0.28	<
Trustworthiness	6.23	6.22	-0.01	>
Temporary power	3.42	4.04	0.62	<
Lasting power	5.27	5.69	0.42	<

[1]> Means self-rating is higher than the average rating from feedback givers;
< Means self-rating is lower than the average rating from feedback givers

demonstrate more effective leadership practices compared with for-profit leaders, except in three areas: push/pressure, the ability to cope with stress, and trustworthiness. The question here is why the managers of nonprofit leaders see these leaders as less effective in these dimensions compared with the other 14 dimensions. We are inclined to see the reasons for this through the dual lenses of accountability and power.

Both the literature on the nonprofit sector and our firsthand experience with nonprofit leadership attest to the relatively unclear lines of ownership and accountability. Unlike the for-profit sector where shareholder expectations tend to be more well defined and must be met or the organization risks financial instability, stakeholder expectations in the nonprofit sector may be misaligned, unclear, or shifting. Nonprofit leaders are tethered to many "masters," all of whom have a stake in the organization but none of whom completely understands the organization. Meeting these various expectations may pose conflicts and diminish nonprofit leaders' ability to push for results. This may also explain the low rating on trustworthiness, reflecting unfulfilled expectations.

Assessment by Direct Reports

A closer look at direct reports' ratings of leaders

Table F: **Comparison of Self-Ratings and Average Ratings of Feedback Givers for For-Profit Leaders**

For-Profit Leaders	Self-Rating	Average across Feedback Givers' Rating	Difference between Self- and Feedback Givers' Rating	Direction of Difference[1]
Vision	5.46	5.34	-0.12	>
Risk taking	5.63	5.42	-0.21	>
Organizational sensitivity	5.38	5.35	-0.03	>
Encouraging participation	5.62	5.35	-0.27	>
Teaming/empowering	5.53	5.26	-0.27	>
Persuasiveness	5.16	5.22	0.06	<
Feedback	5.35	5.17	-0.18	>
Standards of performance	5.57	5.48	-0.10	>
Energy	5.60	5.54	-0.06	>
Perseverance	5.43	5.36	-0.07	>
Push/pressure	3.89	3.75	-0.15	>
Sharing credit	5.64	5.46	-0.18	>
Effectiveness/outcomes	5.34	5.26	-0.08	>
Coping with stress	5.34	5.32	-0.02	>
Trustworthiness	6.19	5.91	-0.28	>
Temporary power	3.44	3.74	0.30	<
Lasting power	5.30	5.26	-0.04	>

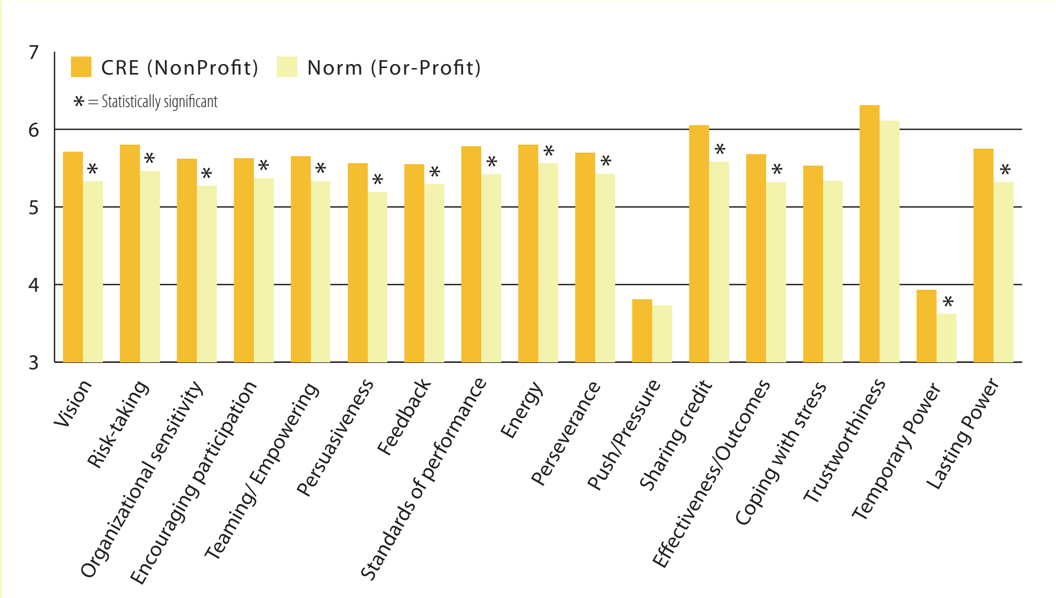
[1]> Means self-rating is higher than the average rating from feedback givers;
< Means self-rating is lower than the average rating from feedback givers

Direct reports of nonprofit leaders see them as able to cope with stress and as trustworthy.

in the two sample groups highlights several similarities and a couple of differences between direct reports' ratings and managers' ratings (see Figure C, page 22). Like managers' ratings, direct reports' ratings indicate that nonprofit leaders scored higher than for-profit leaders on *all* 17 dimensions and the difference between their scores is statistically significant for 14 of the 17 dimensions. They also agree that nonprofit leaders have difficulty exerting push pressure. But they differ as follows:

- In two dimensions—coping with stress and trustworthiness—the difference in manager ratings of nonprofit and for-profit leaders is not statistically signficant. But, in the ratings of direct reports of nonprofit and for-profit leaders on these dimensions, the difference is statistically significant. Evidently, direct reports of nonprofit leaders see them as able to cope with stress and as trustworthy.
- In two other dimensions—standards of performance (i.e., holding people accountable) and energy level (i.e., a sense of urgency and desire to achieve results)—the reverse is true. The difference in manager ratings of the two sample groups is statistically significant, but the difference is not significant for direct reports. It appears that direct reports of nonprofit leaders see them as being challenged in these two dimensions.

Figure B: **Manager Ratings of Nonprofit and For-Profit Leaders on Clark Wilson Group's SLP**



Unlike the outcomes expected of for-profit leaders—which tend to be visible, quantifiable, and measurable—the outcomes expected of nonprofit leaders require a logic model to articulate the desired change and the appropriate tools to measure that change.

Observations and Interpretations

Why the higher ratings of nonprofit leaders among direct reports? Several propositions are worth considering:

- *Nonfinancial "lever."* Since compensation is not a "lever" in the nonprofit world, nonprofit leaders have to use other means, such as good leadership practices, to motivate people.
- *Nonprofit culture.* Nonprofits' organizational culture is more accommodating of personal/family needs. It is not unusual to hear staff members in nonprofits cite this accommodation as a reason for working in the sector. And this accommodation is often tacitly or explicitly approved by nonprofit leadership.
- *Role complexity.* With limited resources, nonprofit leaders are put to the test in stepping up to the multidimensional aspects of their leadership role, from partnering with a board to connecting with funders to managing staff to reaching out to the community. More than anyone, direct reports know this firsthand.

Why do managers' and direct reports' ratings differ? In this study, direct reports are closer to the action than some managers and have a better sense of operations. They witness the myriad pressures that nonprofit leaders face and better appreciate what it takes to cope with those stressors. Their expectations may also be the most prominent for nonprofit leaders, and when those expectations are fulfilled, leaders may become more trustworthy in their eyes. By the same token, they are also more knowledgeable about how organizational and employee performance is managed and are more concerned about how a nonprofit leader sets standards to evaluate performance. Any "failings" of a nonprofit leader in this area affect direct reports significantly, and therefore this group is more sensitive to these concerns.

The findings also raise a question about why the difference in the ratings of nonprofit and for-profit leaders is not significant with regard to standards of performance and energy level. Compared with for-profit leaders, nonprofit leaders do not have the management tools and systems support to manage performance effectively. They typically don't have access to the data that facilitates critical decision making. Unlike the outcomes expected of for-profit leaders—which tend to be visible, quantifiable, and measurable—the outcomes expected of nonprofit leaders require a logic model to articulate the desired change and the appropriate tools to measure that change.

Assessment by Peers

The peer raters in the 360–degree feedback survey for nonprofit leaders tend to be different from those of for-profit leaders. Peer ratings for the latter group tend to come from within the organization, either from the same department

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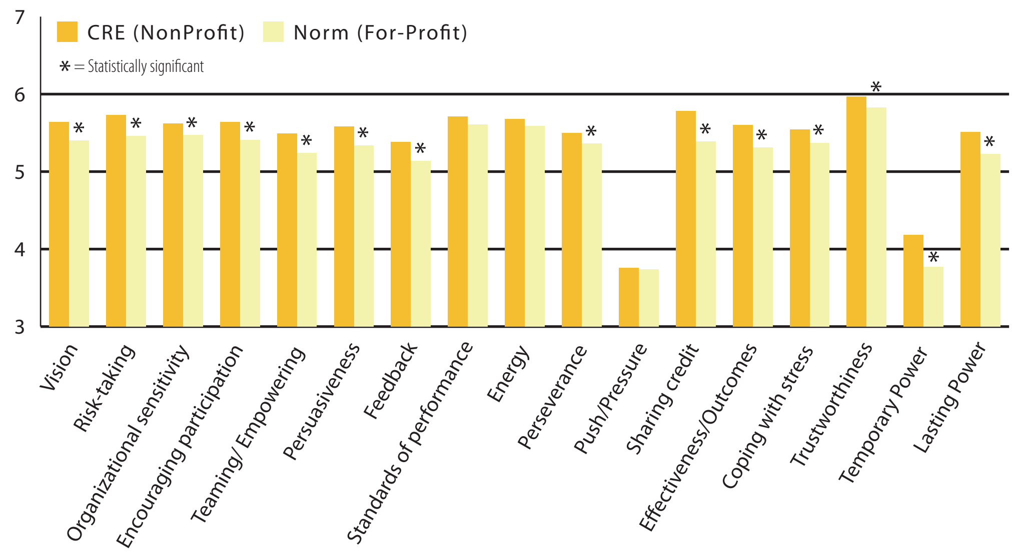
Figure C: **Direct Reports' Ratings of Nonprofit and For-Profit Leaders on Clark Wilson's SLP**



or function as that of the for-profit leader or from other departments/functions in the organization. In the nonprofit scenario, executive directors often lack a peer within the organization. Respondents are typically executive directors of other organizations, colleagues outside the organization, and sometimes board members (but not board chairs). Deputy directors in small organizations may have no peers. And even in larger nonprofits, a deputy director may not have peers within the organization, so respondents typically include raters from outside the organization.

A closer look at the peer ratings of the two sample groups shows a striking result (see Figure D, page 23). The peer ratings for nonprofit leaders are all significantly higher than those of for-profit leaders. On the 17 leadership dimensions, peers see nonprofit leaders as demonstrating those leadership practices more frequently than for-profit leaders.

Observations and Interpretations

The overwhelmingly higher peer ratings of nonprofit leaders can be explained by several factors. In addition to the perceived resource inequity between the for-profit and nonprofit sector that explains managers' ratings, there may be an empathy factor at work given that peers may be in similar positions as the individual being rated. They may recognize the hurdles that peers face and appreciate their successes.

Assessment by Others

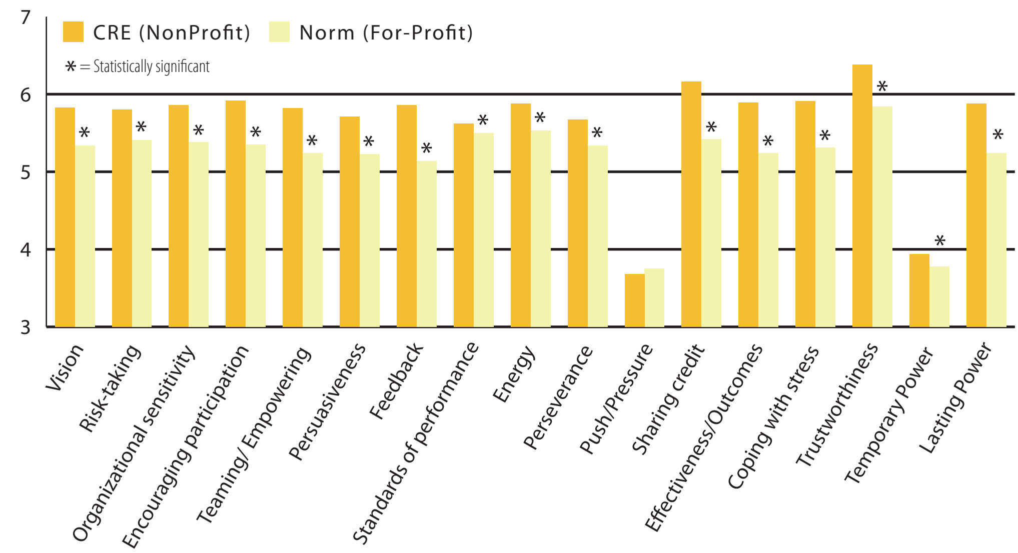
When we look more closely at ratings for the two sample groups by those in the "Other" category, one similarity runs across four categories of raters: self, manager, direct report, and other (Figure E). They all agree that nonprofit leaders have not demonstrated effectiveness in the push/pressure leadership dimension. Responses from the Other category, however, indicate that nonprofit leaders score higher than for-profit leaders on 16 of the 17 dimensions, and the difference between their scores is statistically significant for 15 of the 17 dimensions. Other findings include the following:

- Unlike direct reports, those in the Other category say nonprofit leaders demonstrate energy toward achieving results.
- Unlike managers, those in the Other category saw nonprofit leaders as trustworthy and able to cope with stress.
- Like direct reports, those in the Other category say that nonprofit leaders are challenged by setting standards of performance.

Observations and Interpretations

For nonprofit leaders, the Other category of feedback givers is made up primarily of peers, the same observations discussed in the section on manager and peer ratings would hold. The results of this study are summarized in Table G (page 25).

Figure D: **Peer Ratings of Nonprofit and For-Profit Leaders on Clark Wilson Group's SLP**



While one should question whether the feedback givers of nonprofit leaders are more generous in their ratings, this hypothesis pales in the face of the remarkable role complexity that nonprofit leaders inhabit daily.

Implications for the Nonprofit Sector

While one should question whether the feedback givers of nonprofit leaders are more generous in their ratings, this hypothesis pales in the face of the remarkable role complexity that nonprofit leaders inhabit daily. This unrelenting role complexity combined with limited staff and funding resources, the intensity and breadth of day-to-day demands, and the relatively low compensation structure are well-known challenges of the sector. With these factors as a point of reference, feedback givers who see nonprofit leaders succeeding against all odds may tend to rate them higher than the feedback givers in the for-profit sector.

Need for Further Research

In order to develop more firm conclusions, further research is in order. For follow-up research, there are several questions of interest:

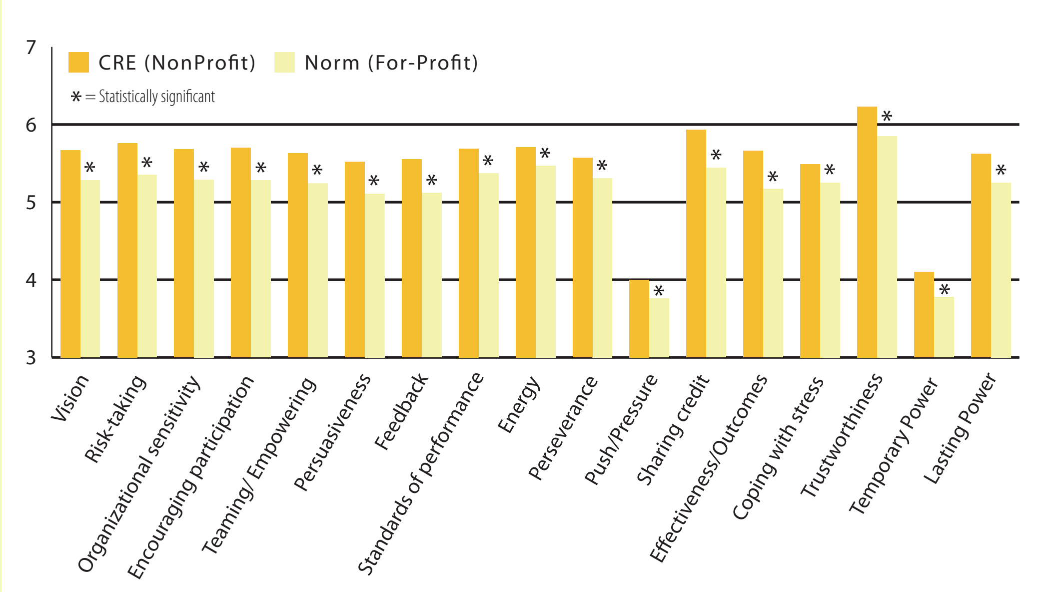
- Is this the right population for comparing nonprofit leaders? Is there any "right" population or are we simply comparing apples and oranges? If so, why?
- Since we now have nonprofit norms for the leadership practices survey, if we were to use those norms for additional nonprofit leaders, would they still outscore the for-profit leaders?
- Why do nonprofit and for-profit leaders score lower in certain leadership dimensions compared with other dimensions? Are the reasons the same?
- Are the high scores of nonprofit leaders correlated with organizational effectiveness and excellence? At this point, our findings simply show that nonprofit leaders demonstrate effective leadership practices. Whether those practices result in goal achievement is another question. A worthwhile follow-up study would examine whether the nonprofit leaders in the study have been able to translate those effective leadership practices into outcomes that make for organizational excellence.

Implications for Leadership Development in the Nonprofit Sector

If indeed there is a leadership deficit in the nonprofit sector, instead of looking outside the sector, it is incumbent on us to invest more deeply in leadership development. Our research and experience suggest the following:

- We have the leadership talent in the nonprofit sector, but it needs to be nurtured. Leadership development cannot be episodic. It must consist of sustained, ongoing, integrated efforts: combining leadership, managerial, and technical skills and pegged to career progression of nonprofit leaders.
- Leadership development efforts should leverage the strengths and assets of nonprofit leaders, which we have seen to be ample. These strengths and assets could be the bridge to addressing those areas where nonprofit leaders are challenged.

Figure E: **Other Ratings of Nonprofit and For-Profit Leaders on Clark Wilson Group's SLP**



> **These findings indicate that the nonprofit sector may indeed have better leaders, and if it exists, the deficit is better addressed by exploring how we design and provide access to high-quality leadership development opportunities.**

- We should work to increase the "conscious competence" of our leaders.
- Using this kind of data, we should help nonprofit board members understand the leadership strengths and challenges of their executive directors.
- We need to create more opportunities for nonprofit and for-profit leaders to come together to learn from one another. Most relationships between the two occur within a board setting.
- We need to develop organizational efforts that create a culture focused on accountability while sustaining a focus on people. Funders can support change efforts and the development of management tools to help leaders monitor accountability and to shore up leaders' ability to use temporary power.

The view that for-profit leaders exercise more effective leadership skills than do nonprofit leaders is common not only in the for-profit world but in some segments of the nonprofit sector as well. In light of the recent buzz about a leadership deficit in the nonprofit sector, it seems easy to look to the for-profit sector for leadership talent. These findings indicate that the nonprofit sector may indeed have better leaders, and if it exists, the deficit is better addressed by exploring how we design and provide access to high-quality leadership development opportunities.

Beyond Capacity Building: Leadership Development and Organizational Excellence

Leadership development must be an integral component of capacity-building efforts. But it is time to go beyond capacity building. With its considerable leadership talent, the nonprofit sector is poised to focus on excellence building and power projection. Our nonprofit leaders need support in transforming their organizations from being simply effective to being excellent. Nonprofit leaders have more power than they think. Using organizational structure as a lens, nonprofit leaders rely less on a pyramidal power structure. Instead, they lead from within a star-like structure, a constellation of stakeholders all around them instead of above or below them. This structure recognizes that power relationships are constantly shifting and that partnerships get results, especially when navigating change efforts. It is time to stop being the "weak sister" to the for-profit sector and to recognize and project the positive power and influence that nonprofit leaders have as they work in their communities, in the public forum of ideas and policy, and on behalf of the common good.

Does your own experience support or refute this groundbreaking research? What factors are most relevant for you and why? Share your experience with us at feedback@npqmag.org. Reprints of this article may be ordered from store.nonprofitquarterly.org, using code 140403.

Table G: **Summary of Comparisons Between Nonprofit and For-Profit Leaders**		
Areas for Comparison	**Nonprofit Leaders**	**For-Profit Leaders**
Self versus average of feedback ratings	Tend to rate themselves lower than do their feedback givers	Tend to rate themselves higher than do their feedback givers
Highest scores from self-ratings	Trustworthiness Sharing credit Standards of performance Risk taking	Trustworthiness Sharing credit Encouraging participation Risk taking
Lowest scores from self-ratings	Temporary power Push/pressure	Temporary power Push/pressure
Significant differences in self-ratings	Self-ratings of nonprofit leaders are not significantly different from those for for-profit leaders except in the area of openness to feedback, where nonprofit leaders rated themselves higher than for-profit. leaders.	
Highest scores from manager ratings	Trustworthiness Sharing credit Risk taking Energy	Trustworthiness Sharing credit Risk taking Energy
Lowest scores from manager ratings	Temporary power Push/pressure	Temporary power Push/pressure
Significant differences in manager ratings	Managers' ratings of nonprofit leaders are higher than managers' ratings of for-profit leaders in 14 of the 17 dimensions, except push/pressure, the ability to cope with stress, and trustworthiness.	
Highest scores from direct-report ratings	Trustworthiness Sharing credit Risk taking Standards of performance	Trustworthiness Energy Standards of performance Organizational sensitivity
Lowest Scores from Direct Report Ratings	Temporary power Push/pressure	Temporary power Push/pressure
Significant Differences in Direct Report Ratings	Direct reports' ratings of nonprofit leaders are higher than those of direct reports' ratings of for-profit leaders, again in 14 of the 17 dimensions, except for standards of performance, energy, and push/pressure. On push/pressure, managers and direct reports agree.	
Highest Scores from Peer Ratings	Trustworthiness Sharing credit Risk taking Energy	Trustworthiness Sharing credit Risk taking Energy
Lowest Scores from Peer Ratings	Temporary power Push/pressure	Temporary power Push/pressure
Significant Differences in Peer Ratings	Peer ratings of nonprofit leaders are higher than peer ratings of for-profit leaders in all 17 dimensions	
Highest Scores from Other Ratings	Trustworthiness Sharing credit Coping with stress Encouraging participation	Trustworthiness Energy Risk taking Sharing credit
Lowest Scores from Other Ratings	Temporary power Push/pressure	Temporary power Push/pressure
Significant Differences in Others' Ratings	Ratings of nonprofit leaders by the "Other" category are higher than ratings of for-profit leaders in 15 of the 17 dimensions, except for standards of performance and push/pressure. So on push/pressure, managers, direct reports, and others agree.	
Highest Scores from Average of Feedback Ratings	Trustworthiness Risk taking Energy Encouraging participation	Trustworthiness Sharing credit Energy Standards of performance
Lowest scores from average of feedback ratings	Temporary power Push/pressure	Temporary power Push/pressure

The Clark Wilson Survey of Leadership Practices

The Survey of Leadership Practices (SLP) follows the Task Cycle Theory,[1] a model that has been researched for more than 30 years. The SLP is a 360-degree, or multirater feedback survey that provides insight on 17 leadership dimensions. Each dimension represents specific leadership skills or practices that are:

- Relevant to a specific role (i.e., validity)
- Visible to others, so that they can rate the skills consistently (i.e., reliability)
- Subject to change: that individuals can change, which excludes personality traits (i.e., utility)

These skills are presented in a priority sequence, placing greater emphasis on more fundamental skills.

The survey also measures areas related to these skills that either support or undermine leadership skills, as well as a measure of overall effectiveness.

The Leadership Competencies Task Cycle is presented below in priority sequence (the most fundamental and important skill areas are listed first). They are grouped by phases (roman numerals), which include sets of skills (i.e., dimensions listed in alphabetic sequence).

I. *Establish the purpose*
  A. Vision/imagination: Identifying innovations and changes needed for the future success
  B. Risk taking: A willingness to move forward with ideas

II. *Lay the foundation*
  C. Organizational sensitivity: Awareness of political realities of an organization
  D. Encouraging participation: Encouraging others to share their ideas

III. *Sustaining the effort*
  E. Teaming/empowerment: Encouraging others to work as a team
  F. Persuasiveness: Presenting ideas in a convincing way

IV. *Feedback*
  G. Feedback: Being open to suggestions from others

V. *Monitoring and controlling*
  H. Standards of performance: Holding others accountable
  I. Energy: Demonstrating a desire to achieve results quickly
  J. Perseverance: Remaining focused on a task until it is completed
  K. Push/pressure: Applying pressure to others, though this characteristic can be an inhibitor as well

VI. *Reinforcing good performance*
  L. Sharing credit: Acknowledging others' efforts

VII. *Residual Impact and Outcomes*
  M. Effectiveness/outcomes: Overall leadership effectiveness
  N. Coping with stress: Handling unexpected trouble with confidence
  O. Trustworthiness: Acting ethically and consistently
  P. Temporary sources of power: Having the ability to influence others, but in areas where influence is temporary (such as with a job title)
  Q. Lasting sources of power: Having the ability to influence others, but in areas where these influence cannot be taken away (such as functional expertise).

One of the fundamental tenets of learning theory is that it's easier to learn a chain of events than a series of independent events; it's clustered learning versus independent learning. When Clark Wilson of the Clark Wilson Group began work on this approach, he wanted to make it easy for people to remember their feedback. Wilson decided to put these skills in a sequence to make it easy for people to learn.

The real breakthrough occurred when Wilson discovered there was a mathematical basis for the sequence. That is, there is a sequence of steps that one takes in management and also in leadership; if you do them in the right order, the outcome is substantially enhanced.

What Makes Powerful Nonprofit Leaders

A Commentary by Jim Collins

I once asked the very effective CEO of a Fortune 500 corporation how his extensive experience working in the social sectors applied to business. "The experience prepared me better for leading a company than my Harvard MBA," he replied.

"I don't see how working in the social sectors can prepare you better for running a company," I pressed. "They seem like very different worlds."

"I didn't say running a company," he responded. "I said leading a company."

We should not be surprised by the findings of the Survey of Leadership Practices (see "Peak Performance: Nonprofit Leaders Rate Highest in 360-Degree Reviews" on page 12). Business leaders face a very different power structure than do social-sector leaders. Imagine you could create a "power map" for your organization, with circles sized proportionally to the amount of power garnered by any individual or group. Given 100 points of power in your system, how would you map the distribution of power? If we drew a power map for Wal-Mart under founder Sam Walton, for example, we would find a giant circle with more than 90 points of power under the name Sam. He had enough concentrated power to impose his will: if he wanted Wal-Mart to turn right, it would turn right. Most business executives enjoy a higher proportion of concentrated power than leaders in the social sectors. Rarely do social-sector leaders have enough concentrated power to single-handedly make a decision happen, whereas individuals or subgroups frequently have enough negative power to stop a decision.

When we examined the differences between the business and social sectors through the lens of the good-to-great framework, this difference in power structure led us to advance the theory of "legislative" versus "executive" leadership. In executive leadership, the individual leader has enough concentrated power simply to make the right decisions happen. Legislative leadership, on the other hand, relies more on persuasion, political currency, and shared interests to create the conditions for the right decisions to happen. In the discussion of the Survey of Leadership Practices by Jean R. Lobell and Paul M. Connolly, we see legislative leadership in action, with high nonprofit scores on dimensions like persuasiveness, encouraging participation, sharing credit, teaming, and organizational sensitivity. With the legislative versus executive distinction in mind, these relatively high scores for nonprofit executives make perfect sense.

That said, we should be mindful not to confuse the behaviors and practices of leaders (whether they are participative or whether they make people feel empowered, for example) with the performance of leaders. The output—and the ultimate measuring stick of a leader—must be results. The critical question is not whether we like or dislike the methods of an individual leader—or whether we think those methods are "good" or "bad"—but whether the leader brings about superior and lasting results consistent with the values and mission of the organization. Legislative leadership is not "better" than executive leadership; whether you need to employ primarily executive or primarily legislative leadership depends on the power map.

Business executives can learn much from great nonprofit leaders, as they increasingly need to become skilled at both executive and legislative leadership in the face of declining concentrated power. Key employees find entrepreneurship an increasingly viable option, recruiters swarm after the best people in a war for talent, young people reject the idea of long-term employment at a single enterprise, boards and shareholders demand more executive accountability, the media exposes and amplifies flawed decisions and poor performance, and so on. If true leadership exists only when people follow even though they have the freedom not to follow—and I believe it does—then perhaps our next generation of great business executives will increasingly come from the social sectors, not just the other way around.

Jim Collins is the author of *Good to Great and the Social Sectors*.

How to *Steal* from a Nonprofit:
Who Does It and How to Prevent It

by Janet Greenlee, Mary Fischer, Teresa Gordon, and Elizabeth Keating

Payroll and check tampering fraud were more common in the nonprofit sector than in the business sector.

Editors' note: *This article was written as a working paper for the Hauser Center for Nonprofit Organizations at Harvard University. It has been adapted and published in collaboration with the editors of the* Nonprofit and Voluntary Sector Quarterly. *Readers can access the full article in the December 2007 NVSQ at http://nvs.sagepub.com.*

Is it easier to steal from a nonprofit organization than from a business? That's what some researchers have speculated, arguing that an atmosphere of trust, the difficulty in verifying certain revenue streams, weaker internal controls, a lack of business and financial expertise, and a reliance on volunteer boards all contribute to increased nonprofit vulnerability.

To identify how people steal from nonprofits and how to prevent it, we turned to the biannual surveys of fraud examiners. In its *Report to the Nation on Occupational Fraud and Abuse* published in 2005, the Association of Certified Fraud Examiners (ACFE) focused on both internal and external fraud. In all, it studied in depth 508 cases of occupational fraud representing $761 million in losses. In segregating its findings by sector, ACFE's 2005 report enables us to draw some lessons and comparisons specifically related to nonprofits.

Of the 508 occupational fraud cases reported by ACFE members, 58 or 12%, occurred in nonprofit organizations (see Table 1). In the case of Enron, WorldCom, and other for-profits, the primary underlying offense was misrepresentation of financial information to investors, regulators, and the public. In contrast, nonprofit crimes tend to involve the less complex unauthorized taking of funds for personal use. But when you look at the median losses per incident, they are strikingly similar to losses suffered by businesses and significantly higher than those suffered by government. According to the report, fraud losses in the 58 nonprofit cases ranged from a low of $200 to a high of $17 million, with a median loss of $100,000.

The ACFE survey found that both payroll and check tampering fraud were more common in the nonprofit sector than in the business sector, while false invoices and skimming from revenues

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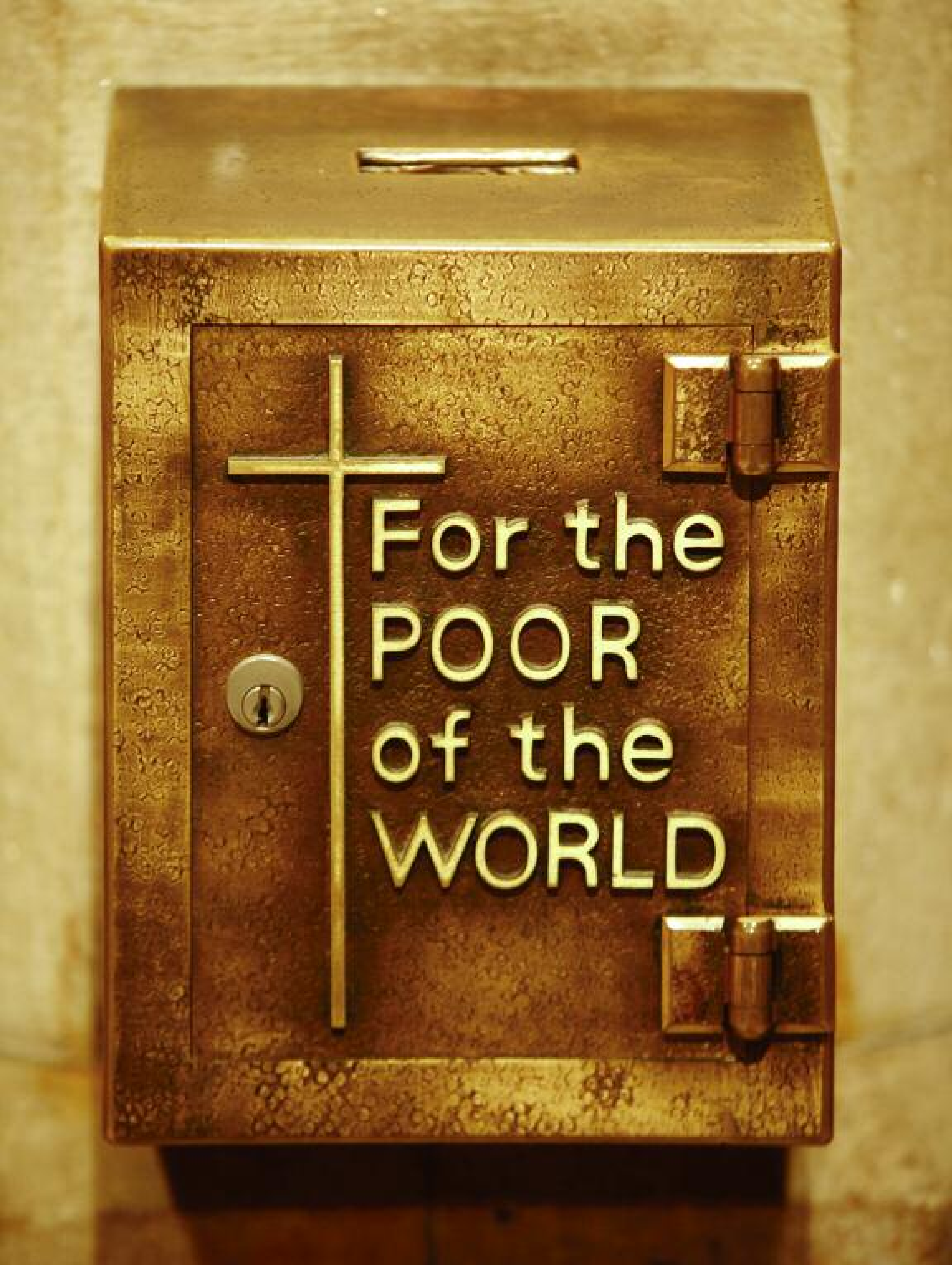
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were more prevalent in for-profit entities. Four of the 58 nonprofits realized losses of more than $1 million, while an equal number of organizations experienced losses of $2,000 or less.

The typical nonprofit fraud case was committed by a female with no criminal record. She earned less than $50,000 a year and had worked for the nonprofit for at least three years.

Who Commits Fraud?

According to ACFE's study, the typical nonprofit fraud case was committed by a female with no criminal record. She earned less than $50,000 a year and had worked for the nonprofit for at least three years.

More than 25 percent of the reported nonprofit frauds were conducted by managers, while 9 percent of the perpetrators were executives. Organization managers committed fraud that resulted in the greatest median loss to the organization ($150,000). The most costly frauds were those perpetrated by male managers and executives earning between $100,000 and $149,000 per year.

The perpetrators' ages ranged from 20 to 62, with a median age of 41. Median tenure with the organization was seven years but ranged from less than one year to 35 years.

Perpetrators who had been with the organization for more than 10 years generated a median loss of $230,000, but the greatest losses were generated by those who had been with the organization the longest; they were between 51 and 60 years old, and their median loss was $257,000.

While only 19 percent of the frauds involved collusion (i.e., the involvement of more than one person), the median loss for frauds involving collusion was more than four times that of frauds perpetrated by a single individual. As part of the survey data gathering, respondents were asked to disclose the criminal history of the perpetrator(s). Most perpetrators had not been charged with or convicted of any crime prior to the fraud, and the size of the loss was not correlated with a criminal background.

What Do Various Types of Fraud Cost?

In *Principles of Fraud Examination*, among the three types of occupational fraud (i.e., asset misappropriation, corruption, and financial statement fraud), author Joseph T. Wells found that asset misappropriation made up more than 97 percent of all reported frauds.[1] Nonprofit organizations in the ACFE study also cited misappropriation as by far the most common type of fraud. Financial statement fraud was the least common, representing only 5 percent of the nonprofit sample. However, the $3 million median loss from these cases was 30 times the $100,000 median loss from asset misappropriation.

Almost 95 percent of all reported asset misappropriations involved cash, with a median loss of $100,000, and these cases involved skimming, larceny, and fraudulent disbursement. More than 75 percent of cash misappropriations involved fraudulent disbursements (when an organization pays an expense that it does not owe). Skimming occurs when cash is stolen *before* it is recorded. Larceny takes place when cash is stolen *after* it is recorded. Fraudulent disbursements are associated with median losses of $145,000, while skimming, which represented 22 percent of the sample, had a smaller median loss of $40,000.

Since the majority of cash misappropriation involves fraudulent disbursements, the ACFE survey asked respondents to identify losses by type of fraudulent disbursements. There are five major types of fraudulent disbursement transactions: (1) fraudulent billing occurs when false or inflated invoices are paid; (2) payroll fraud occurs when a payroll check is issued based on overstated hours worked or to fictitious "ghost" employees; (3) expense reimbursement fraud occurs when falsified claims for expenses are submitted by employees for such things as travel reimbursement; (4) check tampering occurs when an organization's check is stolen or altered; and (5) fraudulent register disbursements occur when false entries are made in a cash register or cash refunds are made from the register without documentation.

Fraudulent billing is the most common type of fraudulent disbursement, comprising almost 50 percent of the total. But the most costly fraud involves register disbursements, with a median loss of more than $350,000. The least costly type of fraudulent disbursement is expense reimbursement, with a median loss of $83,373.

In the business sector, fraudulent financial statements have been widely publicized, which in 2002 led to passage of the Public Company Accounting Reform and Investor Protection Act, also known as the Sarbanes-Oxley Act. Typically, financial statements are falsified by one or more of the following: (1) overstating revenues, (2) understating liabilities or expenses, (3) recognizing revenue or expenses in the wrong period, (4) reporting assets at either less or more than the actual value, and (5) failing to disclose significant information. Fraud examiners reported three cases of fraudulent nonprofit financial statements. Overstating revenues resulted in the largest loss, at $10,000,000. Inappropriate asset valuation and lack of disclosures both resulted in $100,000 losses.

Uncovering Crimes

How was fraud discovered? Contrary to what some might believe, it was relatively rare for fraud to be discovered via the audit process. More than 86 percent of the sample organizations had undergone external audits, which is much higher than the rate of audits experienced by the overall nonprofit population.

More than 43 percent of the frauds were detected by tips, with half of these tips coming from employees, while only a quarter of the frauds were detected by the internal audit department. Tips from vendors led to detection of the frauds with the greatest losses. Frauds detected through customer tips were the smallest, with a median loss of $2,600. More than 22 percent of the reported frauds were caught by accident, while only 12 percent were found by an external auditor. Internal controls were credited with helping to detect nearly 14 percent of the cases.

Although internal controls and internal and external audits were useful in identifying a third of the fraud cases, nonprofit organizations that had undergone internal or external audits did not see a reduction in the size of their fraud losses.

Are People Held to Account?

When a fraud is discovered, an organization can charge the perpetrator(s) criminally and/or civilly. Seventy-two percent of the nonprofit frauds resulted in termination, but 7 percent resulted in no punishment. In comparison, for-profit fraudsters were more likely to be terminated (88 percent) but had an equal chance of not being punished (7 percent).

This does not mean that employers necessarily retained the fraudsters. In many cases, it was reported that the perpetrator quit or disappeared when his scheme was discovered. Not surprisingly, large losses were more commonly referred to law enforcement for criminal prosecution (72 percent). The median loss related to frauds reported to the authorities was $140,000 as compared with just $6,700 when no criminal

Table 1. **Organizational Victims of Fraud with Median Dollar Loss**

Type of organization	Percentage of the 508 reported cases	Median loss from fraud
Private company	41.8	$123,000
Public company	30.2	$100,000
Government agency	15.8	$37,500
Nonprofit organization	12.2	$100,000

Source: Association of Certified Fraud Examiners (ACFE), *Report to the Nation on Occupational Fraud and Abuse,* 2005.

Table 2. **Characteristics of the Victims and Perpetrators of Fraud in Nonprofit Organizations in ACFE Study**

	Mean	Median
Number of employees	4,606	58
Age of organization	40.2	30
Number of perpetrators Involved	1.6	1
Age of principal perpetrator	41	41
Tenure with organization of principal perpetrator	7.4	4
Total dollar loss caused by fraud	$535,104	$100,000

Source: Association of Certified Fraud Examiners (ACFE), *Report to the Nation on Occupational Fraud and Abuse,* 2005.

referral was made. Of those cases resulting in criminal prosecution, 70 percent of the accused individuals pleaded guilty or no contest and five were acquitted.

Finally, survey respondents were asked whether a percentage of the loss was recovered. Fifty percent recovered nothing, with a median loss of $95,873. Thirty-four percent completely recovered their loss (median loss of $25,350). Insured organizations recovered about 57 percent of their loss.

Predicting and Preventing Fraud

According to W. Steve Albrecht, a leading expert in this field, workplace fraud perpetrators resist a single profile, and their fraud is difficult to predict. But the best predictive characteristics for those who may commit fraud are employees with high personal debts or those who live beyond their means and who work in organizations that do not enforce clear lines of authority or proper procedures for transaction authorization. Financial personnel who refuse to take vacations is another red flag. The ACFE study found that the most likely locations for the kinds of fraud striking nonprofits (skimming, billing schemes, and cash larceny) are accounting per-

More than 43 percent of the frauds were detected by tips, with half of these tips coming from employees, while only a quarter of the frauds were detected by the internal audit department.

What is our organization's approach to transparency, and is there an open door for whistle-blowers? Is there a culture of asking questions and rewarding people for having asked them?

sonnel, followed by executive and upper management and sales.

So what should organizations do? First, every economic entity needs property insurance and, depending on size, may also need to buy employee dishonesty coverage to protect against fraud—usually when required by a governmental funding source or after a loss has been incurred. For this coverage, insurance companies may require nonprofit policy holders to ensure that bank accounts are reconciled by someone not authorized to deposit or withdraw. Second, officers and employees should be required to take annual vacations of at least five consecutive business days or the organization should be required to have an annual audit. Insurers want to see good business practices that in themselves help prevent fraud—and lower claims.

Prior to Consideration of Fraud in a Financial Statement Audit (SAS No. 99), auditing standards did not encourage fraud-detection procedures. With SAS No. 99, there is a better opportunity for the annual audit process to detect at least major fraud activity, but it is not a guarantee. Certainly, the external audit cannot be relied on as the sole detection or prevention strategy. Of the 58 nonprofit cases examined in this study, only 10 percent were discovered during the annual audit. Nonprofit audit committees and boards must install methods to reduce the risk of loss from fraud. Some key recommendations to reduce the risk of fraud as set forth by Floch (2004) and R. Wells (2005) include the following:[2]

- Require background checks for all employees with access to cash and other liquid assets.
- Check the Web sites of various state charity offices for advisories and final judgments identifying individuals or fundraising firms involved with fraud as well as for more general advice on fraud prevention and detection.
- Consider insurance or bonding for all employees with access to cash or other assets.
- Make it easy for employees, vendors, customers, and others to confidentially report suspected fraud or abuses.
- Periodically review internal controls to ensure that they can detect more than just small-scale fraud. Managers, executives, and others in positions of power have opportunities to bypass internal controls and perpetrate major fraud. When certified fraud examiners were asked on a scale of one (ineffective) to five (effective) about the rankings of fraud prevention measures, strong internal controls ranked higher (3.66) than any other measure. ACFE recommends the use of its Fraud Prevention Check-Up to help identify and fix problems before it is too late (see *www.acfe.com/fraud/check.asp*), and it's an excellent resource for nonprofit audit committees. (For more, see"Assessing Fraud Risk."on page 33.)

Conclusion

While the ACFE sample is too small to draw firm conclusions about fraud in the nonprofit sector, it does highlight some interesting questions and challenges for nonprofits. Since it appears that audits and audit processes do not detect a great deal of fraud, and considering that many nonprofits do not conduct audits (while many others fall below the averages presented in this small sample), much of the burden for detecting fraud falls on informal systems that form the core of organizations' operations.

There are some questions that organizations should ask themselves: What is our organization's approach to transparency, and is there an open door for whistle-blowers? Is there a culture of asking questions and rewarding people for having asked them? Is the board and executive leadership engaged in a way that ensures that difficult questions are asked before fraud surfaces on its own? For organizations that do not conduct an audit, are policies in place to ensure good accountability? (For more on this topic, see *NPQ* Spring 2007, "Absent the Audit: How Small Nonprofits Can Demonstrate Accountability Without One" by Jeanne Bell and Steve Zimmerman.)

Endnotes

1. Joseph T. Wells, *Principles of Fraud Examination.* New Jersey: John Wiley & Sons Inc., 2005.
2. Julie L. Floch, "Audits, Standards, and Integrity in Nonprofit Organizations. *The Practical Accountant*, Vol. 37, August 2004. Wells, R. Senate hearing probes tax abuse by charity groups. *Wall Street Journal*, 245 (67), p. D2, April 6, 2005.

Has your organization ever experienced fraud? How was it committed, discovered, and managed? Share your experience at *feedback@npqmag.org*. Reprints of this article may be ordered from http://store.nonprofit quarterly.org, using code 140404.

Assessing Fraud Risk by Joseph T. Wells and John D. Gill

Every organization faces some risk of fraud from within. Fraud exposure can be classified into three broad categories: asset misappropriation, corruption and fraudulent financial statements.

Answering the following 15 questions is a good starting point for sizing up a company's vulnerability to fraud and creating an action plan for lessening the risks. The questions are based on information from the 2007 edition of the *Fraud Examiners Manual* published by the Association of Certified Fraud Examiners.

1. **Do one or two key employees appear to dominate the company?**

If control is centered in the hands of a few key employees, those individuals should be under heightened scrutiny for compliance with internal controls and other policies and procedures.

2. **Do any key employees appear to have a close association with vendors?**

Employees with a close relationship to a vendor should be prohibited from approving transactions with that vendor. Alternatively, transactions between these parties should be reviewed on a regular basis for compliance with internal controls.

3. **Do any key employees have outside business interests that might conflict with their job duties?**

Take the example of a 32-year-old sales representative who started a software company using his employer's time, equipment and facilities. The software company he worked for discovered that the employee demonstrated his own products to the company's customers. Ultimately, the employee diverted $500,000 in business away from his employer.

The example illustrates why key employees should provide annual financial disclosures that list outside business interests. Many companies, particularly publicly traded companies, require such disclosures. Interests that conflict with the organization's interests should be prohibited. Organizations should implement an explicit policy that forbids employee business activities that directly compete with the operations of the organization.

Employees who have something to hide may lie or omit key facts on the disclosure form, but requiring the step still has advantages, such as making it easier to fire workers who fail to reveal potential conflicts. If an employer can show that an employee had such an interest and failed to disclose it on an annual reporting form, the employee can be fired simply for failing to follow company policy.

4. **Does the organization conduct pre-employment background checks to identify previous dishonest or unethical behavior?**

Organizations should conduct pre-employment background checks before offering employment to any key applicant. The scope of a background check varies by position, but a general list to consider includes: criminal records and convictions; Social Security number verification; credit history; previous employment; employment references; personal references; education verification; professional license verification; driver's license verification and driving history check; and civil records and judgments. Employers should ensure that legal requirements are met for the use of and access to the information.

For companies that have failed to do background checks, post-hire screenings may be appropriate in some cases, but should be conducted on the advice of legal counsel. A number of legal issues come into play when employers consider screening workers who are already on the job.

5. **Does the organization educate employees about the importance of ethics and anti-fraud programs?**

All employees should receive training on the ethics and anti-fraud policies of the organization. The employees should sign an acknowledgement that they have received the training and understand the policies.

6. **Does the organization provide an anonymous way to report suspected violations of the ethics and anti-fraud policies?**

Organizations should provide employees, vendors and customers with a confidential system for reporting suspected violations of the ethics and anti-fraud policies. According to the 2006 ACFE *Report to the Nation on Occupational Fraud and Abuse*, frauds are most commonly detected by a tip. The greatest percentage of those tips comes from employees of the victim organization.

In one instance, an anonymous tip received by a fraud hotline thwarted a fraud scheme that had drained approximately $580,000 from a business. The caller reported that the company's accounts payable manager was approving fictitious invoices from his own outside company. The tip clued in company management to the scheme and brought an abrupt end to the manager's windfall. The fraudster was terminated and arrested. The company ultimately recouped most of its losses.

7. **Is job or assignment rotation mandatory for employees who handle cash receipts and accounting duties?**

Job or assignment rotation should be considered for employees who work with cash receipts and accounting duties. The frequency of the rotation depends on the individual's responsibilities and the number of people available for the revolving duties.

8. **Has the company established positive pay controls with its bank by supplying the bank with a daily list of checks issued and authorized for payment?**

One method for a company to help prevent check fraud is to establish positive pay controls by supplying its banks with a daily list of checks issued and authorized for payment. Banks verify items presented for payment against the company's list and reject items that don't appear on the list.

The use of those controls foiled a fraud attempt by an employee and his accomplice, who worked for a check-printing company. The accomplice printed blank checks with the account number belonging to the perpetrator's employer. The perpetrator then wrote more than $100,000 worth of forgeries on the counterfeit checks.

When the checks were presented to the bank for payment, they did not appear on the organization's list of expected payments. The bank refused to cash them. The organization was notified, and the fraudsters were arrested.

9. **Are refunds, voids and discounts evaluated on a routine basis to identify patterns of activity among employees, departments, shifts or merchandise?**

Companies should routinely evaluate those transactions to search for patterns of activity that might signal fraud.

10. **Are purchasing and receiving functions separate from invoice processing, accounts payable and general ledger functions?**

Segregation of duties is an important control. The failure to segregate these duties allowed one large, publicly traded company to be duped by a member of its managerial staff. The individual managed a remote location of the company and was authorized to order supplies and approve vendor invoices for payment. For more than a year, the manager routinely added personal items and supplies for his own business to orders made on behalf of his employer. The orders often included a strange mix of items. For instance, technical supplies and home furnishings were purchased in the same order.

In addition to ordering personal items, the employee changed the delivery address for certain supplies so they were shipped directly to his home or side business. Because the manager was in a position to approve his own purchases, he could get away with such blatantly obvious frauds. The scheme cost his employer approximately $300,000 in unnecessary purchases.

11. **Is the employee payroll list periodically reviewed for duplicate or missing Social Security numbers?**

Organizations should check the employee payroll list periodically for duplicate or missing Social Security numbers that may indicate a ghost employee or overlapping payments to current employees.

12. **Are there policies and procedures addressing the identification, classification and handling of proprietary information?**

To help prevent the theft and misuse of intellectual property, the company should implement policies and procedures addressing the identification, classification and handling of proprietary information.

13. **Do employees who have access to proprietary information sign nondisclosure agreements?**

All employees who have access to proprietary information should sign nondisclosure agreements. It is easier to sue for breach of a nondisclosure agreement than it is to sue for theft of information. Nondisclosure agreements afford companies legal options for the use of nonpublic information, not simply for information that is considered a trade secret.

In most states, companies without nondisclosure agreements may be limited to suing for theft of trade secret information.

14. **Is there a company policy that addresses the receipt of gifts, discounts and services offered by a supplier or customer?**

Organizations should implement a policy that sets ground rules about employees accepting gifts, discounts and services offered by a supplier or customer. If no explicit policy is in place, employees may find themselves in ambiguous situations without clear ethical guidelines.

For example, a city commissioner negotiated a land development deal with a group of private investors. After the deal was approved, the commissioner and his wife were rewarded by one of the investors with an all-expenses-paid international vacation.

While the promise of the trip may have influenced the commissioner's negotiations, this would be difficult to prove. However, had a clear policy regarding the receipt of gifts been implemented and enforced, the commissioner would have known that accepting the free vacation was a violation of the rules. The ambiguity of the situation would have been avoided.

15. **Are the organization's financial goals and objectives realistic?**

Closely monitor compliance with internal controls over financial reporting if the financial goals and objectives appear to be unrealistic. Establish realistic financial goals and objectives for the organization. Common justifications for financial statement fraud include a desire to obtain bonuses linked to goals or frustration with objectives that were unachievable through normal means.

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The Whistle-blower: *Policy Challenges For Nonprofits*

by Scott Harshbarger and Amy Crafts

With these mechanisms in place, intervention and prevention methods can strengthen and support a workplace culture of integrity, openness, transparency, and, above all, two-way communication.

WHISTLE-BLOWER POLICIES ARE designed to advance public-policy objectives and to promote public accountability in organizations of all types. Created to pierce corporate and public agency "walls of silence" concerning illegal activity, these laws and policies are intended to protect employees who report corporate wrongdoing, illegal conduct, internal fraud, and discrimination against retaliation. Promoting such transparency is critical to the public accountability of corporations, government, and nonprofits.

General public-policy imperatives aside, human resources, executive consultants, and organizational leaders have come to view internal whistle-blowing policies as crucial tools. Organizations can use these tools to identify problems and successes in the workplace, workforce, and leadership early on. With these

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PHOTO © BETTMAN / CORBIS

Many maintain that it's unrealistic to expect employees to whistle-blow in nonprofit organizations, particularly in smaller ones, because these employees worry about doing damage to the organization and because they fear retaliation.

mechanisms in place, intervention and prevention methods can strengthen and support a workplace culture of integrity, openness, transparency, and, above all, two-way communication.

Consistent with this dual use of whistle-blower policies, there are (1) myriad laws relating to whistle-blower reporting and protection, including the whistle-blowing provisions of the Sarbanes-Oxley Act enacted in the wake of the Enron scandal in 2002 and (2) an evolving range of sophisticated ethical principles and models that support the adoption of appropriately adapted policies in entities of every size and from every sector.[1]

So what is the problem? Why are many employees, at every level, and even in "compassionate" nonprofit organizations, reluctant or fearful to report anything up the ladder that is not positive? If they do and subsequently face adversity, what is the remedy? What can we suggest to these employees and to organizational leaders?[2]

We begin with some facts as we often hear them: first, the laws and policies related to whistle-blower protection—and their real use and efficacy in nonprofit organizations—are two very different things. This presents a major issue for those employees who are weighing whether to report an organizational issue. Many maintain that it's unrealistic to expect employees to whistle-blow in nonprofit organizations, particularly in smaller ones, because these employees worry about doing damage to the organization and because they fear retaliation. Such employer backlashes are often veiled as actions taken for other reasons. Only complicating the second point, many nonprofit employers believe that if fully implemented these laws and policies can be abused by disgruntled litigants to "cover themselves" from adverse employment decisions. In this kind of potentially obscure situation, nonprofit leaders have to be proactive to ensure organizational health; and one of the most important goals should be to create a "climate of corporate integrity."[3]

First, it is essential to distinguish between true whistle-blower laws and broader protections where whistle-blowing isn't the central purpose of the law. While the latter are components of a healthy workplace, they are sometimes mislabeled as whistle-blower policies. Massachusetts, for example, currently has 36 statutes on the books that include whistle-blower provisions and that prohibit discrimination against employees who report conduct covered by the law. But these laws stem largely from the civil-rights arena, which ushered in protections for minorities and women, for example, then came to include environmental and safety provisions, then anti-harassment protections, and now, post-Enron, encompass all kinds of fraud.

As far as state laws protecting whistle-blowers go, Massachusetts is about as good as it gets. The more commonly cited federal law provides more narrow protection for whistle-blowers, typically extending only to employees who "report" or "disclose" to authorities what an employee believes to be either an illegal activity on the part of the employer or the employer's engagement in an activity that poses a threat to public health or safety. The Sarbanes-Oxley whistle-blower statute, for example, protects employees who provide information, cause information to be provided, or otherwise assist in an investigation regarding any conduct that an employee reasonably believes constitutes a violation of SOX.[4] While SOX does not apply explicitly to nonprofits, we always recommend that nonprofits voluntarily comply with this statute. Another federal whistle-blower statute that applies to the nonprofit and health-care sectors is the False Claims Act (FCA). Its scope covers entities that participate in Medicare and/or Medicaid. Its whistle-blower provision is broader and covers retaliation against employees who expose false claims.[5] Many nonprofits are now legally required to educate their employees regarding FCA and its whistle-blower protections as well as any state-law counterparts.[6]

The Whistle-blower Protection Act of 1989 (WPA) also provides narrow protection. WPA protects federal employees from any retaliatory action based on an employee's "disclosure of information" that the employee "reasonably believes evidences (i) a violation of any law, rule, or regulation or (ii) gross mismanagement, a gross waste of funds, an abuse of authority, or a substantial and specific danger to public health or safety." This standard protects employees only in connection with "disclosures of information" and not from other, less clear-cut "reporting" activities.

Most states are consistent with federal laws,[7] while some afford employees more protection than does the federal scheme. Massachusetts and New Jersey have broadened the scope of whistle-blower statutes by extending protection to employees who experience retaliation at the hand of their employers for cooperating with law enforcement without requiring that they disclose specific information about the employer.[8] Employers in Massachusetts, therefore, are held to a much higher standard with regard to whistle-blowers than that required by federal statutes such as WPA.

Although some state laws are more liberal than others, these generally narrow protections are often insufficient or poorly understood by employees; in many kinds of organizations, employees don't speak out or, despite federal and state law protections, are retaliated against when they do.[9] In the nonprofit sector, where many organizations are small and anonymity is largely impossible, it will take more than law and the policies in place to achieve the positive goals we intend when we argue for the creation of a culture of integrity. This kind of culture requires that employees are encouraged to speak up without fear of retaliation, ostracization, or of being held responsible for harm done to their organization.

Still, despite the fact that there is only a narrow range of conduct actually encompassed by whistle-blower laws, not every nonprofit has whistle-blower policies in place. Nonprofits are not exempt from these legal and policy requirements, and we strongly urge readers to implement these important policies. Principle four of the *Nonprofit Panel Guide*—a statement of accepted best practice in the nonprofit sector for organizations of all kinds—indicates the widespread acceptance of these policies. Indeed, attorneys general who oversee nonprofits often recommend these policies, as does the first report of the Panel on the Nonprofit Sector. Additionally, most best-practice guidelines on nonprofit governance include standard whistle-blower policies. It should be noted that most recommended whistle-blower provisions are linked only narrowly to fraud or

There is only a narrow range of conduct actually encompassed by whistle-blower laws.

Whistle-Blowers by the Numbers by Rick Cohen

The nonprofit sector does not record statistics on many accountability indicators, but it should. One vital statistic to track would be the treatment of whistle-blowers and the disposition of their complaints. Without this information, we have to imagine the fate of nonprofit whistle-blowers extrapolated from weak government and corporate data.

First, how important are whistle-blowers to accountability? According to a 2007 National Bureau of Economic Research (NBER) paper, between 1996 and 2004 employee whistle-blowers were responsible for revealing fraud in 19 percent of cases of corporate fraud involving companies with more than $750 million in assets.[1] Basically, employee whistle-blowers uncovered one out of every five cases of corporate fraud.

The corporate sector's official regulators (such as the Securities and Exchange Commission) and theoretical self-regulating actors (stock exchange regulators, underwriters, and commercial banks) were practically invisible as fraud spotters.[2]

According to the Association of Certified Fraud Examiners, in 2006, whistle-blowers were even more significant, accounting for "34% of the detection of all fraudulent activity . . . 34% of the detection of fraudulent activity for not-for-profit organizations . . . and 40% of the detection of fraudulent activity for government agencies."[3]

What happened to these intrepid souls who stood up for investors, taxpayers, and the public as whistle-blowers? According to NBER's report, "In 45 % of the cases, the employee blowing the whistle does not identify him or herself individually and *in 82% of cases with named employees, the individual alleges that they were fired, quit under duress, or had significantly altered responsibilities as a result of bringing the fraud to light* [emphasis added]."[4] Contrary to the spirit of Sarbanes-Oxley, the overwhelming result has been that whistle-blowers find themselves disadvantaged, abused, and penalized for having spoken up.

In the government arena, the whistle-blower picture doesn't look much better. According to an Associated Press review, for example, employees who blew the whistle on fraud by U.S. companies doing contract work in war-ravaged Iraq "have been fired or demoted, shunned by colleagues, and denied government support in whistle-blower lawsuits filed against contracting firms."[5]

While they face ostracism, work-related penalties, and even termination, potential whistle-blowers might come forward if they believed that the system were likely to respond as a result of their actions. At the government level, there is little evidence that whistle-blowers can reasonably expect their risk to result in corrective action. Under the federal Whistle-blower Protection Act, the Office of Special Counsel (OSC) is charged with protecting federal government whistle-blowers, but its 2006 annual report counted 2,582 new whistle-blower disclosures between the 2002 fiscal year and the 2006 fiscal year; only 100 were referred to agency directors for investigation and only 41 to agency inspectors general for action.[6] Why would employees risk it all to blow the whistle when it is probable that nothing good will happen personally *or* organizationally?

It might be daunting for federal government whistle-blowers to look to the OSC for support against agency retaliations when the agency's OSC director has been fighting his own staff who blew the whistle on his inadequate antidiscrimination practices and his proclivity to cronyism. The OSC director and George W. Bush appointee responded by condemning whistle-blowers who spoke to the press and allegedly initiating his own retaliation against complainants in his agency.[7]

Protection isn't much better under Sarbanes-Oxley, which ostensibly contains provisions to protect whistle-blowers.[8] According to one study, of 677 Sarbanes-Oxley whistle-blower complaints regarding employer retaliation through May of 2006, 499 were dismissed and 95 were withdrawn. Only 2 percent of cases that eventually made it to an administrative law judge hearing resulted in decisions in favor of employee whistle-blowers.[9] Not surprisingly, NBER's report indicates that the percentage of corporate fraud cases revealed by employee whistle-blowers has actually dropped since the enactment of Sarbanes-Oxley.[10]

The action of blowing the whistle on a government, corporate, or nonprofit entity does not mean that the whistle-blower is right. But limited definitions of what constitutes protected whistle-blowing and the power imbalance between individual whistle-blowers and their institutional opponents add up to real-life deterrents for people who want to report what they believe is wrongdoing.

Endnotes

1. Alexander Dyck, Adair Morse, and Luigi Zingales, "Who Blows the Whistle on Corporate Fraud?," *National Bureau of Economic Research*, February 2007, pp. 1–2.
2. As testament to the importance of muscular external regulation, financial analysts and auditors were each credited with uncovering approximately 14 percent of the cases and the Securities and Exchange Commission about 6 percent, all substantially more than the zeroes attributable to corporate self-regulators.
3. Cited in Michael D. Akers and Tim V. Eaton, "Whistleblowing and Good Governance," the *CPA Journal*, June 2007.
4. Dyck et al., p. 3
5. Deborah Hastings, "Those Who Blow Whistle on Contractor Fraud in Iraq Face Penalties," *Associated Press Financial Wire*, August 24, 2007.
6. *http://www.osc.gov/documents/reports/ar-2006.pdf*, p. 31
7. See, for example, the testimony of Beth Daley from the Project on Governmental Oversight at a hearing of the Committee on House Oversight and Government Reform Subcommittee on Federal Workforce, Postal Service, and the District of Columbia, "Ensuring a Merit-Based Employment System," *CQ Congressional Testimony*, July 12, 2007.
8. Section 806 of Sarbanes-Oxley prescribes a procedure for aggrieved whistle-blowers to file complaints and get a hearing with U.S. Department of Labor administrative law judges.
9. Cited in Terry Morehead Dworkin, "SOX and Whistleblowing; Sarbanes-Oxley Act of 2002," *Michigan Law Review*, June 1, 2007.
10. Dyck et al., p. 6.

Rick Cohen is the *Nonprofit Quarterly's* national correspondent.

discrimination. So for the purposes of this discussion, we assume that all nonprofits understand and will comply with the law.

Some nonprofit employers hold exaggerated fears that employees will misuse whistle-blower policies to protect themselves from termination for other cause. In reality, the risk and exposure of attempted abuse can be handled by advanced planning and, as we have sought to demonstrate with our clients, good counsel. Instead of fretting about employee misuse of whistle-blower policies it's better to embrace the spirit of these laws. This protects honest employers better than any other course.

We are concerned about nonprofits that have whistle-blower policies in place but that nonethless continue to have a culture where employees are reluctant to speak out. The act of speaking out is often threatening because the organization is too small and lacks anonymity, because the reporting employee fears retaliation, or because the employee fears others may assume that he is whistle-blowing to distract from his own poor performance. These fears are not unfounded and, if borne out, can be career breakers. They can also harm organizational integrity and threaten the quality of our work.

In many situations, where an employee observes an ethical lapse that he does not know is illegal, the decision to report is really a matter of discretion. But here you have the chance to establish a threshold. The question is whether employees are encouraged to report regardless of whether the reportable behavior is a clear violation of the law or simply an ethical violation of the values of the organization or sector standards. Does the employee feel protected by the organization's written policies and culture? If employees are comfortable reporting minor matters, it is more likely that major ones will be addressed.

After reviewing the excellent array of best practices in every sector, we believe that while there is no silver bullet to address the problem, there are nonetheless solutions. The initial keys involve training, evaluation, supervision, monitoring, independent systems for reporting up to the highest levels of an organization, and, above all, inculcating the values that will change the culture from and at the top: that is where change really matters and truly begins. To that end, we need to devise policies and systems that focus on encouraging reporting, beginning with a board focal point and a C-suite executive whose job description includes ethics enforcement, as well as systematic ethics training that focuses on the gray areas, not just the black-and-white areas where reporting should happen. Training in decision making is important for employees and should include executives. An organization's board should also periodically be subject to independent monitoring.

One example stems from the role of one of the coauthors of this article as the independent chair of the audit committee for a small influential international nonprofit organization. In this case, an employee who wanted to report a potentially confidential issue to the CEO contacted the coauthor. The employee was most concerned about suffering from reprisal; reporting the issue would inevitably expose her if it got out, because she was the only employee at this organization with access to such information. The employee's ability to report the matter to an independent party provided her with assurance that someone else was aware of the situation and that employer retaliation would be difficult. Because it was crucial that the organization's nonprofit management learn about the issue, the coauthor encouraged the employee to report the information. Again, a culture of integrity where employees at every level are encouraged to openly air concerns not only benefits staff and morale but also the organization as a whole.

In another example, at the Massachusetts Office of the Attorney General, it became clear that, when effective systems are in place, reporting can be effective. The coauthor's legal counsel—who was responsible for implementing the office's policies on ethics, professional responsibility, policy compliance, and upward reporting—was tasked with ensuring that we were the first to hear bad news (such as mistakes, poor performance, errors in judgment, citizen and staff concerns) as well as success from our 500–person staff. This system often prevented the escalation of minor issues to major ones.

Ethics and compliance officers have a wealth of knowledge about reporting policies.[10] The sad reality, however, is that many nonprofit commu-

We are concerned about nonprofits that have whistle-blower policies in place but that nonethless continue to have a culture where employees are reluctant to speak out.

Does the Law Protect Whistle-Blowers?

by Rick Cohen

Despite everything you've read and heard about the applicability of the Sarbanes-Oxley Act (SOX) to nonprofit whistle-blowing, the 2002 law's protections appear to offer flimsy protection from employer retaliation against nonprofit employees who identify misconduct. That's why the creation of a corporate culture that values and protects nonprofit employee whistle-blowing—internal and external—is so important, because Sarbanes-Oxley falls far short of a whistle-blower's suit of armor.

In the nonprofit, corporate, and even governmental realms today, the presumption is that Sarbanes-Oxley and various state laws protect whistle-blowers like Enron's Sherron Watkins from legal retaliation, though not necessarily from vilification by colleagues and employers. SOX makes the firing of a whistle-blower a violation of federal law,

> Whoever knowingly, with the intent to retaliate, takes any action harmful to any person, including interference with the lawful employment or livelihood of any person, for providing to a law enforcement officer any truthful information relating to the commission or possible commission of any Federal offense, shall be fined under this title or imprisoned not more than 10 years, or both.[1]

SOX intended the criminal penalty to prevent punitive whistle-blower firings, but what protections exist if an employee is fired anyway?

For federal government whistle-blowers covered by the Whistleblower Protection Act (WPA) and employees of publicly traded corporations "protected" under Sarbanes-Oxley, both laws contain defined avenues for aggrieved employees to take redress against retaliation. For nonprofit employees, where the SOX federal criminalization of whistle-blower retaliation covers nonprofit settings, the avenue for redress is less clear. That is, under SOX the nonprofit employee may have to take to federal court for protection, a high bar to jump that involves great expense, risk, and exposure. For many—and perhaps most potential nonprofit whistle-blowers—this is an effective barrier to action. No wonder so many of them opt for anonymous reporting.

Until Sarbanes-Oxley, whistle-blowers had to navigate their standing under various state whistle-blower protection laws, inconsistent from state to state and hardly ironclad. The typical trigger for protection of whistle-blowers from retaliation is reporting potential wrongdoing to an agency with some jurisdiction over the activity—and the whistle-blower's reasonable belief that the reported wrongdoing is illegal. Whistle-blowing isn't about complaining about a dislikable boss and his crummy management. It's pointing out something that could reasonably be considered wrong and illegal.

For federal government whistle-blowers such as the FBI's Colleen Rowley (who tried to warn her superiors about potential 9/11 terrorists), protection is supposed to come from the Whistle-blower Protection Act, plus an array of other laws. For the U.S. Office of Special Counsel to intervene in federal whistle-blowing retaliation cases, the law requires that a whistle-blower identify a violation of laws or regulation, abuse of authority, gross mismanagement, or danger to public health and safety (beyond the Sarbanes-Oxley focus on reporting illegalities, fraud, and factors that would adversely affect the interests of public corporation investors).

Sarbanes-Oxley not only invented a national standard of sorts for whistle-blowing in private-sector venues but also the criminalization of employer retaliation against whistle-blowers (replete with fines and imprisonment for corporate violators). However, the courts have narrowed definitions and coverage even in the short time since the enactment of SOX in 2002.

"Reasonable belief" that the wrongdoing is a crime is the whistle-blower's first line of defense under Sarbanes-Oxley. It doesn't require that the whistle-blower can cite the precise paragraph and subparagraph of the law that he believes has been violated or, in fact, that an actual crime has been committed; it requires only that the whistle-blower make the complaint in good faith with a reasonable belief that the wrongdoing is a violation of the law.

Given the lead-up to Sarbanes-Oxley involving Enron's fraudulent financial systems, protected whistle-blowing includes pointing out serious deficiencies in internal financial controls, which can undermine investor interests. But if the conduct amounts simply to misspending that *doesn't* adversely affect investors' interests, that might not count as protected whistle-blowing. This question emerged recently in *Welch v. Cardinal Bankshares Corporation,*[2] where the court held that the whistle-blowing CFO of a bank holding company "could not have reasonably believed" that the financial irregularities he pointed out constituted sufficient misinformation to misrepresent the firm's financial condition to investors.

Nonetheless, an ill-motivated employer might still demote or terminate a legitimate whistle-blower. What happens then? The whistle-blower has to demonstrate that the employer knew (or should have known) that the whistle-blower was engaged in protected activity and that the employee's whistle-blowing was a "contributing" component in the employer's retaliation. This daunting hurdle puts the burden of proof on the whistle-blower and pits him against an employer's deeper pockets and lawyers.

Whistle-blowing protections are especially tough for "at will" employees, who know that employers use lots of avenues to get rid of staff who aren't covered by union or labor contracts or strong personnel policies. Remember, however, that at-will employees are protected against being fired in violation of civil rights provisions and in theory, whistle-blowing, though that requires reporting an employer's fraudulent or illegal activities to the appropriate authorities, not simply complaining to friends, coworkers or even the press about employer misconduct.

Sarbanes-Oxley makes retaliation against whistle-blowers a federal crime, whether the venues are publicly traded corporations, smaller private companies, or private nonprofits. Despite occasional restrictions by Department of Labor administrative law judges and appellate courts on what gets protected in the corporate world and despite sometimes lackluster protections afforded by the Office of Special Counsel in the federal government, protected whistle-blowing is alive and well post-SOX.

Although, unlike whistle-blowing by employees in publicly traded corporations, there isn't a specifically mandated review procedure applicable to nonprofit whistle-blowing. If nonprofit whistle-blowers are fired, they can report their allegations to the FBI and the U.S. Attorney's Office, and they can sue an employer for improper termination. The case law has yet to fully interpret which nonprofit circumstances and employee whistle-blowing Sarbanes-Oxley covers. Consequently, you might be heartened by the application of SOX whistle-blowing coverage to nonprofit work settings, but your best redress against employer retaliation might be employment law protections.

Notwithstanding SOX, WPA, and various other state and federal statutes that reference whistle-blowing protections, a clearly stated whistle-blowing policy—adopted and enforced by a nonprofit organization's board of directors—is crucial.

Ever wonder why Deep Throat, the Watergate whistle-blower, chose dark corners of underground parking garages for his meetings with Bernstein and Woodward? It took until nearly his death, when Deep Throat (aka Mark Felt) was suffering from Alzheimer's, for his family to believe itself secure enough to reveal his identity. Some potential nonprofit whistle-blowers may believe that—despite the instituted protections like SOX and WPA—they need the crannies of murky garages to expose wrongdoing. To be sure, it's still a tough world for the plucky whistle-blower.

Endnotes

1. Section 1107, "Retaliation Against Informants," the Sarbanes-Oxley Act of 2002.
2. 'For more on *Welch v. Cardinal Bankshares Corporation,* see *http://www.lillick.com/publications_detail3.asp?ID=1894* and http://www.hklaw.com/Publications/Newsletters.asp?IssueID=800&Article=4131.

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nity leaders have ignored or dismissed such expertise; many consider their knowledge intrusive, costly, even unseemly. Organizations that have seen the light have tended to do so in response to a crisis, such as the Smithsonian, American University, the Red Cross, the Boy Scouts of America, Oral Roberts University, the Catholic Church, correctional facilities and police departments, pension boards, the United Way, foundations, or community-based organizations. While many of us talk the talk when giving others advice, far too few of us in the nonprofit sector walk the walk; we need to emphasize that you pay now or later, but you *will* pay eventually.

In this new era of nonprofit governance realities, we face external accountability, tighter financial realities as well as greater scrutiny and constituent activism. As in the case of the notorious public and corporate scandals (including the recent subprime mortgage fiasco and profiteering private contractors in Iraq), insiders and employees at all levels had information. Had this knowledge been communicated openly within these organizations, it might have prevented problems and protected leaders from reputational and financial demise. We owe it to the public to listen to these insiders who speak truth to power about where our practices shortchange the public interest, trust, or benefit.

That said, we are left with the challenge of how to advise skeptical employees who have useful information but wonder whether they will become victims of having disclosed information. Another question is, how can we advise cynical CEOs or boards about handling this issue without juggling it like a grenade? Based on our experience, we believe that one person—whether as a reporter of misconduct or as an executive who is receptive to the concern—can make a difference. To our great surprise, it is rare that any serious concern is not already on the minds of other employees and executives, but these employees are still reluctant to act.

Many leaders wrongly assume they will be told if there are problems. In the absence of hearing complaints directly, they assume things are working fine. In fact, we believe these kinds of power-constructed ear plugs are more the rule than the exception.

In these cases, employees may reach their limit and report to external parties. Reporting confidentially or anonymously is at least a response; and in most cases, reporting to an external agency charged with the responsibility for enforcement is the least you should do. In fact, if you do not report concerns externally, you may not be legally protected. The Web also offers various new reporting avenues.

At the end of the day, we place responsibility where it belongs: on leaders in the executive suite and the boardroom. Creating an organizational culture of constructive self-criticism is not a choice but an obligation that you avoid at great peril—to your credibility, your reputation, and yes, to your obligations as a leader. One of the coauthors has faced such situations as an elected and appointed CEO of major public and nonprofit institutions, as well as in his capacity as a board member and adviser. These positions come with the power, but also the obligation, to lead, and we should view that as an opportunity arising out of the joy and privilege we have (albeit often with some pain and heartache) to be leaders of these worthy entities. At a minimum, it is in our best interests to be the first to deal with a problem, mistake, or crime—and to be sure we have a system that ensures that we do. We must then construct a strategy and a corporate ethic that enables us to be the first to remedy it.

Endnotes

1. See, for example, principle four of the Panel on the Nonprofit Sector's *Principles for Good Governance and Ethical Practice: A Guide to Charities and Foundations* and the legal references therein. (http://www.nonprofitpanel.org/report/principles/principles_guide.pdf).
2. For an outline of the "whistle-blower" issues under Sarbanes-Oxley and other laws as applied to nonprofits, see "Does the Law Protect Whistle-Blowers?" on page 42.
3. Scott Harshbarger and Robert Stringer, "Creating a Climate of Corporate Integrity," *Corporate Board*, 10, May/June, 2003.
4. 18 U.S.C. § 1514A. Sarbanes-Oxley Act. Section on civil action to protect against retaliation in fraud.
5. 31 U.S.C. § 3730(h). The False Claims Act. Section on civil actions for false claims.
6. 42 U.S.C. § 1396a(a)(68). Deficit Reduction Act of 2005. Section on state plans for medical assistance.
7. For example, the Florida whistle-blower statute protects an employee who "objected to, or refused to participate in, any activity, policy, or practice of the employer which is in violation of a law, rule, or regulation." Fla. Stat. Ann. § 448.102(3) (West 2007). Although on its face this broadens the spectrum of protected activity, Florida courts have held that the employee must clearly identify a violation by the employer of a particular law or regulation in a memo to the employer "with substantial reason to question" the employer's conservation programs was not specific enough to meet the standard. *Schultz v. Tampa Elec. Co.*, 704 So. 2d 605, 606 (Fla. Dist. Ct. App. 2d Dist. 1997). So while the statute may afford protections that are broader than the federal statute, the courts have limited this protection.
8. The Massachusetts whistle-blower statute not only protects employees who *disclose* information to "any public body conducting an investigation" into a violation of law or public policy but has also been interpreted by courts as protecting employees who *cooperate* with law enforcement authorities (see Mass. Gen. Law ch. 149 § 185(b) [2004]).
9. See "Does the Law Protect Whistle-Blowers?" on page 33, for example.
10. See, for example, the Ethics Resource Center's recent publication "Leading Corporate Integrity: Defining the Role of the Chief Ethics and Compliance Officer," November 2007.

Have you or anyone you know ever acted as a whistle-blower in a nonprofit? Share your experience with us at *feedback@npqmag.org*. Reprints of this article may be ordered from store.nonprofitquarterly.org, using code 140405.

Ensuring a Successful Consulting Engagement

by Ruth McCambridge and Lissette Rodriguez

Hiring the right consultant for the right project at the right time is never a completely straightforward endeavor; and approaching this task unprepared can lead to wasted time, dollars, and hope. This article walks the reader through a process that can help ensure better outcomes for your investment in consulting.

When Do You Need a Consultant?

Nonprofits use consultants for various objectives. Consultants may help design and facilitate a capital campaign or strategic planning process. They may help during an executive transition by preparing a board to make decisions, by implementing a search, or by acting as an interim. Consultants can also help develop a business plan, think through technology needs, or evaluate a program. Or they can help identify and break up an internal logjam that has impeded an organization's progress. Some consultants can work through a more comprehensive approach to organizational development, serving in a role similar to that of a general contractor, helping you select others for more discrete pieces of work while taking on the job of guiding your organization through a transformation process to improve nonprofit operations.

Each of these jobs requires a slightly different mix of skills and abilities, and there are a variety of orientations that consultants bring to their work. It's best to be clear about these orientations and skill bases so you can choose the best possible match for the work and the organization.

Each of these jobs requires a slightly different mix of skills and abilities, and there are a variety of orientations that consultants bring to their work.

PHOTO © SIMON THORPE / CORBIS

When hiring a consultant, "buyer beware" is an important principle to keep in mind.

When hiring a consultant, "buyer beware" is an important principle to keep in mind. In some areas of the country, there are few qualified nonprofit consultants; and in other areas, there is a glut, with too many overstating their skill set. Some are just plain uninformed and unskilled, working off formulas and prescriptions that are popular but not necessarily effective. And some may be excellent in one type of work and lousy at another but are compelled to attempt it all to diversify their business. In any case, there is an acute problem of consultant quality in some areas. To be safe, any organization that wants to contract with a consultant should consider quality and fit paramount.

We recently interviewed a well put-together woman who for years has done nonprofit board development work. We asked what she thought about John Carver and got a blank look. "You know," we said, "policy governance." Not a glimmer. This kind of inattention to the field and knowledge base in which a consultant claims expertise is alarming. It is akin to practicing medicine or law without an understanding of the theoretical underpinnings of the work or the options available. It's not that the Carver method is the only or best option in nonprofit governance, but it has attracted a lot of attention and includes some excellent concepts that could be useful, for example, with boards that are "deep in the weeds" and micromanaging. At a minimum, any consultant working with a nonprofit board should be aware of Carver's work and what it has to offer.

The assumption behind this kind of sloppy practice would have to be that advising on nonprofit management does not warrant studying the field. Information regarding nonprofit management and governance is now widely available, and consultants should be familiar with the variety of approaches to address common issues for organizations of different sizes, in various fields of practice and in different types of communities. On the flip side is the consultant who is well read and has virtually no practice or deployable skills in successful system change. The latter are less common but present within the consulting field.

So the first piece of advice is this: don't assume anything from the self-promotional marketing materials you get from consultants. Ask for references from colleagues in the field. Some of the best consultants we know lack fancy brochures and operate through word-of-mouth referrals. They are known for results.

Different Types and Engagements

Now let's go back and distinguish between types of consultants. With apologies to Peter Block, who has done some great work on this subject, we will list them here in shorthand.

- *Another pair of hands*. This kind of consultant does a particular piece of work on contract, such as the conversion of a database or the production of a conference.
- *An expert*. This kind of consultant comes in to an organization to do a piece of work requiring expertise, such as review financial systems or develop a capital campaign, but he is acting largely as an adviser on a discrete component of an organization's work that requires a cutting-edge understanding of that particular field. He may advise you on issues that have impeded implementation, train staff, or institute a system, but the assumption is that his expertise is to be imparted, then implemented by the hiring organization.
- *A facilitator*. This kind of consultant acts as a neutral party during a necessary meeting or organizational process.
- *A process consultant*. This kind of consultant engages with the system to identify personal interactions and their effects. He tends to review everything, including executive leadership style and board-governing style, organizational traditions and culture, the effects of funding sources on organizational priorities, and the financial design and group fit with the rest of its field. Working with an organization on such a range of issues usually implies a longer-term and more intimate relationship.

Even if an organization is clear about the kind of consultant it needs and uses the advice discussed here, the organization and the consultant need to reach an understanding at the outset of the consulting engagement about roles and boundaries. If, for example, an organization wants another pair of hands but instead hires a consultant who, without invitation, inserts himself into another area of the organization, that person is stepping outside agreed-upon boundaries. It's also problematic when a process consultant assumes too much hands-on work for the organization. Process consultants become intimate with an organization and get antsy when it acts slowly on difficult issues. Some consultants will write up a strategic plan or case statement or recruit board members, which may not be in the long-term interests of an organization.

If a consultant takes charge in this way, you may see faster movement on the completion of the project but then confront another problem: the actual work gets bogged down because stakeholders haven't been engaged. In these cases, consultants have to return to their prescribed role so an organization can energetically cohere around a purpose and strategy.

It's also important to ensure that the job requirements and the consultant's work style align well. The process should include gathering evidence that a consultant has successfully completed similar work elsewhere. When an organization works with a process consultant or facilitator, it also needs to track whether the work leads to the desired changes and to clearly outline the role of the consultant. And because process consultants learn a lot about an organization's leadership and issues, the relationship requires a higher level of trust and alignment between the organization and consultant. The true successful engagement allows and welcomes constructive challenges from the consultant on core professional, and sometimes quite personal, issues.

Selecting a Consultant

After interviewing a consultant, the most important piece of advice is to call members of the consultant's client list and ask these kinds of questions:

- What kind of work did this consultant do?
- What was the work product?
- Which process did the consultant use?
- What were the results of the consulting engagement?
- How long did the results of the work last?
- Would you use this consultant again, and for what type of work?

Listen closely to the responses to these questions. You want to hear a response like this from a previous client: "She clearly knows what she is talking about and alerted us to a bunch of potential traps we then managed to avoid—thank God. They really would have derailed us!" If you

Engaging a consultant is like letting someone into your home, so be sure to discuss confidentiality and elements of trust that are important for the success of the project.

are hiring a process consultant, you want to hear that the organization is now capable of addressing challenges in a way that it didn't previously: that is, members are more energized and have new deployable skills that build on themselves. The most important thing a consultant can do is to leave an organization with some capacities that weren't present when he arrived. Such a consultant not only has knowledge but also knows how to pass it on such that it extends beyond the consulting engagement.

Contracting with a Consultant

Once you have selected a consultant, you need to create a contract that lays out the scope of work desired, the anticipated results and interim benchmarks, the length of the engagement, and, most important, mutual expectations for both parties (the consultant and the hiring organization). A consultant needs access to certain people, information, and processes in order to carry out a successful engagement. At the same time, the hiring organization should have a sense of how the work will be approached and a timeline for completion. As Peter Block says, this agreement really amounts to a social contract, outlining how the consultant and the client will work together. If you are hiring a consultant, particularly a process consultant, you need to reveal important and sensitive aspects of your organization's business. Be sure that you are contracting with the someone who honors not only this information but also his relationship with the organization. Engaging a consultant is like letting someone into your home, so be sure to discuss confidentiality and elements of trust that are important for the success of the project.

Evaluating the Engagement

The contract should also address milestones during the process when the consulting engagement will be evaluated. You need to examine how the work is going and whether you have hit the anticipated benchmarks before you reach the end of the project and have no recourse to improve. A good consultant wants to set milestones and ensure that he ends up with a satisfied client at the end of the engagement. The clearer you and the consultant are in outlining success, the easier it is to have these conversations. Again, it's important to negotiate these issues up front. It is much easier to negotiate a new contract and relationship than it is to fix a deteriorating engagement.

In some cases, you may have done everything right in terms of hiring, but within a few weeks you realize that the consultant's style or skills are not the right match. It is important to identify the breakdown as quickly as possible to allow the consultant to make corrections. If you've made the wrong match, though, there isn't necessarily an easy fix. That's why it's important to have negotiated a contractual "out" (a right to cancel the contract with two weeks' notice, for example, if the engagement isn't working to the client's satisfaction) so that you can move on and find the right person for the work. And again, this is why the process benefits from regular check-ins for managing the relationship. If the engagement isn't working, such meetings provide an appropriate point to end the contract in accordance with any provisions you have included in the agreement if necessary. A consultant will likely ask for a similar clause to give him an out as well.

Conclusion

Consultants can play an important role in helping organizations move big pieces of work forward. And most nonprofit organizations rely on consultants at one time or another for specific projects. You can get the expertise you need and maximize your resources by following some of these simple steps. For further recommended resources on how to set up a successful consulting engagement, read Peter Block's *Flawless Consulting: A Guide to Getting Your Expertise Used*. Although written for consultants, the book contains useful advice in hiring consultants and successfully managing various types of consulting engagements. And finally, good luck!

Ruth McCambridge is is the *Nonprofit Quarterly*'s editor in chief and **Lissette Rodriguez** is a contributing editor to *NPQ*.

What do you think are the keys to a successful consulting enagement? Share them with us at *feedback@npqmag.org*. Reprints of this article may be ordered from http://store.nonprofitquarterly.org, using code 140406.

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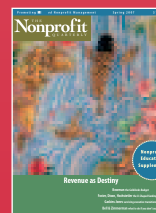

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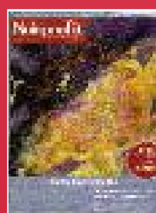

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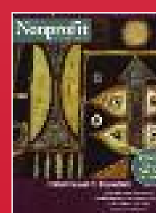

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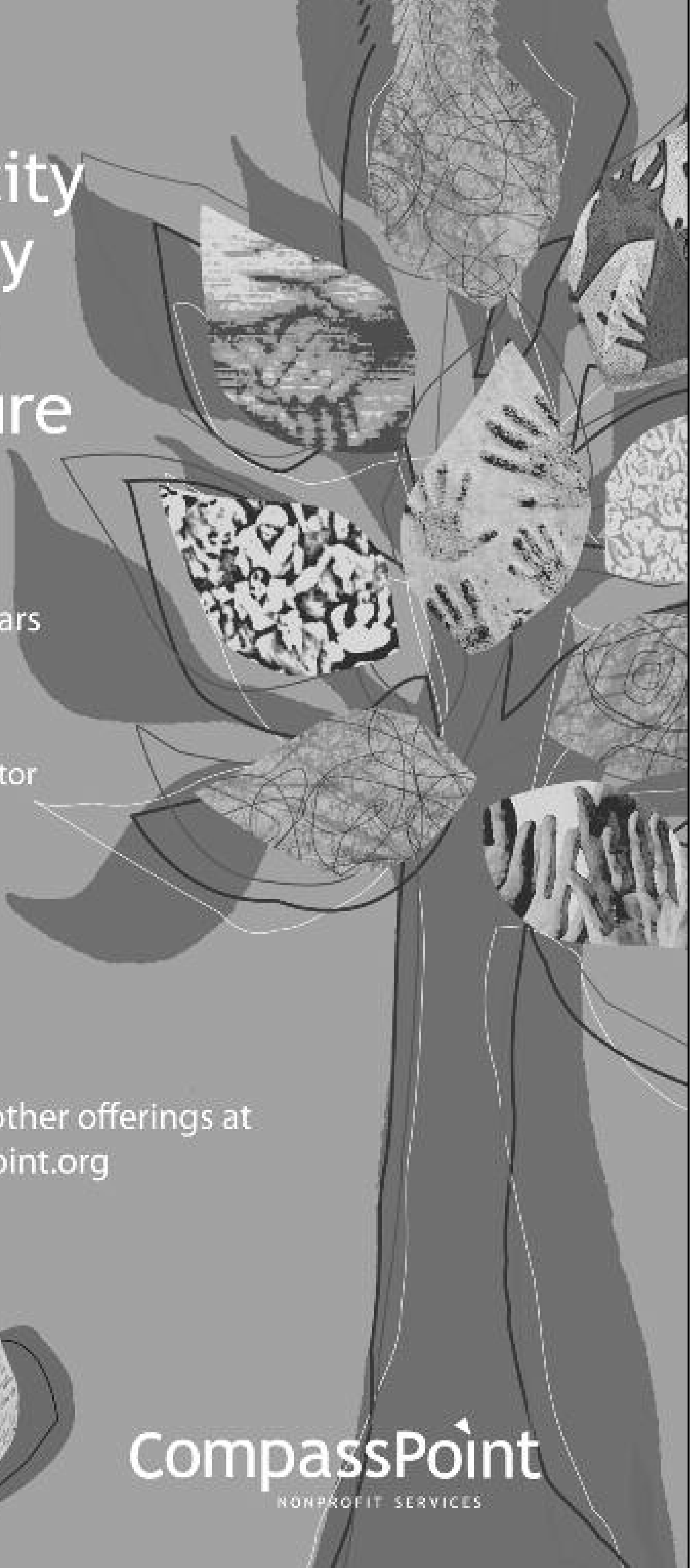

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CONSULTANT EMPORIUM

The United Way's Way or Bust

by Rick Cohen

If you have watched Sunday Night Football recently, you may have seen a massive Dallas Cowboy tight end teaching blocking techniques to a bunch of pixie-sized kids sponsored by the United Way (UW). Pint-sized ballers bouncing off much larger pros: is this an unintended metaphor for the United Way's much-ballyhooed Community Impact Agenda? What constitutes this strategy that so many United Way affiliates around the nation have adopted?

The United Way PR juggernaut is impressive, ubiquitous, and hitting on nearly every consumer- and donor-tested theme that you can think of: athletes, celebrities, and kids all pressing every button possible for United Way contributions. But the old formulas haven't worked across the board. The United Way faces competition for charitable contributions from workplace donors as well as from community foundations' donor-advised funds for higher-end contributors, and it also faces various economic and demographic changes.

To combat these potential threats to its vitality, the United Way system has galvanized around the concept of what it calls the Community Impact Agenda as its new program strategy. Along with this comes the UW's remaking of its public image as a more vigorous, significant, and relevant system that will change communities and, not inconsequentially, maintain and increase charitable donations.

One United Way exec summarized the Community Impact Agenda as "a huge reinvention of the United Way,"[1] another as the "complete transformation of what the United Way is."[2] But is this approach a serious shift and a true effort to retrofit the United Way to the realities of charity and philanthropy in modern society? Or is the new United Way only a thick smokescreen of PR spin?

If you read the public statements of local United Way players as well as those of United Way of America (UWA) CEO Brian Gallagher, the new Community Impact Agenda is rife with language that sounds like it was drawn from a carefully crafted lexicon of muscular charitable imagery:[3]

- "Fewer, deeper relationships" (from the United Way of Central Ohio);
- "offering 'lasting solutions' to people in crisis, not 'quick fixes'" (from Silicon Valley);
- "a long-term strategy [to] address the root causes of problem issues" (from the United Way of Pitt County, North Carolina);
- "redefining goals into . . . focus areas" (from the United Way of Central Ohio);
- "a more targeted approach" (from the United Way of Monterey County, California);
- "to create broad impact in the community" (from United Way of Portland, Oregon);
- "very outcome driven" (from the United Way of Buffalo, New York);
- "ultimate outcomes and contributing outcomes to help reach them" (from the United Way of Cincinnati, Ohio);
- "cut off agencies not up to snuff" (from the United Way of Columbus, Ohio).

It is all very heady stuff.

Dorian Gray or Dionysus Reborn?

First, a word of caution. There are 1,300 local United Ways (which, due to a spate of affiliate mergers, represent a decrease from some 1,400 not too long ago), with their own managers, boards, and volunteers. All United Ways must comply with certain standards to rightfully use the United Way name and logo. But the system does not march entirely in lockstep, as Gallagher's predecessor learned when various larger "Metro One" United Ways reportedly balked at some of her initiatives. So even when a national United Way of America spokesperson proclaims that just about every chapter plans to adopt the new community impact allocation model,[4] these chapters are likely to vary in how they do so.

Nonetheless, look into anything United Way–related, and you unearth at least three camps of visceral reactions. First are those who believe that the United Way is simply a relic of charitable fundraising past, devoted to perfecting the buggy whip of payrolldeducted workplace donations, while most of the world has fast-forwarded to a different array of messages and techniques. The truth is that UW is hardly as monolithically dependent on workplace contributions in corporate campaigns or public-sector venues as state-employee charitable campaigns or the federal Combined Federal Campaign. As of the 2006–2007 UW campaigns, 65 percent (or $2.64 billion, of the United Way's total fundraising of $4.07 billion), came from individual donors in the workplace.[5] But with only a 1.6 percent increase in its annual campaign over the previous year[6] and fundraising totals that on an inflation-adjusted basis haven't fully recovered from scandals during the 1990s, the United Way still faces critics who see a system that gets a lot more attention than its meager growth and $4 billion portion of $295 billion in total charitable giving warrant.

The second camp sees the United Way as a modernized and scandalous version of Oscar Wilde's *Picture of Dorian Gray*. Poor United Way head Brian Gallagher wakes up in the morning, shaves, and finds the visage of the disgraced William Aramony staring back at him in the mirror, having purloined $600,000 or so to support Aramony's high-flying lifestyle and various paramours. Or maybe it is Oral Suer and Norman Taylor, who guided the United Way of the National Capital Area in metropolitan Washington, D.C., to near collapse.[7] Or maybe it's Jacquelyn Allen-McGregor, the vice president of finance at the Capital Area United Way in East Lansing, Michigan, who embezzled nearly $2 million from the Capital Area United Way in East Lansing to support her interest in quarter horses.[8] Or maybe it's Ralph Dickerson, the New York City United Way exec who walked off with a quarter million.[9] Or maybe it's Eleanor Jacobs, the Santa Clara United Way leader who gave out grants based on a $25 million fundraising total when the reality was a full $5 million less, leading to massive layoffs and Ms. Jacobs's firing.[10]

Of course, the image of a United Way system beset with charitable thieves is an unjust picture given the thousands of United Way employees and volunteers who have nothing in common with the likes of Aramony, Suer, and Dickerson. On the other hand, the United Way has faced serious criticism of its accounting practices, including a spate of revelations in 2002 and 2003 that United Ways in metro Washington, D.C.; Chicago, Houston, Austin, Tampa, Tucson, Milwaukee, and other localities had inflated their fundraising totals by way of double-counting the numbers.[11] The image of a United Way system hobbled by widespread accountability and ethical problems has been difficult for nonoffending United Ways to shake.

For the third camp, the United Way is just about a godhead, a shining, charitable city on a hill. They turn out to attest to the United Way catechism, sometimes prompted by CEOs to write effusive testimonials. They fervently believe in what others see as largely United Way PR, crafted by top-flight marketing and advertising firms.[12] In fact, legions of communities and nonprofits have benefited from the best of the United Way system and with little prompting will evangelize for it.

But whatever your view of the organization, there is no shortage of spin surrounding UW (whether it is a flood of tributes from grateful nonprofits or TV spots starring NFL stars or the ubiquitous local press coverage trumpeting the new strategies of the organization).[13] Cutting through the PR to find the substance is a challenge.

Sudden Encounters with Community Impact

In 2001 the United Way launched a series of public-service announcements keyed to the theme of "performance" and "bringing people together to focus resources on the most pressing problems in order to achieve measurable results." A core message was the Community Impact Agenda, tagged as "the focus of United Ways' work." Acknowledging variation from community to community, the national public-service announcements highlighted the United Ways' targeting of "poverty and violence—two of the most critical underlying social problems facing communities across the country."[14]

According to a 2001 United Way paper, the emphasis of the Community Impact Agenda was partnerships with a diverse array of business, government, and nonprofit organizations, with the following issues described as "the most universal across the United Way system": helping children and youth succeed, strengthening and supporting families, promoting self-sufficiency, building vital and safe neighborhoods, and supporting vulnerable and aging populations, each linked to several "common United Way community impact strategies" and "targeted results."[15]

Some United Ways and researchers reference the apparently seminal 1998 document *Community Impact: A New Paradigm Emerging, A White Paper on Change in the United Way Movement*. The paper suggests that this approach is not quite as new as it might appear for some United Ways and their member agencies. But it was not until 2002 when Brian Gallagher made the leap from his perch at a Columbus, Ohio, UW to the national office in Alexandria that the concept of community impact vaulted from a paradigm to a nationwide strategy for program allocations and fundraising.

According to a March 2007 *NonProfit Times* interview with Gallagher, his United Way in Columbus and the United Way in Dane County, Wisconsin, had been "working in our communities to identify the four or five most critical human issues [and create] development strategies to address [the issues] . . . [and] turn those strategies

Stories of United Way Community Impact Strategies

As a clear progenitor and model of the Community Impact Agenda in the United Way system, Dane County in Madison, Wisconsin, has created a "transformation diary" that indicates some of the dynamics of the Community Impact Agenda in action.[1] Some of the following are offered up as highlights of the new strategy:

- A civic journalism project of the *Wisconsin State Journal* focused attention on the school achievement gaps of minority children, which led to the recruitment of the local United Way executive chairing a multi-agency task force to work on the issue.
- In 1995 the effort evolved into the Schools of Hope program, with the United Way in the lead and several partners in tow, the recruitment and deployment of 1,000 adult tutors, and by 2004 the elimination of the achievement gap at the third-grade reading level.
- Encouraged by the Schools of Hope initiative, the United Way sought to capitalize on the concepts of multi-agency partnership and focused resources to build a "shared vision of change."
- In 2000 a 50-member multi-agency task force conducted research, surveys, and forums, to develop the "Agenda for Change," with seven "community visions" around which the United Way would focus its fundraising and grant allocations.
- To carry out these visions, the United Way then decided that "all funded programs must align with one of the seven visions that make up the Agenda for Change."
- Half of the United Way's funding was shifted to focus on the vision of the agenda. As a result, a dozen or so "unaligned" agency programs were defunded, while new agencies that fit the agenda were brought in as "partners."

The United Way of East Central Iowa has an official Community Impact Agenda manual that explains its process in some detail:[2]

- In 2005 a community needs assessment was conducted by combining household surveys, focus groups, and research on community conditions and needs.
- In 2007, approval was given for the Agenda for Action in three areas (strengthening children and youth, strengthening families, and "strengthening connections") and six subsidiary "focus areas."
- For each focus area, intended measurable outcomes and indicators and specific "likely programs/activities to receive funding" were identified.
- A request for proposal (RFP) for agencies new to the United Way that could receive funding for their potential roles in these strategies was issued.

Dane County's evolution into the Community Impact Agenda model began locally. It wasn't an instance of a local United Way grabbing the latest model from the national headquarters and trying to adapt it to the local environment. Whether organic or mechanical, the community impact strategies as implemented locally appear to have several common elements:

- They have offered multiyear funding to agencies that fit the priority areas on the theory that making headway against difficult issues is a long-term process that is only thwarted by thinking in annual funding terms.
- They have issued RFPs to match agencies and programs to the Community Impact Agenda priority areas (as in East Central Iowa, for example, with a delineation of the specific programs the United Way has determined fit the priority areas).
- They require strategies for collecting data and documenting outcomes keyed to the Community Impact Agenda strategies.
- They defund "core" agencies—frequently the local chapters of national organizations such as the Salvation Army, Volunteers of America, the Boys & Girls Clubs of America, YMCA and YWCA—in part because their broad missions might not align with emerging local priorities in the action agenda.

According to the board chair at the United Way that serves metropolitan Austin, Texas, the strategy involves puting "enough focus and energy on a limited number of areas so we can see systematic change over a period of years."[3] This strategy is similar to Dane County's and that of the United Way of East Central Iowa with some elements of articulated difference:

- United Way funding distributions are targeted toward education, financial stability, and health programs.
- Previously funded United Way grant recipients can receive designated grants from workplace donors but are not eligible for grants from the United Way's Community Investment Fund if they do not fit the priority issue areas.
- Specific outcomes—in terms of number of people served, hours of service provided and so on—are required of these programs.
- Program initiatives to be run by the United Way itself have been generated and implemented.
- Efforts have been expanded to raise money from high-end donors through mechanisms such as the United Way Tocqueville Society to target gifts of more than $10,000.

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[1] "Transformation Diaries, United Way of Dane County" (*http://www.unitedwaydanecounty.org/reports/TransformationDiaries2005.pdf*).

[2] *FY 2008 Community Impact Manual (July 1, 2007 through June 30, 2008),* United Way of East Central Iowa, 2007.

[3] The description of the Capital Area United Way Community Impact Agenda program is based on reporting in the *Austin American-Statesman* in Andrea Ball, "Local United Way Changing Direction," the *Austin American-Statesman*, November 2, 2007.

into investment products that donors could invest in, or people could volunteer for, or they could advocate public-policy reform around."[16] In 2002 the United Way of America launched the Community Impact Agenda, which Gallagher "sold" to 90 percent of United Ways in a 12–month period and of which almost half had "operationalized" by early 2007.

The story of how the Community Impact Agenda evolved at the Dane County, Wisconsin, United Way and how it has been defined in other localities reflects a strategy of focused funding distributions toward a small range of priority issues, larger and longer grants to agencies whose programs fit these issues, and a reduced United Way self-definition as a mere funding intermediary for human-service providers that focus on basic needs.

Some of this is clearly a new culture for the United Way. For example, the request-for-proposal process typical of Community Impact Agenda implementation is a competitive grantmaking approach akin to that of government agencies and foundations, but it is entirely new for UW. Critics of the United Way's hidebound approach often give plaudits for defunding core agencies, which are frequently well funded on their own. But frequently crucial safety-net providers that simply don't fit the new Impact Agenda priority items also receive rescissions and terminations. Each of the participating United Ways has significantly ratcheted up its community-needs-assessment studies, analytical studies, and in-house research and planning, absorbing an increased portion of dollars raised.

According to a United Way of America spokesperson, some 85 percent of chapters have "committed" in some form to the Community Impact "business model," with the following "data points" as evidence of the strategy's implementation:[17]

- 76 percent of United Ways have written impact strategies to achieve results in at least one issue area.
- 72 percent of United Ways ask donors to support specific community initiatives and partnerships as part of their resource development activities.
- 52 percent of United Ways have documented results at the community level.

A business model it is, as Gallagher himself noted in 2006:

> Our "Theory of Change" starts with the belief that, in order to positively impact the most lives, we must act collectively as communities—changing the conditions that affect people. We do this by working on the most compelling issues that we have in common. We've learned that we must deal with the root causes of these issues, and that by working together we can achieve the greatest results. Our Theory of Change was supported by a business framework that starts with United Ways identifying "impact" strategies that improve lives. We're turning them into investment products that our donors and our communities can support.

But local United Ways' and partners' priorities may not add up to a compelling message and image for the entire system. Accordingly, the national United Way of America will on occasion push themes that it deems timely and powerful, as Gallagher did in his 2006 speech after noting issues of poverty and unemployment: "The next stage of our community impact work must include those initiatives which are helping to create wealth or at the very least meet very basic subsistence needs." At the ground level, there may be several common issues rising to the surface from these impact strategies, but national may also generate cues about which messages best connect with emerging and new donors.

Tackling Root Causes

While long known for promoting "outcome measurements," which most people translate as measuring impact rather than simple nonprofit program outputs, the United Way appears to mean—or wants to appear to mean—something different. Current UWA board chair and former U.S. Department of Transportation Secretary Rodney Slater has proclaimed that the United Way is becoming an "impact organization."[18] But what kind of impact does Slater mean? In Portland, Oregon, for example, the United Way began as early as 2001 to refocus its funding efforts to "create broad impact in the community" accompanied by a new set of measurements of funded agencies "with a focus on the root causes of poverty." [19] Cincinnati United Way's Agenda for Community Impact is described as aiming "to get the biggest bang from contributors' bucks while seeking to address root causes of problems before they lead to other bigger problems."[20] Across the nation, this language of root causes is taking hold: many United Ways say they now target distributions to address "root causes" rather than "Band-Aid" solutions.[21]

Digging through the language, the notion of having an impact on the root cause of social issues appears fundamentally to be a plan to narrow the UW's focus on a limited number of issue areas—that is, prioritizing and concentrating some portion of United Way grantmaking in areas identified through community surveys or other mechanisms. The underlying assumption of the United Way's new approach is that prioritization achieves a level of impact that previous, more widely dispersed support of a local human-service provider infrastructure might not have accomplished.

But the areas of emphasis are often quite broad. In Monterey, California, for example, the emphasis is on affordable housing—clearly a new focus for many UWs listening to their constituents—as well as on children and youth,[22] a catch-all that in most communities encompasses a multitude of providers. San Jose's focus is on four huge swaths of nonprofit endeavor: "human-service needs, including emergency housing assistance and eviction prevention; services for children targeting early-childhood education and increasing the high-school graduation rate; and adult self-sufficiency, including job training and learning English."[23] The United Way serving central Maryland has focused on four broad "impact areas": basic needs, school readiness, family safety, and youth achieving potential.[24] Reputedly one of the most advanced United Way affiliates in implementing this new strategy, the UW of Cincinnati has established as top priorities "making sure children are prepared to enter kindergarten; helping young people succeed in school and graduate from high school; and helping families and individuals achieve self-sufficiency through sustained employment,"[25] all mammoth areas addressing complex, intractable social problems.

The language is hard to penetrate, but by addressing root causes it appears that some agencies are simply refocusing attention on intervention points that make sense.

In Battle Creek, Michigan, for example, the United Way discovered that teenage pregnancy was positively correlated with the problem of illiteracy, prompting a shift of funds into programs focused on literacy skills.[26] In the Northwoods region of Wisconsin, United Way agencies discovered that it made sense to provide financial assistance and family counseling services at the food pantries sought out by poor families there.[27] Rather than a focus on outcomes, impact, and root causes, these strategies look more like United Ways—with nonprofits on the front lines doing the work—thinking systematically about how best to reach people in need. It is as though they all discovered the utility of "logic models"[28] in the design of human-service delivery programs. But for fundraising purposes, logic models lack the cachet of "impact" and "root causes."

Given the exceptionally limited financial resources of most United Ways, what constitutes big-impact strategies for addressing the root causes of social problems? Sustaining a nonprofit social-change infrastructure with core operating support grants? Providing resources to organizations that do public-policy advocacy so that the much larger amounts of public funds dedicated to these "community impact priorities" get delivered effectively to the constituencies that need them? Despite the vigorous efforts of United Way–funded organizations to collect data on outcomes, it is not clear that as a business model the Community Impact Agenda can alter much about the *root causes* of social and economic problems. Even the largest and most successful United Ways—some of which have seen less-than-increasing donation levels—face practical limitations attacking the root causes of complex community problems given their sometimes constrained financial resources.

Sleeping with the Enemy: Large Funders' Expectations

Remember Julia Roberts as "Erin Brockovich," an unlikely environmental activist going after a California utility company that was polluting local groundwater? In that true tale, the offending company was none other than Pacific Gas & Electric (PG&E), later an acquisition of Kenneth Lay's Enron empire. The once-bankrupt PG&E is now a United Way mainstay, with its employees having raised $3.3 million for the United Way in the 2007 campaign,[29] and the corporation has added charitable grants to UWs in a number of California localities.[30]

When the AFL-CIO toyed briefly with creating its own alternative to the United Way called the Union Community Fund (UCF), the few union activists backing the UCF model were distressed that the charitable giving of workers like those at PG&E ended up benefiting the corporation's PR rather than the union's.

Corporations are less and more than they used to be in UW's world. On the "less" side, corporate fundraising campaigns with the United Way at the helm or as the exclusive beneficiary appear to have declined. According to a 2000 report from America's Charities, one of the United Way's most significant national competitors (albeit a tiny source of competition at $17 million or so when compared with the United Way's billions), the participation of corporate employees in workplace-giving campaigns declined from 47 percent of employees in 1988 to 35 percent in 1998, and only 25 percent of corporate employees said they work in companies with workplace-giving campaigns.[31]

In many localities, it isn't a matter of corporations walking away from the United Way monopoly, but rather a problem of a declining corporate workforce as corporations close and relocate. Rochester, New York, provides a stark example. The shrinkage of Rochester's major private-sector employer, Eastman Kodak, whose employee contributions to UW dropped by half in the past decade, shows up starkly in United Way campaign results: In 1996 the United Way generated 45 percent of its $37 million campaign total from 10 top givers with strong corporate participation, but 10 years later, the 10 top workplace campaigns generated only 40 percent of a $34.5 million campaign, dominated not by corporate workplaces but by the public-sector employees of the city of Rochester and the University of Rochester.[32]

At the same time, to reach campaign goals in the face of declining workplace and other donations, the United Way has turned to corporations for infusions of philanthropic giving. In 2004, for example, the United Way of Central

Making Impact with Limited Resources[1]

As it targets some of the most intractable social problems, what resources can the United Way (UW) bring to bear? Nationally, the United Way aggregate fundraising totals continue to creep up, helped in part by special disaster-related fundraising initiatives such as the substantial amount generated for the United Way Hurricane Response and Recovery Fund:[2]

Categories of United Way fundraising	2004-2005 (in $ millions)	2005-2006 (in $ millions)	2006-2007 (in $ millions)	Percentage change 2004/2005–2006/2007
Annual campaign	3,610	3,635	$3,690	2.2
Government grants	134	151	$161	20.1
Giving to initiatives	83	102	$107	28.9
Major/planned/ endowment gifts	62	83	$106	71.0
Corporate Sponsorships	4.3	6	$7.4	72.9
Total aggregate fundraising totals	3,893	3,977	$4,071	4.6

But aggregate national increases do not necessarily translate into significant resources for local UWs to take on the "root causes" of social problems. This is where the critics weigh in on the lacuna between the United Way's root cause–problem-solving rhetoric and the reality of how much money affiliates have at their disposal. Despite its vanguard role in the United Way community impact strategy rollout, Cincinnati's fundraising total has decreased 5.3 percent since 2003, and that of Rockford, Illinois, has dropped 19.2 percent in its most recent campaign, keeping it below its 2003 total. It is difficult to live up to the language of making a major impact on community problems in the face of multiple years of United Way fundraising difficulties, leading the occasional United Way such as that in Corvallis, Oregon, to overpromise and underdeliver on grants to nonprofits.[3] The numbers are not necessarily large enough to bring about major community impact in troubled cities and metro areas, and in some very troubled places the numbers have not increased:

Declining United Way Locations	2004 campaign total (in $ millions)	2005 (in $ millions)	2006 (in $ millions)	Percentage change 2004–2006
Baltimore	43.2	42.2	42.0	-2.8
Birmingham, AL	33.7	36.6	35.6	-5.6
Buffalo	17.5	16.6	17.0	-2.9
Cleveland	47.9	44.7	44.7	-6.7
Cincinnati	63.2	64.2	63.8	-0.9
Detroit	69.6	69.3	66.3	-4.7
Memphis	29.3	30.5	27.1	-7.5
Newark, NJ	8.6	9.0	7.4	-14.0
Pittsburgh	29.2	29.4	28.7	-1.7
Rochester, NY	39.2	39.3	38.0	-3.1
Rockford, IL	5.2	6.3	5.1	-1.9
Springfield, MA	6.3	7.0	6.1	-3.2
Worcester, MA	6.6	6.5	5.8	-12.1

This past year, the national board of the United Way met in Little Rock Arkansas, vigorously touting its Community Impact Agenda. But even the host UW in Little Rock had a 2006–2007 campaign that was down 2.5 percent to $4.8 million, though that is 6.5 percent above its 2003 number. After taking out a healthy chunk for administration and fundraising, plus the costs of conducting the needs assessments and other studies that come with the Community Impact Agenda strategies, UWs have not accrued the kind of big dollar amounts to match the size of the problems that these communities face.

While areas such as Buffalo, Cleveland, and Memphis are economies in decline, in some cities, particularly in the South and Southwest, booming economies have translated into robust United Way campaign results.

Growing United Way Locations	2004 Campaign Total (in $ millions)	2005 (in $ millions)	2006 (in $ millions)	Percentage Change 2004–2006
Atlanta	74.4	97.7	104.4	40.3
Dallas	47.3	52.1	56.4	18.8
Denver	28.1	28.2	34.7	23.5
Miami	49.8	52.0	58.1	16.7
Seattle	103.9	98.7	123.7	19.1
Houston	69.8	82.7	81.7	17.0
Albuquerque	15.7	19.1	21.4	36.3

1. Statistics in the fundraising charts drawn from United Way of America and other sources: "Donations Reported by 432 United Ways for 2003–2004," the *Chronicle of Philanthropy*, October 14, 2004; "Donations Reported by 429 United Ways for 2002–2003," the *Chronicle of Philanthropy*, October 2, 2003; "Donations Reported by 426 United Ways for 2005–2006", the *Chronicle of Philanthropy*, September 14, 2006*; United Way: America's Largest Charity: A Snapshot of Resources Raised for 2005–2006* (United Way of America, September 11, 2006); *United Way: America's Number 1 Charity: A Snapshot of Resources Raised for 2004–2005* (United Way, October 5, 2005); *2001–2002 United Way Resources Backgrounder* (United Way, August 2002); an e-mail communication from Margaux Bergen, vice president, United Way of America, October 11, 2007, supplying an Excel spreadsheet of United Way fundraising for 463 United Way chapters; and e-mail communications from Sheila Consaul, director, Media and Public Relations, United Way of America, to Andrew Crosby, editor of the *Nonprofit Quarterly*, supplying a PowerPoint describing United Way campaign trends and components between 1994 and 2004 (March 7, 2007) and an Excel spreadsheet on national fundraising totals for 2003–2005 (March 8, 2007).

2. For example, more than $28 million of the 2005 campaign total appears to have been raised specifically for the United Way's special national fund established for hurricane relief. For information on the United Way's special Hurricane Response and Recovery Fund, see *2005 United Way Hurricane Response & Recovery Fund Preliminary Report,* August 15, 2006, also *United Way of America 2005 Hurricane Response & Recovery Fund Report*, December 2006.

3. Bennett Hall, "Benton County Chapter Strides to Pay Overdue Grants," *Corvallis Gazette-Times*, July 7, 2007.

Indiana took special requests to Eli Lilly and Company, Wellpoint, and the Indiana Pacers to reach its campaign fundraising target.[33] In other campaigns, corporate philanthropic donations have helped the thermometer burst through the top. In other localities, the United Way campaigns increasingly depend on corporate commitments to match workplace gifts,[34] augmenting the leverage of corporations in the United Way system.

But there may be a quid pro quo involved. According to Alex Sanchez, a senior vice president of the United Way of America, the "push" for the strategy emanated from corporate donors, a reflection in part of their interest in supporting activities that can be measured.[35] But then the question becomes, will corporation donors support Community Impact Agenda "solutions" that target problems connected to or even caused by corporate policies and practices? There is plenty of history within the United Way system reflecting corporate rather than community priorities, including rejection of nonprofits advocating living-wage agreements (pre-Hurricane Katrina in New Orleans) and environmental justice (in Durham, North Carolina).[36]

If it wants to show that the Community Impact Agenda isn't subservient to corporate interests, the United Way has taken a smart step by stuffing its national board with some well-known social-justice advocates, including Raul Yzaguirre, the former president and CEO of the National Council of La Raza; Joe Solomonese, the president of the Human Rights Campaign; Manuel Mirabel of the National Puerto Rican Coalition; Dr. Johnnetta Cole, recently retired president of Bennett College in Greensboro, North Carolina; Philip Baldwin, president and CEO of the Southern Bancorp development banks; and actor George Clooney.[37]

Are they corporate critics? Many of these board members' organizations have benefited from substantial corporate contributions from some of the most socially and politically retrograde corporations in the nation. Nonetheless, if there is substance behind the language of the Community Impact Agenda, it may be up to these United Way trustees of high repute to keep the system honest.

The United Way's Community Impact Agenda challenge to the corporate sector is not like a local nonprofit's decision to accept or reject a donation from the local Wal-Mart or Target store. The United Way has long made its bed with the corporate sector, placing workplace campaigns in as many corporate workplaces, typically larger ones, as possible where it could solicit multitudes of potential donors. But as the number of corporate campaigns declines (or as the number of corporations deciding that they don't need an intermediary to raise money for them increases),[38] the United Way has turned to, among other strategies, direct corporate giving in order to maintain its $4 billion foothold.

According to the latest numbers from UWA, direct corporate grants account for more than one-fifth of the revenues of local United Ways.[39] Nationally, between 2003 and 2006, the value of corporate "sponsorships" in the United Way system increased 91.7 percent, which is roughly the same rate of increase in one of the United Way's other fast-growth areas: gifts to United Way endowment campaigns.[40]

With the reality of changing employee demographics, UW cannot return to the well of workplace donors to maintain its revenue base. In the private sector, decreasing numbers of employers interested in federation-run workplace fundraising campaigns, increasing numbers of lower wage, nonunionized jobs, a shifting demographic that will be a majority minority by 2050, as much as one-third of the workforce employed in nontraditional jobs,[41] and a majority of private-sector employees with inadequate or no health-insurance coverage add up to trends that compel the United Way to think beyond payroll deductions in the private sector. But payroll deduction donations in public-sector workplaces also highlight the United Way's fundraising challenge in its traditional mechanism.

There is probably little that the United Way can do about the attrition of workplace donors. Workplace-giving funds that address more specific interest areas of changing employee demographics have shown growth, capturing niches of employee interest that the United Way's more generic charitable efforts may not,[42] but that doesn't mean that the universe of "traditional" workplace donors (who give less than $1,000 a year through payroll deductions) is growing. It's not.

In the words of one nonprofit consultant and former United Way employee, these new strategies are a response to having "felt the heat of [the United Way's] loss of its corporate base."[43] According to another consultant, corporate moves from the city to the suburbs have meant that "more and more corporations [that have relocated] to the suburbs and exurbs . . . wish to see their federated fundraising benefit their home communities. The new . . . United Way has an ever-smaller pot for the city."[44] Some of this is simply due to corporations moving out of communities, some of it comes from corporations' deciding that they and their employees don't need the United Way's intermediation. To replace inevitably declining workplace revenues, the United Way system has to find alternatives by tapping institutional donors to replace workplace donors.

Workplace Giving Trends in the Combined Federal Campaign

If, as the Rochester United Way (UW) and other chapters have discovered, the future of workplace fundraising lies in public-sector rather than private-sector employees, the future prospects pose challenges. The nearly ubiquitous workplace fundraising mechanism in the public sector is the Combined Federal Campaign (CFC), but despite the generosity of workplace givers, participation rates of federal employees through payroll deduction have declined precipitously, from 47.9 percent of solicited federal employees in 1993 to 33.9 percent of employees in 2003 to 31 percent in the most recent campaign results. The proportion of CFC donors using payroll deduction has dropped from a high of 77.9 percent in 2000 to 74.8 percent in 2003, steadily drifting downward to 72.9 percent in 2006. As the chart below demonstrates, CFC survives on the generosity of public-spirited donors who increasingly are not using the United Way mechanism of payroll deduction:[1]

CFC year	Employees solicited (in millions)	Number of employees donating (in millions) and participation rate (percentage of solicited employees)	Donors using payroll deduction (in millions)	Percentage of donors using payroll deduction	Percentage change in payroll deduction donors from previous year
2006	3.87	1.21 (31.2%)	.88	72.9	-4.1
2005	3.90	1.25 (32.0%)	.92	73.6	-3.9
2004	3.98	1.29 (32.5%)	.95	74.0	-4.9
2003	3.96	1.34 (33.9%)	1.00	74.7	-2.0
2002	3.81	1.35 (35.5%)	1.02	75.7	n/a

While these CFC numbers don't reflect directly on the United Way, they are emblematic of the UW's own challenge in workplace philanthropy.[2]

[1] Combined Federal Campaign statistics extracted from documents on the CFC Web site at the U.S. Office of Personnel Management (*http://fehb.opm.gov/cfc/index.asp*) and from OPM responses to inquiries from the author, specifically for data on the 2004, 2005, and 2006 CFC campaign totals.

[2] United Way affiliates have long been influential in the Combined Federal Campaign as principal combined fund organizations that manage local CFC campaigns.

Retrofitting Encino Man

Despite its high-profile leadership, massive marketing investment, and valued brand name (and despite the depredations of the likes of Aramony, Suer, and others), is the United Way a $4 billion charitable fossil? Some believe that it is. One observer suggests that the United Way "may well be obsolete in 10 years." Or, on the other hand, will these new community impact strategies reinvent and revive the United Way, like digging up a prehistoric Brendan Fraser in *Encino Man*, who with his new clothing and habits is transformed from caveman to Valley high-school teenager? Is the United Way on the cusp of rebirth, or is it in the death throes?

Several themes emerge from press coverage and *Nonprofit Quarterly* reader comments, including the following.

It's all about expanding the United Way's control and discretion. The United Way has been choking on the increasing propensity of donors to designate which nonprofits—inside and outside the UW family—should get the funds. For many, the Community Impact Agenda strives to make the United Way less of a charitable funding conduit to other charities and more of a decision maker concerning who gets what. In one reader's words, the United Way runs fundraising campaigns where it does its best *not* to tell potential donors that they can designate contributions such that the organization has been "disappointed that the percentage of gifts to the general fund has not increased, and they report it as if they've had a poor campaign and desperately need more money, even though their overall totals continue to increase."[45]

According to reports, in other localities the United Way has quietly chosen not to honor some donor-designated gifts, has subtracted donor designations from United Way general-pool distributions to specific charities, has provided confusing information about designated gifts, and has put a larger proportional administrative load on designated contributions rather than undesignated ones. One observer provides this telling example:[46]

> Last year we got a letter from them that, since the nonprofits they reckoned to be most important weren't getting the elected dollars they thought necessary, the following years rules would allow them to route 25 percent of the donations to those nonprofits regardless of the donors' wishes. . . . Don't get me wrong, the nonprofits UW wants supported do good work and are worthy of support, they are just not the ones we want to support. We contacted UW and said if they changed the rules this way, we would stop giving regardless of the pressures from an employer to meet the annual goals (and that's a whole 'nother story). Apparently we weren't the only ones; they dropped the idea,

although I'm sure they'll try and resurrect it sometime in the future.

The Community Impact Agenda appears to be part of a marketing approach to make undesignated donor gifts more attractive. The message is this: Give to the Community Impact Agenda, and you'll help solve critical community issues identified by your peers. If, on the other hand, you designate your contribution, you risk putting your charity toward issues and groups that may not maximize impact, generate leverage, and achieve positive community outcomes.

Reported feedback on the United Way of Central Carolinas in Charlotte-Mecklenburg paints exactly this picture: a United Way campaign that fell short of its fundraising target, a 3 percent growth in designated contributions accounting for roughly one-third of all contributions, and the very clear statement by the head of the United Way's Community Impact Agenda committee that each designated dollar "reduces the ability of the United Way to direct dollars to those agencies that are having the greatest impact in the community."[47] Throughout the nation, these proportions and the UW's reaction are not atypical.[48]

In 2003, the Community Impact Agenda strategy promulgated by the United Way of New York City made the case for shifting designations from specific agencies to one of five United Way "action areas"—(1) hunger and homelessness, (2) education and early-childhood development,(3) access to health care, (4) workforce development, (5) and "sustaining the health of the nonprofit sector"—each with an accompanying three- to five-year implementation strategy and measurable outcomes.[49] It is a powerful alternative aimed at donor designations. Again the message is this: Rather than giving to one organization, give to a potent, coherent strategy that targets the concerns that you, the donor, want to affect.

It's risky to speak up and criticize the United Way. Even hard-core United Way critics are reluctant to go public with concerns about the organization. Not-for-attribution comments contributed by *Nonprofit Quarterly* readers convey more than reluctance and, in fact, an omerta based on fear of consequences.

- "I get a strong sense from many people of being very, very reluctant to say anything critical, even if they think they're not getting a fair shake from the UW, because of the rock-the-boat syndrome."[50]
- "I definitely hesitate to go on the record about our experience due to the possible long-term consequences of talking bad about the United Way."[51]
- "I want to be careful about what I say, as it could negatively impact" fundraising."[52]

The grumbling seems rarely to reach the stage of public outcry, much less organized action on the part of disaffected populations. In central Maryland, a rare example of successful opposition made its way into the press, where in response to fear that the new strategy would deprive safety net–type charities that serve the poorest of the poor, the United Way conceded to the creation of a "partnership board" to advise on allocations in the city of Baltimore.[53]

The United Way as a foundation. Were it not for the occasionally extensive community research and outreach, UW's new strategy could easily be that of a major foundation. Like the United Way, many top foundations such as the Rockefeller Foundation, the Public Welfare Foundation, and others have decided to emphasize impact and outcomes. And to do so, they have concentrated their grantmaking—fewer, larger grants in a smaller number of targeted areas. Why should things be different at the $4 billion United Way foundation? The Community Impact Agenda reflects not simply the United Way's thinking, but the au courant grantmaking dynamic of U.S. philanthropy. To critics, the Community Impact Agenda feels and sounds suspiciously similar to the phenomenon of foundation-run "initiatives," particularly the so-called comprehensive community initiatives, or CCIs, that some foundations tout as community-based, grassroots-up efforts like the United Way's new programs. In the field, however, CCIs are often experienced as top-down, foundation-controlled scripts in which nonprofits audition for dictated roles. To some critics, this is simply the United Way system doing its version of foundation-funded CCIs with distinctive United Way spin.

The United Way as an operating foundation. To the extent that the Community Impact Agenda is a "new" model, there is substantial sentiment that the United Way is increasingly doing its own strategic analysis for localities' charitable and philanthropic communities and, like foundations such as the Pew Charitable Trusts and the Annie E. Casey Foundation, beginning to accrete gradually into running programs and services directly under the UW banner. United Way chapters now develop and run programs such as child-care licensing and certification, affordable housing, and other areas of endeavor.[54]

Fundraising intermediaries with strong programmatic emphases sometimes evolve in this direction, discovering (or believing they have discovered) that they can do better than the on-the-ground nonprofits on whose behalf they raise money. But as this expert observes, this shift raises questions about "how much they distribute versus [how much they] retain. . . . More and more, [they are] 'providing services,' and it is questionable what they do, how effective it is, and whether other groups are better equipped to do that."[55] Critics of the United Way have frequently suggested that one dimension of the Community Impact Agenda strategy is a focus on more in-house planning and data collection by the United Way, leading to the retention of a larger portion of funds, though with funds designated for "programs" rather than "fundraising" or "administrative" needs.

As the United Way's strategy increases its posture as designer and implementer rather than funder of community strategies, UW becomes a more attractive venue for foundation and government grants keyed to the United Way's focus areas. For example, Cincinnati's United Way landed a $3 million Department of Education grant to teach parents how to be involved in their children's education.[56] In Texas, the United Ways of Texas (an umbrella organization representing multiple chapters) got the attention of the Bill and Melinda Gates Foundation for a $350,000 grant aimed at improving high-school graduation rates.[57] As part of the United Way's new national initiative known as the "Financial Stability Partnership," Bank of America put in a half-million dollars toward the United Way's efforts to expand the Earned Income Tax Credit,[58] a component of several of the local UW impact strategies as well.

Many foundations typically contribute significant sums to United Way chapters as a matter of course, the Gates Foundation especially as a seven-figure donor to United Way chapters in the Pacific Northwest, for example.[59] The impact strategy potentially elevates the United Way onto the radar screens of foundation grantmakers looking for effective, outcome-oriented nonprofits as more than financial pass-throughs.

Broad-brush condemnations of 1,300 UW organizations are a discredit to the good intentions and work of thousands of United Way employees who for years have raised and deployed charitable resources and who help maintain the tatters of a social-safety net for those in need.

If you're lucky to be in an area of high-quality United Way leadership committed to the health of the local nonprofit sector, this new strategy might reflect what the community and the nonprofit sector want and believe as well. In one community, the head of a United Way funded agency wrote, "There has certainly been some anxiety among my member agency peers—much of it our natural human response to any change or perceived threat, [but] our United Way leadership has bent over backwards to keep us in the loop and to listen to our perspectives," ultimately devising transition strategies for adversely affected groups.[60] This perspective, however, reflects a local United Way culture constructed on extensive outreach to and interaction with agency staff and board members. To what extent does the new strategy, borne of local innovation, allow local UW voices and strategies to filter back up to inform and maintain a system that is agile and able to adapt to change?

Heartfelt commentary from those who believe in the strengths of the UW's new approach should be taken as reminders of the commitment and resilience of nonprofit service providers, such as this from a former UW employee:[61]

> I am biased. This United Way is and always will be an important organization in my life. It is an excellent, cutting-edge United Way that is struggling to balance the needs of the nonprofit organizations with [which] it has partnered for over 40 years with the needs of the community as a whole. Throughout the process, it has continually asked for input and assistance from the organizations it has funded, and has openly and frequently communicated the work that was under way and the changes planned. . . . I do not doubt for a minute that it is difficult and frustrating to see revenues decrease from any source on which an organization once relied, be it state or federal funding, United Way, or a long-time donor. However, the challenges nonprofits face in maintaining services while shouldering continued decreases in funding from all arenas, including United Way, too often deteriorate into stories of angry executive directors and board members accusing United Way of irresponsibly "cutting" their funding, seemingly without thought or concern.

But the critics are not just a bunch of disaffected nonprofit directors ruing the loss of their United Way financial sinecures. In other communities, the United Way culture has been defensive and guarded, with reports that the Community Impact Agenda strategy has resulted in a rejection of the United Way's largesse and even a departure from the UW fold on the part of some nonprofits.

In contrast with its more traditional and conservative historical role, will the new United Way Community Impact Agenda reinvent the United Way as a newly influential, progressive fundraising intermediary? In many communities, despite issuing reams of PR to articulate the new strategy, the United Way has not effectively explained what it is doing. For many, UW has failed to convince people that the new strategy is more than posturing, another United Way tactic to appear new and different and effective. Some organizations are winners in the changing funding distributions, some are losers, but for many the United Way's Community Impact Agenda adds up to a surfeit of United Way institution building and a deficit of significant social change.

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Rick Cohen is the *Nonprofit Quarterly*'s national correspondent.

Research for this story surfaced many comments from United Way staff and partners. What about your experience with UW? Let us know at *feedback@npqmag.org*. Reprints of this article may be ordered from http://store.nonprofitquarterly.org, using code 140407.

Government Funding and Community Representation on Nonprofit Boards: The Bargain We Strike

by Chao Guo

Editors' Note: *This article suggests that reliance on government funding reduces the representativeness and influence of nonprofit boards and that the democratic function of nonprofit organizations may be seriously constrained. This effect may be mitigated by relying less on government funding and more on volunteers. The article is adapted and reprinted with permission from the original, "When Government Becomes the Principal Philanthropist: The Effects of Public Funding on Patterns of Nonprofit Governance," published in the May/June 2007 issue of* Public Administration Review (PAR) *volume 67, issue 3, pages 458–473. Readers wishing to access the fully cited original version of the article can obtain a copy via the PAR Web site.*

Nonprofits contribute to a healthy democracy by providing citizens with collective representation. While building representational capacity seems particularly important for nonprofit organizations whose primary goal is to engage in representational activities like political advocacy and lobbying, it is also relevant to other charitable organizations such as hospitals, universities, museums, churches, and human-service organizations. These groups have a moral responsibility to provide services that reflect the true needs of those they serve. They also have enormous potential to improve their constituents' lives by influencing public policy and empowering them to represent themselves effectively. For nonprofits to fulfill their service, advocacy, and empowerment roles, it is not only appropriate but also necessary for organizations to establish structures and systems that ensure that they voice their constituents' views and concerns.

By examining the makeup and purview of boards, we may be able to trace how well constituents' views are represented within an organization and subsequently how well its mechanisms work to retain equality and control of decision making by constituents and the larger community.

Social theorist Robert Bellah defines community as "a group of people who are socially interdependent who participate together in discussion and decision making, and who share certain practices that both define the community and are nurtured by it."[1] This definition of community is reflected in the multiple-constituency nature of nonprofit organizations, which includes clients, funders or donors, staff members, volunteers, partner agencies, and neighborhood residents. Among these groups, clients, volunteers, staff members, and neighborhood residents deserve special attention because they not only constitute the "moral ownership" for whom a nonprofit organization exists but also are often relatively powerless stakeholders whose concerns may be ignored. Therefore, we define community representation in nonprofit governance as the extent to which clients, volunteers, staff members, and neighborhood residents are included on nonprofit boards.

There are at least two dimensions of governance structure that must be taken into account when developing representative mechanisms: (1) board composition, which indicates the breadth and depth of community representation, and (2) the strength of the board relative to the chief executive.

First, board composition defines who is entitled or required to participate in the governing process. By rights, governance should embody and represent community interests, and the composition of boards should "reflect community population characteristics." Community representation on a board is believed to enhance its ability to reflect community interests in organizational policies, strategies, and operations. Empirical research, however, shows that there is wide variability in the extent to which nonprofit boards are broadly representative of the community. Board membership in many nonprofits tends to be limited to upper-income, professional employers and managers, while the community has little or no representation.

Second, the board-executive relationship defines patterns of dominance among the leadership core; the power of the board relative to the chief executive indicates its ability to maintain control over an organization's direction. A board that lacks power, even if it is descriptively representative of its constituency, may have limited substantive influence beyond its symbolic value. Prescriptive research posits that boards should be the highest authority and at the center of leadership in organizations, as well as providing direction in key areas such as financial management, policy making, and performance monitoring. Empirical research, by contrast, indicates that the role of many nonprofit boards is reduced to a mere rubber-stamp function, leading to director apathy and insignificant participation in contracting with government.

In short, both of these board attributes are important in judging the representational capacity of a particular organization's governance. Following is a typology of nonprofit governance patterns that incorporates both board strength and board representativeness. In terms of board composition, a board may be characterized by either strong or weak community representation; in terms of power distribution, a board may be a strong one that directs the chief executive or a weak one that is dominated by the chief executive.

Typology of Governance Patterns of Nonprofit Organizations

As the table below illustrates, the resulting typology reveals four patterns of governance structure:

- **Strong, community board.** This pattern describes a board with both high community representation and strong board power over the chief executive. This type of board not only provides descriptive connections between the organization and the community but also demonstrates the controlling power of the community.
- **Weak, community board.** This describes a board with high community representation but weak board power over the chief executive. Though it is representative of the community, the board's lack of power diminishes the likelihood that the community will make any substantive difference in the organization's governance.
- **Strong, non-community board.** This pattern describes a board with low community representation but strong board power over the chief executive. A strong board seems to indicate greater board control over organizational direction, but the lack of community representatives on the board could seriously constrain the organization's capacity to represent community interests.
- **Weak, non-community board.** This describes a board with low community representation and weak board power over the chief executive. The representational capacity of an organization with this type of board is cast into doubt, as both representation and influence are absent from its governance structure.

This governance typology provides a useful guide to understanding the representational capacities of nonprofit organizations, with each of the four governance patterns indicating a certain degree to which a nonprofit board is representative of community interests. Among these four governance patterns, the strong, community board is most likely to represent community interests and thereby enhance the democratic functions of nonprofits in society. There are at least two important reasons for this. First, with the involvement of community representatives on its board, an organization promotes its legitimacy by demonstrating that it "justly and properly speaks for and acts on behalf of [the community] it takes as its constituency."[2] Second, and perhaps more important, a board that is more truly representative and more active may result in more community responsibility and more responsiveness from the organization.

A nonprofit board of directors not only functions as the governing body of the organization, but also performs a bridging function through links to external constituencies and critical resources. Thus, the board of directors is sensitive to changes in the organization's resource and institutional environments. Any adjustment in board composition or the board-executive relationship, however, can lead to a variation in board governance that might constrain the representational capacity of a nonprofit.

The Effects of Government Funding

Resource dependence theory. This theory views nonprofit boards of directors as boundary-spanning units that reduce external dependencies through links to critical resources. As nonprofit organizations have depended more and more on government largesse over the past several decades, it is not uncommon to see nonprofit boards functioning as co-optive devices in the quest for government funding. Within this context, board appointments provide links that allow nonprofit organizations to access and influence public funding agencies. For example, in a study of

		Board Composition (Community Representation on Board)	
		Weak Representation	*Strong Representation*
Power Distribution (Board power relative to Chief Executive)	*Strong*	Strong, Non-Community Board	Strong, Community Board
	Weak	Weak, Non-Community Board	Weak, Community Board

Chicago-area social service and community development organizations, Grønbjerg reports that about half the organizations studied had either sought or were planning to seek board members affiliated with public agencies in order to obtain government funding.[3]

Dependence on government funding has serious implications for community representation on an organization's board. The adoption of a co-optation strategy in response to government-funding dependence leads to increased numbers of corporate, professional, and social elites—who are more likely to have links with public funding agencies, as well as expertise in grant writing—on the board of directors. The limited number of slots on nonprofit boards, however, means that such practices virtually crowd out community representatives. As a result, efforts to attract government funding through cooptive board appointments might discourage organizations from developing sufficient community representation on their boards.

The impact of a co-optation strategy on an organization's board-executive relationship is less obvious. As Zald notes, board members and the chief executive each bring distinctive resources to the table, and "it is the balance of resources in specific situations and decisions that determines the attribution of relative power in the encounter between boards and executives."[4] Following this logic, Kramer further argues that the power of board members stems from their prestige, access to funds, and community connections, as well as their knowledge, skill, time, and energy.[5] If we accept this argument, it is reasonable to expect that the power distribution between the board and the chief executive will be determined by the importance of government funds to an organization and the extent to which a board provides access to government funds.

Thus, if this rationale holds, organizations influenced by government-funding dependence are more likely to develop strong, non-community boards than strong, community boards.

Institutional theory. Institutional theory emphasizes the influence of state, societal, and cultural pressures on organizational behavior and suggests that nonprofit boards of directors serve as legitimizing devices that reflect the expectations of important institutional stakeholders. An organization is less likely to resist institutional pressures that constrain its action when it is heavily dependent on the source of these pressures. Government is not only the largest funder for many nonprofit organizations but also is arguably the most important institutional actor, through its laws and legal mandates. Therefore, it is more important for organizations that receive higher levels of government funding to comply with government expectations.

Two institutional factors associated with government contracting might influence the manner in which a nonprofit demonstrates its compliance with government expectations. The first factor is the trend toward democratization. From the mid-1960s (the era of the Great Society programs) through the late 1970s, the mandated participation of community representatives in organizational decision making became the hallmark of numerous government-funded nonprofit agencies. To obtain government grants, nonprofit contractors had to democratize their governance and management practices in compliance with this public mandate. As a result, boards of government-funded nonprofit agencies were found to be more descriptively representative of the community than were traditional nonprofit boards.

Another factor is the trend toward professionalization among nonprofit organizations that receive government funding. Throughout the 1980s and 1990s, nonprofit organizations began to develop a professional culture signified by more sophisticated, bureaucratic, and rationalized operating procedures. Government not only triggered this move toward professionalization through increased federal regulation of the field (e.g., the Tax Reform Act of 1969) but also facilitated the move through its grants and contracts. Government agencies often establish sophisticated regulatory and procedural requirements, performance standards, and monitoring and reporting systems for their contracts. To comply with these complex requirements, nonprofit contractors must rely more on experienced professional staff and less on volunteers, as well as adopting the routines and structures endorsed by government agencies. For similar reasons, a nonprofit organization may overtly reflect the culture of professionalism in its board composition (e.g., including fewer community representatives and more professional, corporate, and social elites) to gain legitimacy and win contracts from government agencies.

In either case, dependence on government funding generally shifts organizational power from the board to the chief executive, for several reasons. First, government contracts usually lead to expanded or added services, significantly changing the scale of the organization. As organization size increases, it becomes more difficult for the board to exercise close oversight and day-to-day management. Furthermore, the process of applying for government grants often requires extensive paperwork and substantial lead time, which, in turn, demands more commitment than most board members can afford. Additionally, government contracts require organizational involvement in regulation writing, the legislative process, and government budgeting cycles, which are unfamiliar to most board members, resulting in an information gap between the board and staff that favors the staff.[6] Finally, program goals or priorities are usually determined outside the organization, thus minimizing the board's role in program planning and development. A number of empirical studies have documented limited board participation and influence relative to chief executives in governance activities related to contracting.

Subjected to the influence of these two institutional factors associated with government funding, therefore, by this rationale, an organization with high levels of such funding is more likely to develop a weak, community board (or a weak, non-community board) than a strong, community board.

A Potential Mitigator: Volunteers

Volunteering has played an important role in American society throughout history. Today, volunteer labor is still a highly valued resource among nonprofit organizations. Because of the absence of bureaucratic or monetary incentives within the volunteer labor context, nonprofits use their mission to recruit and retain volunteers; moreover, they attract volunteers by offering a variety of solidarity rewards like social activities such as potluck dinners, parties, and community celebrations, and purpose-related rewards like opportunities for input into organizational decision making.

For organizations that rely heavily on volunteers to carry out their programs and activities, board appointments are probably the highest level of purposive reward that an organization has to offer. In some cases, volunteers are more likely to be motivated when an organization provides structural opportunities for them to be involved in governance and management, gaining a sense of ownership of the organization. Moreover, recruiting board members from pools of volunteers may serve as a safeguard for volunteer-dependent organizations to maintain their fundamentally community-based character. Thus, to the extent that an organization is dependent on volunteers, it is likely to include more community representatives on its board.

Increased use of volunteers by a nonprofit may also shift the power balance between the board and the chief executive in favor of the board. Lipsky and Smith observe that when an organization relies on volunteers for its success, the latter gain a certain level of power and control. When more volunteer representatives are included on the board, such volunteer power is likely to be reflected in the board's power over the chief executive. Finally, volunteers are often drawn from the community or are current or former beneficiaries of the services provided by the organization, and thus are an important group of community representatives.

Results and Discussion

To better understand government funding's effect on nonprofit governance patterns, we employed multinomial logit analyses of survey data from 95 urban charitable organizations. The results support our core hypothesis: an organization that relies heavily on government funding is less likely to develop a strong, community board over any other board type. Which of the other three board types, then, is an organization more likely to develop when it becomes more dependent on government funding? Analysis shows that no one particular board type is more likely to emerge than the other two. The results have also confirmed our prediction that reliance on volunteer labor is associated with a higher likelihood of developing a strong, community board than any other board type.

This study's findings suggest that as an organization receives more government funding, its board might be treated as a co-optive or legitimizing device rather than as an independent governing body that should be representative of community interests and responsible for the mission, direction, and policies of the organization. Echoing Smith and Lipsky's[7] concern about the transformation of nonprofit boards from "agents of the community" to "agents of government," we have joined others to offer empirical evidence that governmental dependence might push nonprofit boards away from important decision making and even further away from the community (as in the case of some community development corporations). The irony is that, as nonprofit boards are expected to take on more responsibility for representing their constituents and educating their funding sources toward a more realistic sense of societal needs, reliance on government funding might undermine their representational capacities. Findings by other scholars have also demonstrated that government funding leads to less volunteer support, fewer private donations, less advocacy for the community, and reduced capacity to function as "schools of democracy." Our results, in conjunction with the aforementioned findings, suggest that governmental dependence might eventually shrink the base of public support for nonprofit organizations and limit their community and democratic roles.

What, then, are the policy and managerial implications? For policy makers, it is imperative to design public policy in a manner that balances the need to transfer more service activities and responsibilities to the nonprofit sector with the equally compelling interest of sustaining the representational capacities of nonprofit organizations. For instance, policy makers might consider developing certain discriminatory funding policies or regulations over nonprofit organizations with different patterns of governance structure. A more precisely focused funding policy would help the emergence and prosperity of more nonprofit organizations with better representation of community interests in their governance. For nonprofit leaders, a possible solution to address the undesirable consequences of government-funding reliance would be to reduce government funding through innovative

use of other types of resources, particularly volunteers. Aside from their economic value, volunteers may also help nonprofit boards establish stronger ties with the community and foster their democratic value as representatives of community interests. The reliability of using volunteers as a counterbalance to government funding, however, deserves further investigation: as previous studies have noted, government funding requires greater professionalization and specialization on the part of nonprofit contractors, which might crowd out volunteers and thus discount their value as a potential mitigator.

As nonprofit organizations are increasingly charged with providing services traditionally furnished by government, policy makers and nonprofit leaders alike must be aware of the consequences of governmental dependence on the other important roles and functions of nonprofit organizations, particularly democratic governance. To the extent that reliance on government funding reduces the representativeness and influence of nonprofit boards, the democratic function of nonprofit organizations may be seriously constrained.

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What is your organization’s experience with government funding? Have you seen a reduction in community connection and have you found ways to strenthen community representation? Share your experience at *feedback@npqmag.org*. Reprints of this article may be ordered from store.nonprofitquarterly.org, using code 140408.

About the Data and Methods

Survey questionnaires were sent out in January 2002 to the chief executives of 376 charitable organizations, a random sample drawn from a pool of 1,976 charitable organizations in Los Angeles. Survey questions asked for respondents’ reports of governance patterns and collected information on government funding and other factors associated with nonprofit governance. As of May 2002, a total of 95 survey questionnaires were completed and returned.

In the present sample, the largest group is human services, accounting for over 27 percent of respondents; health organizations make up 20 percent of the respondents; the third and fourth largest types are education/research organizations and arts/culture organization, with nearly 17 and 12 percent of reporting organizations falling into these two categories, respectively. Overall, the distribution of the samples is consistent with that of the most recent national data.

Organizational Culture Checkup: An Interview with Erline Belton

by Lissette Rodriguez

Erline Belton *is the CEO of the Lyceum Group in Boston. Clients identify her as an organizational healer, and she is honored to be of service as she practices organizational development from her heart and head.*

How do you help people understand what is at the heart of organizational culture?

This concept is still elusive for many of us. A good way to approach this is for people to ask what it feels like to be part of an organizational system. They need to ask, "What can I give to this system, and what is this organizational system going to give to me?"

Culture doesn't just happen to an organization; it is fed by those within it. People operating in a healthy environment are nourished positively; cultures that make people feel small and where people don't want to come to work are poisonous; they starve our spirit. But no culture is all negative or all positive. Problems can arise, for instance, when good people leave a more negative culture; they leave a void that is difficult to fill because they were part of the healthy pockets of the culture. The system is the people.

Cultures are not static; an organization's culture can change based on what people feel, see, and experience day-to-day. Such shifts often happen over time, but they also happen following an unusual event or when a specific behavior triggers a change. It comes with the startling realization that people are not perfect or predictable. This is a common reality for nonprofits, which rarely have enough staff or funding available to fill the demands of the work. When staff have to juggle too many demands, taking on more work than people are capable of doing, causes the structures and systems to fail, sometimes creating the opportunity for people to fail one another over time. It is rarely a question of the commitment to the work or to one another, although this becomes a question, as faith in the organization and one another falters. The simple fact is, things are not what we thought they were when we joined the organization, (and they seldom are). Once disbelief becomes part of the organizational fabric, it is a difficult story to change. The goal is then to recreate the story to be what we want it to be. The only way to do so is to recapture the belief that it is possible.

If you want to change a negatively experienced culture, the key questions to examine collectively are these: How did things develop this way? How can things be different?

Why tackle this tough issue? Can organizational culture really be changed in substantial ways?

Everyone needs and wants to work in an organization where the culture supports growth and development, their work, and the people they are committed to serving. For those of us who have a passion for our work and have chosen work that is dedicated to being of service to others, it is very important to be supported by a culture that nurtures the best in us. But sometimes we find ourselves in a quicksand of culture that deteriorates into lies, gossip, defensiveness, mean-spiritedness and cronyism. This creates a deadly atmosphere that's not conducive to getting the best from staff.

But few organizations like to talk about or deal with organizational culture and find any reason to avoid the topic. They think about people only in relation to systems and policies, not necessarily in terms of relationships and beliefs and how they create and shape the culture of the organization. But all organizational work evolves in the context of culture, and many systems are formed to fit or react to the culture.

So to affect the culture of an organization is to impact the organization's fundamental work; it is not a side job;, creating the right culture is part of the core work of the organization.

In the early stages of my consulting work, I was constantly dumbfounded by the fact that those of us doing organizational consulting were helping to create change strategies that didn't work. You'd talk to people in the organization, you'd feed the information back to them, create a strategy, and then come back a while later, and it was *still* broken. So I would think, "This organization has good people and they do good work; why can't they move the needle?" I eventually realized that people would not stop to have the philosophical discussion about their beliefs or the underpinnings of an organization's mission and vision. Nor would they take the time to understand the individual beliefs that drive how and why they work. I realized that you need to create the safe space for this reflection to happen in order to get at the issue of organizational culture—namely the way it feels to work in a particular system.

Our beliefs define who we are as individuals and as an organization. It is our public statement to those we work with that speaks to who we are and what we will and won't stand for. These beliefs can change over time if they are acknowledged, and explored with tenderness and honor, and accepted as part of the *real* work of the organization. This offers leaders a big challenge, because the workplace isn't traditionally a place that examines feelings, beliefs, and emotions supported by our collective voice. And while we may say that we support the opportunity for everyone to grow, the reality is often quite different. This fact alone demands that examining beliefs must be sanctioned by leaders and seen as part of organizations' primary work.

With the world moving faster and faster, I'm more concerned about how organizations address their staff's beliefs, drives, and feelings. When people in the same organization operate with different belief systems and don't take the time to deal with this reality honestly, it causes enormous confusion and difficulty. If you don't create the safe space for that conversation to happen, you will never create a high-performing organization. Either way, a culture will exist. You can either choose to be the shaper and architect of that culture or not.

How do you create the safe space for this conversation?

An organization has to be willing to explore the myths that exist within it and the untruths in effect. Nonprofits would do well to regularly examine the truths and myths about their cultures and make corrections to encourage a healthy environment in accordance with that truth. In the process of exploration about what is real and true about the culture, the soil is loosened, so to speak, and this creates the opportunity to deal with the real issues. But people are often afraid to have this difficult conversation and tell the truth.

Every organization has myths and untruths that need to be uncovered. The courageous organization says, "Let's uncover these issues so we can decide what we actually want to be true about our organization." That is a hard step to take, but when taken with conviction, it's very liberating. I help start the conversation by asking, "When you were successful, what beliefs were in effect at the time?" as well as "What was happening for you personally, and what was happening organizationally?" When people can identify these trends, it is enormously powerful. They can begin to understand what worked for them in the past and operate from that reality. When people can't bring these questions and passion into their work, they retreat, remove their soul from their work, and lose their passion and spirit. And

The Nonprofit Quarterly wants to thank everyone who made a donation to us this year. Like many of you, we too are a nonprofit. And we don't survive on our subscription income alone. Each donation goes a long way in sustaining us and ensuring that we remain accountable to you, our dear readers.

Thank you again and Happy New Year from all of us at the *Nonprofit Quarterly*.

Thank You

ultimately, the organization loses them as well. And you tend to lose the good people, because they have other options, and because they will look for a place where they can bring their passion *and* their intellect with them.

But the work is not easy. Two things can happen when you talk about myths: (1) there is an enormous sense of relief that the myths have been uncovered; or (2) the myths are uncovered, but their implications are too difficult or threatening and get pushed down again.

What happens if an organization accepts the challenge of dealing with its myths?

If an organization takes the opportunity to deal with its myths, then the hard work begins. Now the issue becomes one of trust; in many situations, people in an organization may have tried previously to deal with the issues and failed. It is important to pick one or two high-priority organizational concerns and deal with them well. You can't do too much, or it won't get the attention it needs and the effort can fail again, which diminishes trust even more.

This work requires a *lot* of patience, dialogue and a willingness to trust again. It also requires leadership that is willing to invest time and effort. Without authentic commitment by an organization's leadership, change won't happen.

For leaders undertaking this kind of dialogue and change, it is important not to do the work in a blaming way but to approach it from the perspective of "What can we do together?" Many find it difficult to make the shift from blaming to accountability, and it is important to know the difference. When you blame, you are asking, "Whose fault is it that we are in this situation?" When you hold someone accountable, you ask, "We made an agreement, and we're not sticking to it. What happened? What can we learn from what we did?" That is a very big difference.

Can't some organizations do this work without the support of leadership?

Most people want someone else to do the tough organizational work. It's not easy. But when a leader is willing to take it on, it also encourages others to engage in the work. Leaders model the behavior that is necessary for change, which helps to develop a new belief system in the organization, and it increases the trust level, especially in leadership. But in many cases, leaders don't want to do the work, it's hard. So a leader needs to be convinced that the work is necessary, must pursue the effort relentlessly, and must allow others to hold him accountable. It requires a level of vulnerability and courage that frightens most leaders. This new type of leadership enables the healing and coming together of a work community.

If leaders are doing this work, it becomes important to keep the questions at the forefront. That's the tough part; no one can let it slip.

You can undergo the process without a top leader if that leader agrees that the work should be done and delegates it to someone else. That person has to be willing to take on a leader and others in senior management and say, "This is not going well, this is not what we agreed to, this is not who we are." That is not a whistle-blower role so much as it is the role of an ombudsman, but it can be unpopular because leadership may not want to hear it. And this person has to bring feedback, facts, and examples to show what is happening. It can't just be this person's opinion; it has to be based on real evidence. This is a person who commands respect, has credibility, and is considered independently minded. For this role to work, an organization has to be willing to stop, ask questions, and dissect what happened before it is too late.

What kinds of things are happening in organizations that are doing this work?

An example is they tend to manage their time differently. One organization is trying to reshape its organizational culture because too many of its staff members could not focus on what they wanted to focus on. So they devised the concepts of "control time" and "response time." During control time, there are no interruptions and people focus on specific tasks. During response time, they have more of an open-door policy, where others can walk into an office, ask questions, and chat. This distinction has given the staff a sense of control about how it manages its work, which was a major issue previously.

They have staff meetings, and an item on every agenda is a discussion of how organizational cultural changes are going. They ask, "How are we doing on the things we said we would do?" They take on the organization's leader; they challenge one another. It's very hard, and it does not work all the time. But they've learned to recognize when they're stuck and that they can't always do it themselves, and they ask for help. They have learned to speak more openly and have moved from blaming (i.e., "You said this was going to happen, and it didn't") to accountability (i.e.,"Help me understand what happened").

Another important question for these kinds of organizations is "What did we learn?" When things go well or even when they don't, this question is always worth asking, and organizations that have done this work routinely look at what they learned and what they would do differently; they realize the importance of reflection and they build it in. When an organization truly reflects, it decides what it wants to be and that it wants to be different from what it is currently. To do so, however, it must engage the intellect, the spirit and the heart of its people.

Can you share an example of an organization that took on this work and made major changes?

I can tell you about a community organization that I worked with for about three years that took on the core of organizational culture. It was experiencing tremendous growth, and it was saying yes to everything. It didn't establish boundaries as it grew and brought in people who did not share the organizational culture of the original group of staff, which created a major cultural clash. Within three to four months of a huge hiring surge, big conflicts had erupted. This made folks realize that they needed to stop and ask several questions: "What matters to us around here? What do we want to keep? What needs to change? What is the culture we want to create?"

So I helped them look at their history and the culture they had created over time and to see how it had once worked and how it was not working now. We then divided the work into short-term and long-term fixes. For short-term fixes, finance was an important area. There was an all-out war between the old-timers and the new accounting folks. The old accounting system was laissez-faire and based on trust, and the new folks put in a highly structured system that had more accountability but that most experienced as bureaucratic. So we asked the entire group what was and wasn't working. The finance folks shared their perspective, and the program people shared theirs. It was a fabulous process—tough, but needed. The finance folks were relieved to talk about what was not working because they were not getting what they needed from the rest of the staff, and the program staff talked about what they believed were the police tactics of the finance folks. The finance staff then thought about processes that were absolutely needed in terms of a strong financial system of accountability and they pared back a lot of the bureaucracy. They implemented a new system, and it worked because the finance folks were no longer policing resistant people, and the rest of the staff members no longer believed that in order to be accountable they had to respond to a highly bureaucratic system. It was very interesting to ask, "What is really needed to be accountable?" which is how these groups got to the point of having real balance.

This may not seem like a cultural issue, but it is. You have to move from a family atmosphere to a more bureaucratic environment and find the balance of accountability. And how you go about that is about organizational culture. We had to ask the finance folks what was important to them, and they said, "customer service." But what does that look like? What are the behaviors? They had to grapple with the fact that policing folks was not customer service and to develop the beliefs, values, and behavior that would drive that customer-service orientation. At the same time, the program folks had to understand that the organization was changing and needed more structure and that they in turn needed to find a new way. Ultimately, they met more or less in the middle, and they did so based on agreements about the culture they wanted to shape and contribute to.

In another instance, the program folks were challenged in how to best provide services to community residents, particularly their tenants. The organization had created a "do for me" approach to community services rather than an approach that encouraged self-sufficiency. They explored the history of that service orientation, asking what was currently going on, what would allow them to move to a model of providing services that was self-sustaining and that would lead to greater self-sufficiency among families. They had to confront their own beliefs and behavior and had to recognize how this behavior supported dysfunction. They asked how they could move to a culture of partnership with tenants. So they explored their philosophy and beliefs and then aligned programs with this belief system. Some programs were expanded, others were canceled, and services were entirely reorganized to align with organizational mission and the beliefs. It was a profound shift to go from a parent-child relationship with the community to a customer-service model based on mutual accountability and interdependence. It was hard work because this organization dealt with all the ailments of society—abuse, drugs, dependence, displacement—and there had to be a conversation about what was and wasn't acceptable and how to deal with the unacceptable in a caring and responsible way. Again, the work of culture is always about the real work of the organization, and it demonstrates the choices we are and aren't willing to make as we, together, create the story of the organization.

What attitudes and behaviors keep our cultures stuck? How can we change these?

Usually one person is mistakenly believed to be the culprit. Often the leader is blamed for the organization's shortcomings. In my work, however, I have never found one person to be totally responsible for organizational shortcomings. In fact, choosing to blame a leader clears everyone else of accountability and responsibility. That said, my experience also suggests that a leader rarely recognizes his organization's dysfunctional culture. Many times the truth is beyond reach because no one has had the courage to articulate it; and sometimes a leader simply does not want to hear the reality. But no matter the reason, it's a leader's responsibility to know the truth. And it is still the obligation of those in the organization to bring forth the truth and have it heard and acted upon.

Some may act as bystanders. Some think it's OK to give ourselves permission to engage in criticism, judging, and skepticism from the sidelines. We are still committed to our work but many times assume no ownership or accountability for the problems we identify. We see and feel all that is wrong from our vantage point and hope for a change that does not come. This behavior allows us to stay stuck in the belief that things will never change. We look for data to support our beliefs, and we refute any data that might cause us to change our view and our own behavior. If you are a bystander, you put the culture on hold with a wait-and-see attitude. Over time this diminishes the spirit of the organization and prevents it from moving forward.

There is also the role of the storyteller of the truth about others. In this role, we interfere with building organizational belief because we hold on to some powerful truth about others. We can see with a great deal of clarity what is wrong with them. Not only can we see it, we are convinced that everyone else can see it too. We hold a belief that if only that person would change, everything would be all right. The most laughable part is that while everyone sees it, no one tells the person who most needs to hear it. It's as if we have no responsibility to one another or ourselves for the building of right relationships and for speaking the truth to those who need to hear it.

Finally, is the role of storyteller about ourselves. The truth we hold about ourselves is often filled with what we wish were true rather than the reality of how others experience us. The only way to substantiate our truth about ourselves is to acknowledge that we need others to share their experience with us. If we build up a wall of defensiveness and deny that it's there, we prevent others from coming forward to speak about their experience. If they have the courage to speak their truth and we reject it or refuse to listen, we miss an opportunity to move forward. And if we do nothing to modify our own behavior, we can't expect others to continue to invest in our growth. If we don't take advantage of these critical moments, we lose ground on the journey toward building belief. We lose the opportunity to enable the organization to change. It is easy to forget that we are the organization and the organization is us.

If we are to build belief in our organization's culture and hold onto the belief that things will change, then we have to be willing to change ourselves and invest in supporting others as they attempt to change themselves. All these roles that impede organizational change must be addressed openly and truthfully. And a leader needs to create a shared commitment to examining and making visible the beliefs that inform what people do and don't do. They must engage in frequent and truthful dialogue. This dialogue must allow for input and imprint of new data that potentially informs and identifies new collective beliefs that can be embraced by all and for which everyone feels accountable and responsible. Accountability and responsibility and caring from the heart become the work of the leader and everyone in the organization.

Lissette Rodriguez is contributing editor at the *Nonprofit Quarterly*.

What kind of culture exists in your organization, and why? Have you ever participated in the kind of organizational change discussed here? Share your story with us at feedback@npqmag.org.

Reprints of this article may be ordered from store.nonprofitquarterly.org, using code 140409.

In the Next Issue

How do you ensure leadership continuity in the face of departing executives and changing environments? The resulting tumult tops the list of concerns of boards and executives. *Supplement:* nonprofit management education.

ARNOVA Abstracts

ADVOCACY

Chandler, Arnold & Glenda Johnson (eds.) (2007) *Click Here for Change: Your Guide to the e-Advocacy Revolution.* (Oakland, CA: PolicyLink) 60 pp.

This is "a manual on using state of the art technology to improve advocacy efforts. . . . Case studies include the Sierra Club and individual political campaigns." [Foundation Center abstract]

CAPACITY

Connolly, Paul M. (2007) *Deeper Capacity Building for Greater Impact: Designing a Long-Term Initiative to Strengthen a Set of Nonprofit Organizations.* (New York: TCC Group) 28 pp.

"This briefing paper explains how grantmakers can plan, implement, and evaluate long-term capacity building programs. The document covers key decisions that grantmakers must make when developing capacity-building initiatives, including the duration of the initiative, the funder's role, the types of assistance to provide, and others." [Foundation Center abstract]

Mandeville, John (2007) Public policy grant making: Building organizational capacity among nonprofit grantees. *Nonprofit and Voluntary Sector Quarterly* 36(2): 282–298.

"This study seeks to identify the practice of funder investment in policy actor capacity." Records of 407 of the largest U.S. foundations reveal that "foundation grant making for public policy initiatives is guided by a preference to support short-term initiatives that are dominated by a program's specific purpose."

CORPORATE PHILANTHROPY

Amato, L.H. & C.H. Amato (2007) The effects of firm size and industry on corporate giving, *Journal of Business Ethics* 72 (3): 229–241.

Based on a large IRS data set, it appears that "small and large firms give more relative to total receipts with lower giving ratios among medium size firms. . . . Strong industry effects provide evidence of inter-industry differences in giving culture and/or different public relations requirements across industries."

FINANCE & TAXES

Rooney, Patrick & Heidi K. Frederick (2007) *Paying for Overhead: A Study of the Impact of Foundations' Overhead Payment Policies on Educational and Human Service Organizations.* (Indianapolis, IN: Center on Philanthropy at Indiana University) 36 pp. Available at *http://www.philanthropy.iupui.edu/Research/WorkingPapers/*PayingforOverhead.pdf

Based on survey data and case studies this paper contradicts conventional wisdom by finding that "most foundations fund nonprofits' overhead expenses, mostly within program grants." Controlling for other factors, large foundations and local foundations were statistically more likely to fun overhead.

FOUNDATIONS

Minnesota Council on Foundations (2007) *Principles for Grantmakers and Practice Options for Philanthropic Organizations.* (Minneapolis, MN: author) 25 pp.

"The booklet presents statements of responsibilities that the Minnesota Council on Foundations subscribes to and provides guidelines for best practices. . . . Also contains an accountability self-assessment tool." [Foundation Center abstract]

Swierzewski, Rachael (2007) *Rural Philanthropy: Building Dialogue from Within.* (Washington, DC: National Committee for Responsive Philanthropy) 38 pp.

"Examines real and perceived obstacles that set rural nonprofits apart from foundations located in urban settings. Explores strategies for strengthening rural philanthropy and provides recommendations." [Foundation Center abstract]

FUNDRAISING

Robinson, Ellis M. M. (2007) Direct mail on a shoestring, *Grassroots Fundraising Journal* 26(3): 7–11.

Buying mailing lists is expensive. This article gives tips on where to find free lists, how to use a mail shop and how to avoid mailing multiples.

GIVING & PHILANTHROPY

Ostrander, Susan A. (2007) The growth of donor control: Revisiting the social relations of philanthropy, *Nonprofit and Voluntary Sector Quarterly* 36(2): 356–372.

Motivated by a critical review of recent literature, this article "identifies and examines organizational forms that provide donors today with opportunities for increased control." It concludes by suggesting "how to elevate the influence of recipient groups over charitable gifts and bring greater balance into the social relationship between donor and recipient groups."

GOVERNANCE

Ostrower, Francie (2007) *Nonprofits and Governance in the United States: Findings on Performance and Accountability from the First National Representative Study*. (Washington, DC: Urban Institute) Available at http://www.urban.org/url.cfm?ID=411479

Particularly interesting results are: (1) "An emphasis on friendship or acquaintanceship with current board members as a recruitment criterion had a negative association with activity in every board role except fundraising (where it had no impact)." (2) "The presence of the CEO or executive director as a voting member was negatively associated with having an outside audit, conflict of interest policy, document retention policy, and a whistle-blower policy (and was unrelated to adopting other practices)." (3) "Financial transactions between organizations and board members are extensive, particularly at large nonprofits."

LEADERSHIP & GOVERNANCE

Morrison, J. Bart & Paul Salipante (2007) Governance for broadened accountability: Blending deliberate and emergent strategizing, *Nonprofit and Voluntary Sector Quarterly* 36(2): 195–217.

This paper explores governance practices that can enhance accountability. Using a case study it describes its "key concept" of blended strategizing.

VOLUNTEERING & VOLUNTARISM

Boezeman Edwin J. & Naomi Ellemers 2007) Volunteering for charity: Pride, respect, and the commitment of volunteers, *Journal of Applied Psychology* 92 (3): 771–785.

"This study builds upon and extends the social-identity-based model of cooperation with the organization to examine commitment and cooperative intent among fundraising volunteers. . . . Overall, the results suggest that volunteer organizations may do well to implement pride and respect in their volunteer policy, for instance to address the reliability problem."

ARNOVA is the leading U.S.-based national association—with international members as well—of scholars and practitioners who share interests in generating deeper and fuller knowledge about the nonprofit sector and civil society. This ongoing work of inquiry, conversation, and practical improvement is carried on through its network of over 1000 members, its journal (*Nonprofit and Voluntary Sector Quarterly*), and its annual conference. See www.arnova.org.

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The Take-Away

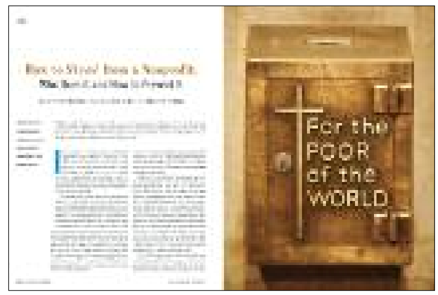
by the editors

Not a Spin-Free Zone: Reflections on the Utility and Price of Nonprofit Spin
by Jeanne Bell
What happens when the nonprofit sector starts to believe its own spin? Nothing good according to Jeanne Bell of CompassPoint Nonprofit Services. Is the nonprofit sector really the sector of diversity? Do boards of directors really establish strategic direction which is faithfully implemented by staff? What does it do to the sector when organizations claim that 100% of donations will be devoted to programs? The author examines some of the most notorious stories nonprofits tell themselves and the public, and discusses why their perpetuation prevents nonprofits from advancing their own best interests and the interests of those they serve.

Peak Performance: Nonprofit Leaders Rate Highest in 360-Degree Reviews
by Jean R. Lobell and Paul M. Connolly
Conventional wisdom at its best gives useful guidance, but at its worst, it misinforms. For years we have accepted that the leadership capacity of for-profit leaders is somehow superior to that of their nonprofit counterparts. But a recent study by authors Jean Lobell and Paul Connolly suggests otherwise. This study compares the 360 degree evaluations of nonprofit leaders to those of business leaders. Nonprofit leaders rate themselves comparably to the self-ratings of for-profit leaders, but the ratings of their managers, peers, direct reports, and others exceeded those of for-profit counterparts on 14 of 17 measures of leadership.

What Makes Powerful Nonprofit Leaders
Jim Collins, author of *Good to Great* and *Built to Last*, provides commentary explaining how lack of direct power obligates nonprofit leaders to develop stronger leadership skills involving influence and collaboration that enable them to lead more effectively.

How to Steal from a Nonprofit: Who Does It and How to Prevent It
by Janet Greenlee, Mary Fischer, Teresa Gordon, and Elizabeth Keating
This article, based on actual cases of fraud that were identified by the Association of Certified Fraud Examiners, examines the most common types of fraud in nonprofits, the most common perpetrators, and the means of discovery and prevention. A must read for every executive and board member!



Assessing Fraud Risk
by Joseph T. Wells and John D. Gill
The authors present questions that every organization should ask when determining fraud risk.

The Whistle-blower: Policy Challenges for Nonprofits
by Scott Harshbarger and Amy Crafts
Despite an array of state and federal laws offering whistle-blowers protection against employer retaliation, legal precedent for the protection of nonprofit whistle-blowers does not really exist. We do need the law but we also need to promote internal cultures of transparency, honesty and challenge in the nonprofit sector. This is what would truly protect and encourage reporting by witnesses who do not wish to risk their own or their organization's well-being.

The former Massachusetts Attorney General and former head of Common Cause, Scott Harshbarger, and his associates from Proskauer Rose sound a call for proactive culture change.

Ensuring a Successful Consulting Engagement
by Ruth McCambridge and Lissette Rodriguez
Hiring the right consultant for the right project at the right time is rarely a simple endeavor and approaching this task unprepared can lead to wasted time, dollars and hope. This article helps the reader understand when a consultant can be most helpful and which types of consulting engagements are most suited for specific situations.


Ensuring a Successful Consulting Engagement

The authors also offer suggestions for hiring and contracting with a consultant and evaluating the results of the consulting work, all with the goal of helping to ensure better outcomes for organizational investment in consulting.

The United Way's Way or Bust
by Rick Cohen
Imagine trying to access funding from a $4 billion foundation that has a new grantmaking strategy—emphasizing making substantial impacts on the root causes underlying critical social needs. The 1,300 or so affiliates of the United Way are making headway on a "community impact agenda" meant to change the nature of how United Ways raise and disburse funding. What does your nonprofit need to know about the language and substance of the United Way system's new strategy? Is it a practical, strategic, and programmatic change that moves the United Way from fundraising intermediary to community problem-solver? Or is this agenda more spin than substance? Inquiring nonprofit minds want to know, and this article provides some insights and interesting data on what's happening in the United Way nationally and in various localities.

Government Funding and Community Representation on Nonprofit Boards: The Bargain We Strike
by Chao Guo
How many times have you thought or felt that government funding might even out the bumps of financial survival? Indeed, government funding may help make your organization become more sustainable (particularly if grants contain sufficient allowance for overhead) but it may also have some serious negative long-term impacts on your community's ability to participate powerfully in governance. A study by the author bears out this relationship but suggests that organizations may be able to mitigate the impacts of such funding on governance by the vigorous engagement of volunteers who are close to those being served by the agency.

Organizational Culture Checkup: An Interview with Erline Belton
by Lissette Rodriguez
"Everyone needs and wants to work in an organization where the culture supports good work, growth and development, and the people they are committed to serving," says Erline Belton, a nonprofit consultant with expertise in organizational culture. According to Belton, however, few of us get to experience healthy organizational cultures because most organizations do all they can to avoid the conversation and to deal with the issues that are getting in the way of a healthy and safe environment for all. The author discusses why this work is core to nonprofit development, how it can be approached and supported, and the rewards that are likely to come to those with the courage to take it on.

Spoiled by Democracy
by Phil Anthrop
Should private colleges and universities with $50,000 annual tuition and fees and multi-million dollar endowments continue to be free from paying local property taxes for schools, police and fire protection? This apocryphal story follows a public policy advocate taking on a difficult issue in his state legislature—and shows how even the best-laid strategy needs openness to creation on the fly.

Classifieds

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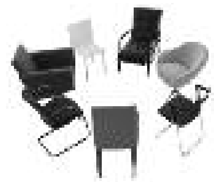

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The room suddenly went quiet, Ms. Sanchez wouldn't look at me, Senator Smarts was grinning, Dr. Sen was dumbstruck, and I jumped for the microphone.

"I agree," I said quickly, as I scrambled to salvage the tax exemption. "College and university education is very expensive. We were fortunate 30 years ago when you went to school, Senator Smarts, that Oregon's great legislature invested in higher education and made it affordable."

The committee chair frowned. "Mr. Anthrop, are you saying your members would reduce tuition to 1977 prices if we restore tuition support? What would your colleges charge for a Venti Latte I wonder?"

"Mr. Chairman, may I answer?"

"Mr. Anthop, I know your colleges and universities don't like this tax proposal, and wouldn't buy so much land if they couldn't remove it from the tax rolls. I want to hear your answer, Mr. Anthrop and Dr. Sen, if you have any. But right now, I'll jump ahead and ask Javier Sanchez, who represents the Oregon Student Association as well as the Linux Programmers Club, to speak."

As I gave up my seat at the table, I could see the association members in the back, scowling and gesturing at me like I was supposed to shut these people up.

Mrs. Sanchez was glowing like the mother of a winning quarterback. "Mr. Chairman," Javier began.

"Is this the first time you've testified at the legislature, Mr. Sanchez?" the chairman asked."

"Yes, Mr. Chairman. But not the last, I hope. Today, on behalf of the students, I would like to say that Mr. Anthrop has made some good points, as has Senator Smarts," said Javier, who paused to look first at me and then Senator Smarts. "But the world has changed in 30 years. It doesn't work the same, and the students don't look the same. The Oregon Student Association is pleased to propose a compromise in which the colleges will have to pay only 50% of the property tax, and the scholarships will start next year."

It was so quiet you could hear the rattle of Lexus keys from the back row. "Anything else Mr. Sanchez?" the chairman asked.

"Plus free Linux software for all students. But of course that's free anyway," Javier replied.

A group of students broke into applause, and soon the entire room started clapping, astounded by the apparent wisdom of the younger generation. The speaker and the president of the Senate came forward and shook Javier's hand, and suddenly the TV cameramen moved in close to get a shot of Mrs. Sanchez crying happy tears.

The speaker leaned down to the microphone. "Mr. Chairman, could I address this body?"

The entire room started clapping, astounded by the apparent wisdom of the younger generation.

The chair smiled and said "Of course, Mr. Speaker."

The speaker waved at me to come forward and said, "Mr. Chairman, I would like to call on Mr. Phil Anthrop and the members of the Oregon Association of Colleges and Universities to accept this splendid compromise."

Somehow the TV cameras were in my face, and the chairman said, "Mr. Anthrop, we're giving your quite successful members a break here, but you have to make a commitment now."

Holy crap!

"Mr. Chairman," I said, "I need five minutes with our college and university leaders."

"Five minutes, Mr. Anthrop, and think of all the scholarships you'll fund," the chairman said.

I rushed out to the hallway and began some frantic discussions. Hands flew; voices were raised. But then a cool head prevailed with a quick plan of action. My colleagues were placated and actually thrilled, so we sailed back into the hearing room, nearly a minute early.

"Your response, Mr. Anthrop?" the chairman asked, clearly surprised that we had made it back in time.

"Mr. Chairman," I began, "you have inspired a complete rethinking of the way we handle scholarships. All the member colleges and universities are on board. In addition, to make clear our commitment, I have been asked to make an important announcement. First, we are honored to award Javier Sanchez and all 10 members of the Linux Programmers Club full tuition for the remainder of their college careers as well as to any graduate school in the state."

Again the room erupted in cheers. "Second, the new wing of the technology building, with a special lab and game room for the Linux Programmers Club, is being named the Louis Smarts School of Technology. Third, Ms. Sanchez, in honor of your remarkable sacrifices and dedication, we are creating a lifetime fellowship in political science for you, at $50,000 per year."

And again, Mrs. Sanchez broke into happy tears.

"And finally, Mr. Chairman, Kesey College has proposed naming the new stadium after your parents, who were graduates—but of course, only with your permission."

Standing up, in the stuffy committee room now positively electric with energy and grinning faces, I concluded by saying, "And this tax matter? We simply ask for more time for our staff to work out the details, probably over the next few years."

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

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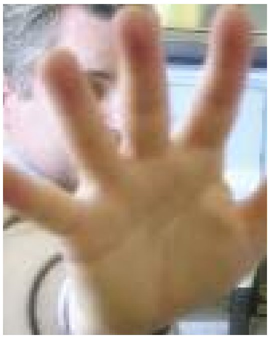

Spoiled by Democracy

by Phil Anthrop

Should private colleges and universities with annual tuition and fees of $50,000 and multi-million-dollar endowments remain exempt from paying local property taxes for schools, police, and fire protection?

When I was hired as the public-policy director at the Oregon Association of Colleges and Universities, that was the hot issue—along with the spectre of the related Smarts Bill. This job came with a slick office overlooking Oregon's capitol dome in Salem. I'm a lobbyist. I'm at the capital all the time.

The Association of Colleges was well educated in the ways of the world: well financed, well informed, and now well under the gun. The *Oregonian* had just run a series of humiliating articles on penny-pinching scholarships, exploding endowments, student concierge services, soaring student debt, and even binge drinking—by alumni at fundraisers.

When I walked into a room designated for a hearing of the tax committee with my board chair, Dr. Hugo Sen, the university's top pediatric surgeon, and Juanita Sanchez, the single mother of an extraordinary student from Portland, I expected things to be manageable. Javier was a charismatic senior who attended Kesey University on a trustee scholarship, a top physics student, an oboist, and the president of the Linux Programmers Club. Thanks to a committee aide, my witnesses would be the first to testify on the bill requiring private colleges and universities to pay local property taxes.

I saw trouble as soon as I entered the tax committee's properly massive and ornate hearing room—Art Johnson, chief lobbyist for the realtors and a sworn enemy of property tax exemptions. The Smarts bill was Senator Louis Smarts's idea: to fund college scholarships by taxing the property of colleges and universities for local police and fire, freeing up state dollars.

The room suddenly went quiet, Ms. Sanchez wouldn't look at me, Senator Smarts was grinning, Dr. Sen was dumbstruck, and I jumped for the microphone.

Art smiled at me and said, "Nice suit, Phil. Come on—this is pocket change for your colleges. Property taxes are strangling us while you guys sock aways millions."

I was used to Art giving me a hard time—he usually had some sneaky surprise up his sleeve. "Art, good to see you. Sorry about this damn real estate crunch—tough times."

The hearing room was beginning to fill. I saw my association's college and university members huddled in the back, near the TV cameras, trying not to appear too nervous or too rich.

Testifying first is usually an advantage. Dr. Sen and Senora Sanchez were scripted to make the case that losing our property tax exemption would only result in higher tuition, increasing student debt and more Oregon students having to go to California for a college education.

It was time to start, with Senator Smarts and 10 other tax committee members shuffling their papers and looking around the room. Suprisingly the speaker of the House and the president of the Senate stood behind the tax committee chair, who nodded to them and then gaveled the hearing to order.

"Our first order of business is Senate File 88, a bill defining eligibility for charitable property tax exemption. The first witness is Juanita Sanchez from Portland."

Juanita was moving, articulate and on message—until the chair asked her the first question.

"Ms. Sanchez, would you support a modest tax on university property if it meant that thousands of students like your son Javier could get a college education?"

Juanita paused for about 10 seconds, and answered. "Mr. Chairman, of course I would! I've seen how the colleges spend their money, and they can obviously afford it."

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