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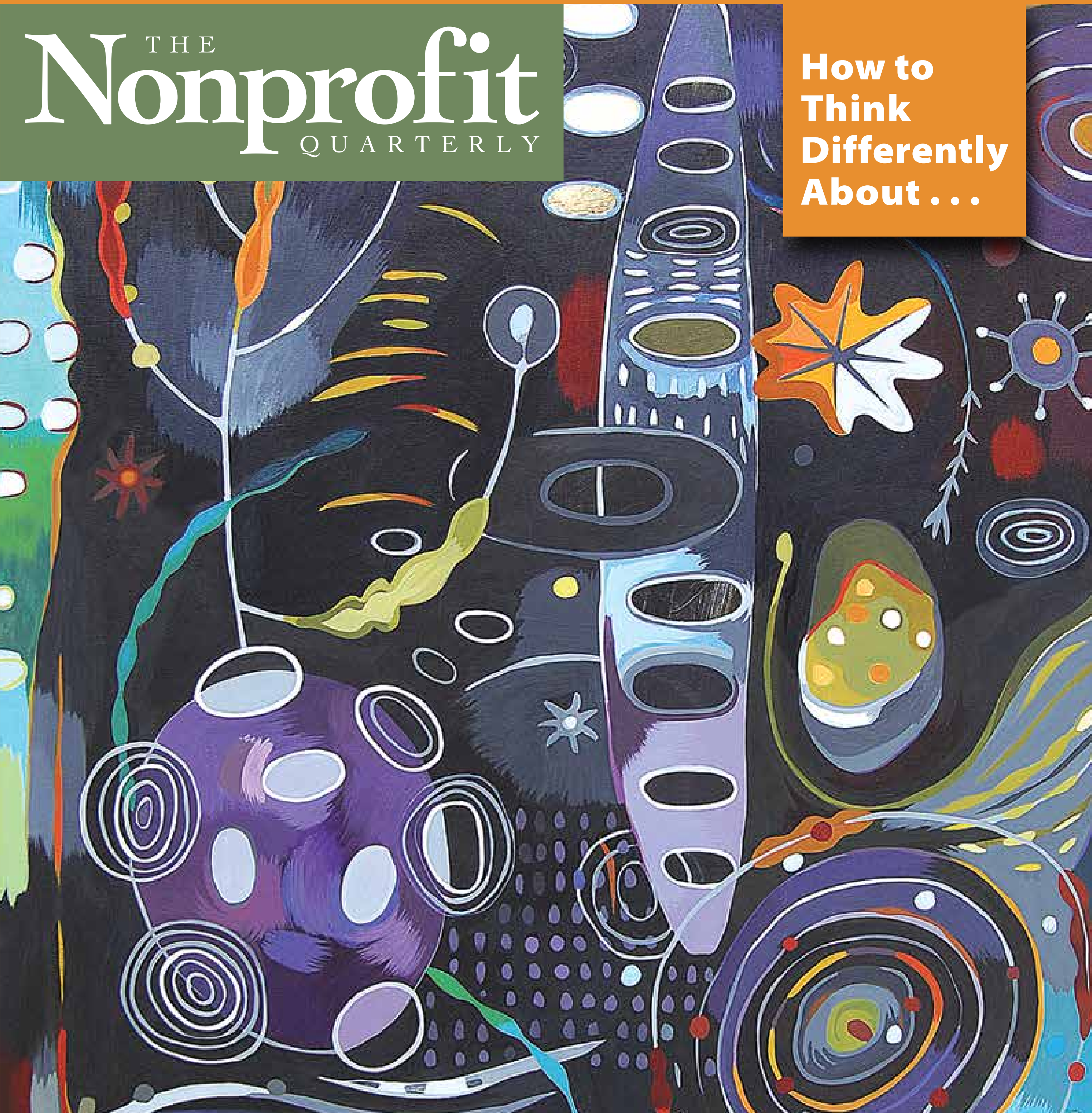
The Nonprofit Quarterly

How to Think Differently About . . .



Kendall-Taylor and Bales *on* Casting off Dead-End Frameworks of Communication

Thomas-Breitfeld *on* Facing the Nonprofit Racial Leadership Gap Head-On

Polanco and Jain *on* Taking Control of Your Capital

Volume 24, Issue 1

The Nonprofit Quarterly

Spring 2017

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COVER DESIGN BY CANFIELD DESIGN
COVER ART: "TWILIGHT 6" BY TERESA COX ©2012/WWW.TERESACOX.COM

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The Nonprofit Quarterly

www.npqmag.org

The *Nonprofit Quarterly* is published by Nonprofit Information Networking Association, 112 Water St., Ste. 400, Boston, MA 02109; 617-227-4624.

ISSN 1934-6050


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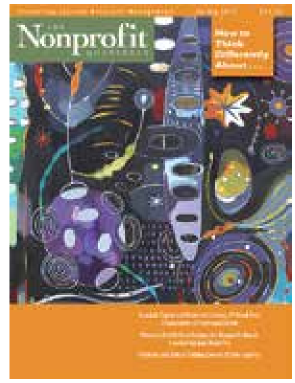
Welcome



Dear readers,

"Nonprofits should act more like business." "Give, get or get off." "Boards make policy and staff members implement it." The field of nonprofit management and governance is rife with baseless assertions about the way things ought to be. These are sometimes cleverly cloaked as best practices even though they don't often work, and many nonprofits have spent decades chasing after what is at the end of these rainbows only to find that there is no end to them because (1) there never is, and (2) even from a distance, the arc has long since disappeared into atmospheric changes. In this edition, we take up a number of areas of management and governance that have been misframed in ways that misdirect, overpromise, and in general make our hard jobs harder—and then we suggest different ways to think about the topics being addressed.

For instance, the difficulty that we often have understanding capital stems from a lack of understanding of nonprofit financial structures more generally—thus, instead of talking about working capital and growth capital in relationship to operating revenue, we have ended up in an endless search for the right ratio of overhead to program costs. Within, Hilda Polanco and Dipty Jain make some simple distinctions between revenue and capital and then talk about the various kinds of capital needed to make a healthy nonprofit.

Similarly, for a number of decades we have been focused on CEO turnover as an all-important inflection point in the lives of nonprofits—but perhaps that is a self-reinforcing notion that creates a cycle of overdependence and periodic vulnerability in our organizations. Maybe we need to think differently about models of organizational leadership. Maybe we need to consider, for instance, codirectorship and shared leadership as a norm rather than an odd exception. In a special section on leadership transition, Tom Adams, Jeanne Bell, Paola Cubías, and Byron Johnson parse this out.

Sean Thomas-Breitfeld writes on the "nonprofit racial leadership gap," explored via a national survey on nonprofits, leadership, and race launched by Building Movement Project in 2016. Upon completion of the survey, which drew more than four thousand respondents, he asks, "Why haven't we moved the dial on diversity?"

Nat Kendall-Taylor and Susan Nall Bales describe a landscape fraught with old, dead-end frameworks of communication, look at the perilous consequences of abiding by such framing, and offer alternative models of discourse that are more likely to "get us back into the commons and reasoning together."

So, this edition is designed around unlearning the norm by entertaining experiments in thinking differently about some crucial issues facing the sector. This requires that we change the way we think and talk, but it is remarkable how quickly you can make sense of the tangle in front of you by starting in a different place and with the right set of glasses.

The Nonprofit Whisperer

Applying for a paid position in an organization without first resigning from its board is an unequivocal no-no; if you do not define your allowable expenditures, you could find yourself in a spot of trouble; and if you find yourself scapegoated after leaving an organization, take the high ground and use it as an opportunity to reflect on any leadership blind spots that may have helped to create the hostile post-departure environment.

DEAR NONPROFIT WHISPERER,
I have a question regarding conflict of interest for the board of directors of a charter school in New Hampshire. It recently came to my knowledge that a member of the board of directors has applied for the open bookkeeper position at the school. Would taking the position require the board member to resign from the board, or could the board member ethically continue to serve?

Confused

Dear Confused,
This is an easy one. The board member should resign before applying for any paid position with the organization, but especially one that accounts for money. The conflict comes from the fact that the board member is there, with others in the governance role, to provide general oversight to the organization on multiple levels (mission, high-level strategy, policies, fiduciary). The IRS, in providing charitable status, asks that nonprofits have a voluntary board of directors, mostly to represent the broader community's interest and ensure accountability to mission, community, and constituents on the part of paid staff. You can't serve two masters.

Dear Nonprofit Whisperer,
I am on the board of a 501(c)(3) organization whose mission is to "research, teach, perform, and promote" certain types of historical or traditional dance. As one of its projects, the organization has a performing troupe. The organization usually gets paid for troupe performances—in fact, this is the organization's main source of income.

Although the organization's annual income is only around $12,000, over the years it has built up a reserve of some $30,000. Currently, the board is considering using a good portion of this reserve to send the troupe to one of several relevant dance weeks that take place each summer. Troupe leaders—who teach, research, choreograph, direct, etc.—would benefit from mingling with other directors, teachers, and researchers. The troupe dancers would receive training by attending workshops led by well-known teachers of historical dance, and the troupe would perform during the week, as would other groups, sharing choreographies, styles, and the like. The organization would pay all or most of the member's expenses. Some of the dance events under consideration take place in Europe, so transportation could be a sizable expense in addition to the tuition fees, room, and board.

Attending the dance week seems to support the mission of the organization. However, many individuals attend such weeks for pleasure. There are social dances and tours of historical sites; boat rides; and other excursions in connection with the events. Would sending the troupe to such an event be within the bounds of permitted expenditures for a nonprofit, or would it violate prohibitions against supporting individuals or providing excessive compensation to board members? (All the board members are also troupe members, but there are troupe members who are not on the board.) And is it permissible to pay some types of expenses but not others?

Conscientious

Dear Conscientious,
Sending the troupe to dance weeks—a normal activity for many dance troupes—for exchange and learning, as you note, is not necessarily an issue. How the organization defines allowable expenditures, however, is critical to ensuring that it remains on mission. The organization should create protocols for such trips as to what are allowed expenditures that relate to the organization's mission. Social evenings or side excursions should

be on the participants' dime. The more your organization can create bright lines regarding what are considered allowable expenditures, the better.

A glaring red flag is that, as you mention, all the board members are also troupe members. This complicates your questions and begins to enter an area of poor optics for the organization. It is not illegal for board members to be reimbursed for meetings or travel on behalf of the organization, but it sounds as though the troupe is acting in mixed roles of oversight (board) and delivery of services (volunteer staff on learning trips). If job descriptions for the board do not exist, the organization should work on those—delineating the role of governance as opposed to activities of the organization that fulfill its mission, whether done by volunteers or paid staff; the board should develop a conflict of interest policy (there are boilerplates online); and, finally, the organization should consider adding non-troupe members to the board, and eventually having these be a majority. The optics of board members acting in their self-interest will decrease with this diversification of board membership.

Dear Nonprofit Whisperer,

I am seeking your thoughts regarding an organization's responsibility to its former CEO. The circumstance I describe below is rather awkward, and I'm not exactly sure if or what the organization or the former CEO should, or could, do about the matter.

A nonprofit CEO with ten years of tenure with Organization A accepted a new position with Organization B. The CEO had outstanding performance reviews during those ten years, and was regarded as a solid leader and representative of the organization. Upon the CEO's informing the board of the job offer, Organization A expressed delight, feeling that the opportunity was not only a positive career move for the CEO but also that their CEO's having been selected by the prestigious Organization B was a feather in Organization A's cap. The outgoing CEO was honored at a going-away event and given an award. Organization A identified an interim CEO and began the search for a new one. Everyone parted on good terms.

After several months on the new job with Organization B, the former CEO learned through colleagues that some things were not going well for Organization A. The interim CEO had floundered and the new CEO was struggling. The former CEO was being blamed for current issues (dysfunction among staff, committee dysfunction, and misunderstandings). Hard feelings and distrust had taken root among some members. While saddened to hear this, the former CEO accepted that this type of thing happens and that it is not uncommon for former staff to get scapegoated during such transitions. The former CEO opted not to take action.

A few weeks later, someone (who was yet to be identified) created a Facebook page to "expose" Organization A's issues. Part of the narrative included several e-mails expressing a board member's dislike of the former CEO and why s/he blamed the former CEO for current issues. The former CEO was contacted by a member of Organization A and directed to the Facebook page ("I felt you should be aware of what is being said about you"), and subsequently discovered through colleagues that the board was quite upset about their internal strife being aired, and had contacted Facebook to ask that the page be taken down. After being up for over three months and garnering thousands of views, the page was finally removed. The board has not contacted the former CEO regarding any of this matter—and, to *date, the former CEO has not contacted anyone about the matter, either.*

My questions are: (1) What is the board of Organization A's responsibility to the former CEO (for example, does it owe the former CEO some explanation or apology)? (2) Given that the social media posts could cast a shadow on the former CEO's reputation and thus jeopardize current or future employment, what recourse does the former CEO have to defend or protect his/her reputation? (3) Are there other concerns or implications vis-à-vis this entire scenario that the former CEO should consider?

Sorry I Had to See This

Dear Sorry I Had to See This,

First, the former CEO's instinct was, unfortunately, spot-on. No matter how remarkable a leader might be (and sometimes because of it), the departing leader may be blamed for disruption that occurs during a transition. William Bridges, author of *The Way of Transition: Embracing Life's Most Difficult Moments*, says, "We resist transition not because we can't accept the change, but because we can't accept letting go of that piece of ourselves that we have to give up when and because the situation has changed."[1] The organization is still in reaction to the loss of a strong leader; some people simply do not do change well, and can act out during these times.

For the former CEO's part, there may be some things to reflect on. A strong, vibrant leader may embody a set of values that not everyone on the board or staff shares. A highly regarded leader might not be questioned about strategy or other key issues during his or her tenure. If the leader is blind to even a small values mismatch or the need to open up feedback on strategy or programs, and has held sway through the power of his or her excellence, then under-the-table issues will surely get aired in the wake of the leader's departure. If, during such a leader's time, strong norms and practice principles regarding "how we behave" and "how we communicate" were not inculcated throughout the organization at board and staff levels (and, for some groups, at the volunteer and constituent levels), then people can begin behaving badly in the wake of that strong leader's departure.

We are all always contributing both positively and negatively to the dynamics of any living system (a family, an organization, a nation). The former CEO acted correctly by not getting involved in the aftermath that ensued post-departure, but this may be a time for him/her to reflect and check in on any leadership blind spots that might now be illuminated through hindsight. Understanding his/her contribution (however minor) to the situation might develop this already good leader even further (we are all always learning, right?). The former CEO should probably continue to take the high ground (libel is hard to prove and will only continue the devolution of a person's legacy) and simply go on being a high performer in his/her new position—the proof being in the pudding.

Organization A has a lot of work to do. The board of directors needs to create a communications policy immediately. Most mature organizations have the CEO (and/or the board president) act as the spokesperson, and all written communications are vetted through a transparent process. In this situation, organization-wide speaking points should be developed and all board and staff should adhere to those speaking points, with consequences for those who do not. Finally, there needs to be an immediate social media policy for staff and board members alike. In this new social media environment, many things have changed regarding how nonprofits communicate with stakeholders, but some things have not changed very much at all—and one of the things that has not changed is the expectation that staff and boards act responsibly when speaking about their organization on the public stage.

This situation is an issue for the boards of both these organizations, and they should decide together on a course of action that protects all involved. That course of action should include cautions to staff about respecting the boundaries of the organizations, even—and perhaps especially—in this new social media environment. In other words, this can be used as a learning moment about the protocols of discussing former staff in a negative light in public—an exercise that should be engaged in only under the most egregious of circumstances. In a crisis—which this does not seem to be—it is best to decide upon speaking points and designate representatives.

A key responsibility of board members is to act as positive ambassadors to the community on behalf of the nonprofit. When there are questions or concerns, these should be brought to committees or the board meeting and fully worked out there. A mature board member who disagrees with what is happening can act as loyal opposition: raising critical questions or concerns, voting no as needed, and resigning if necessary. Playing out this drama on the public stage of social media is simply the poorest type of behavior and, as mentioned above, should be nipped in the bud immediately.

Note

1. William Bridges, *The Way of Transition: Embracing Life's Most Difficult Moments* (Boston: Da Capo Press, 2000).

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How to Think Differently about Communication:

Your Nonprofit's Role in Reframing the Post-Election Discourse

by Nat Kendall-Taylor and Susan Nall Bales

Our habitual go-to approaches to framing social issues work against finding solutions to the problems. The good news is, write the authors, "we don't have just one mental model for how an issue works." This multiple models approach holds the key to interrupting unbalanced, unproductive, and altogether false frames and replacing them with better explanations about how the world actually works.

'Tis the season of reflection. In the wake of the 2016 elections, conventional wisdom has been turned on its head. Defeatism and guilt are spreading, and it's hard to look forward from within the fog of the warlike discourse we've slogged through. This is the time when we resolve nevertheless to fight harder, give more, and be more resolute in staying the course. These are our individual reactions. But what do we do in our public roles?

What should we do as members of the nonprofit sector to assess the impact of this election on the sector's future well-being? What should we pay attention to as we try to figure out what the election means for the landscape of ideas in which we operate, the work that we do, and the goals that we strive to achieve? How are we to think of our roles in bringing communities together to improve outcomes for all people, protect habitats, and make the world a more peaceful place? How can we continue to lead organizations with long histories that transcend presidents and parties to successfully provide services? The current context is fraught with both peril and puzzle.

Electoral politics, as explained by the mainstream press in 2016, is an exercise in binary thinking. Rather than considering the important issues facing our nation and how a range of approaches might address them, the electoral discourse has

Nat Kendall-Taylor is chief executive officer at the FrameWorks Institute. **Susan Nall Bales** is founder of and senior advisor to the FrameWorks Institute.

"UP OR DOWN" BY CHEYANNE ELVIN/CHEYANNEELVIN.WIX.COM/ELVINORIGINAL

narrowed into polarities. As suggested by linguist Deborah Tannen, America's "argument culture" tends to conceptualize everything as a "metaphorical battle."[1] There are very real consequences of this framing. Tannen explains: "[I]t makes it more difficult to solve the problems facing our society, and it is corrosive to the human spirit. By creating an atmosphere of animosity, it makes individuals more likely to turn on each other, so that everyone feels more vulnerable and more isolated. And that is why the argument culture is destructive to the common good."[2]

Binary thinking and the campaigns that activate and ingrain it work against our central mission: to engage Americans in understanding, discussing, and addressing the problems facing society with respect and reason.

Steeped in this culture, we are at risk of using the same dead-end framework to explain the electoral aftermath. The media's "horse-race" frame (who's ahead, who's behind) during the 2016 election impeded consideration of the policies that the presidential candidates espoused; and its "balance" frame, as represented by information from "both sides" of the debate, oversimplified the complex issues we face. Now the "two Americas" frame threatens to further polarize Americans and to distract thought leaders from the critical work that we must do to bring our country together.

In the "two Americas" frame, people are either blue or red, liberal or conservative. The prescription for change is persuasion, not explanation. This binary approach obscures the important work of elections in engaging the American public in thinking about the critical issues of our time and evaluating how we wish to address them. When elections are waged at this level, we all lose—but the nonprofit sector loses big. Binary thinking and the campaigns that activate and ingrain it work against our central mission: to engage Americans in understanding, discussing, and addressing the problems facing society with respect and reason. This mission is not about persuasion and manipulation—it is about explanation, inclusion, and engagement.

The "two Americas" frame is not serving us well. Moreover, it simply isn't reflective of the truth. American culture offers its citizens a limited set of ideas to understand sociopolitical issues, and we suffer as a result. Just at the time when we are most primed to reconsider and reengage with our working models of how our country works, we have been fed a paltry, binary diet. It doesn't have to be this way. We have more ways of looking at the world's and our country's future than were exercised in this election. But getting beyond binary thinking requires us to dig deep into our mental repertoires and become aware of how our options have been narrowed and what has been lost in the process.

Cultural Models

Anthropologists call the intuitive explanations and taken-for-granted assumptions that we bring to bear on our political (and other) judgments "cultural models." The term refers to the way we hold culture in our minds and use it to bring meaning to our experiences, which includes the information we are presented with in our everyday lives. Cultural models are an important part of the way we make sense of our world and how we act in it. Scholars have shown that these mental constructs are culturally specific; that is, as Americans we are steeped in stories and common experiences that predispose us to certain ways of looking at the world. If you ask people why some get ahead in life and others don't, different cultures will share different models of how success "works": who is responsible, what happens first, and with what consequences. These cultural models focus our attention on what is relevant and important about an issue, and in so doing, they shape how we think about social issues—including those that are more obscure and harder to consider and understand. Although they may be endorsed by different people to different degrees, research has found that cultural models are largely consistent across populations—like a common set of tools that our cultures have given us over time to help us make sense of our world and how it works.

The critical point is that we don't have just one mental model for how an issue works; we have multiple ways of looking at and understanding social issues. We might attribute success, for example, to individual effort, luck, or privilege; or, we might consider it the end result of the way a community makes resources available to people who live there, the goals we set for our community, or the roles available to those within it. We might think of our economy as a limited and finite resource—a pie from which each additional piece taken means less for the rest; or, we might see it as a pool of resources that can be added to and expanded over time. As psychological anthropologist Bradd Shore has explained:

> In the realm of politics and policy debates, what the idea of multiple models suggests is that different advocates are not just trying to impose different understandings on people but rather that they are trying to appeal to one or more of the models . . . to change the salience of those models. That is, they recognize that for most people, it's possible for them to move between more than one understanding of something, such as what's more important—individualism, and focusing on the moral individual, or the notion of a communitarian value of what's good for the group. Both of those are perfectly well modeled in American culture. . . . The difference is not whether one model exists or doesn't exist but which model is salient, or foregrounded, and which is backgrounded. . . . The competition for the hearts and minds of people, in policy work, is the competition for restructuring salience and what's in the foreground. . . . The model that's in the foreground is going to be the default reading people have. And the other will remain, not hidden but latent, in the background, fuzzy.[3]

In other words, when we say that the world has changed, or that we are in a whole new "ball game," we are really saying that the conceptual environment in which we operate has shifted—that there has been movement in the relative availability and relevance of certain models of how the world works. What this past election did to the cultural landscape in which nonprofits operate is to pull certain ideas about how the world works forward and push others deeper into our subconscious, where we find them harder and harder to "think" and therefore harder and harder to access and articulate. (We say that this foregrounding and backgrounding process makes some ideas "easy/easier to think" and others "hard/harder to think.") The 2016 election discourse pulled three important cultural models to the foreground of American thinking: *self-makingness*; *separate fates*; and *business knows best*.

What Got "Easier to Think" in 2016

Self-Makingness. According to this model, people make their own fates through their strength of character and the wisdom of their choices. Successful individuals are, by definition, superior people who have maximized their inherent talents. Tautologically, they are winners, not losers. As journalist James Hohmann has shown, Donald Trump and some of his cabinet nominees have acknowledged their intellectual debt to Ayn Rand's objectivism, in which there are "makers and takers, and . . . the takers are parasitic moochers who get in the way of the morally-superior innovators."[4] As Trump has explained, "If you look at black and African American youth . . . they've never done more poorly. There's no spirit."[5] In Trump's Rand-inspired view, it would follow that Black Americans are responsible for their community's higher rates of poverty and incarceration, and lower levels of education, homeownership, and other markers of "success" in this country.

What this past election did to the cultural landscape in which nonprofits operate is to pull certain ideas about how the world works forward and push others deeper into our subconscious.

While the self-makingness model is most vividly on display in Trump's talk, it is not without representation in liberal rhetoric. As journalist Carlos Lozada has suggested, Barack Obama is a major purveyor of the notion that one's biography of success is a morality tale that has the power to incite others to overcome obstacles and achieve greatness.[6] Hillary Clinton also adheres to the self-makingness trope. Her unique and innate abilities and experiences seemingly credentialed her as the person destined to crack the ultimate glass ceiling as the first female president of the United States. Lost in her narrative were the many scholarships, mentors, and other opportunities that made her biography both possible and potentially replicable. For example, her middle-class upbringing no doubt featured multiple intercessors who helped propel her achievement. But many girls and women do not have access to mentors and sponsors. Research shows that only half of American adolescents can identify three or more nonfamilial adults they could turn to for help with an important question about their life.[7]

Pulling forward ways to engage people in thinking about the contexts in which communities support or impede individual achievement and well-being requires that nonprofit communicators anticipate the dominance of self-makingness and prepare themselves with powerful strategies to cue alternative ways of thinking.

While these bootstrap models are not "bad" stories per se, they are unbalanced, reflecting a myopic emphasis on an individual's ability to overcome adversity and realize his or her talents. Pushed to the background in these models, as Shore would say, are issues of race, class, and privilege, as well as the environments, experiences, resources, and programs that play important roles in shaping individuals' outcomes. This election's sharp focus on candidates' unique biographical characteristics failed to help Americans understand that success or failure is not, in fact, due solely to personal characteristics.

As a result, assessments of worthiness and effort are now forefront in people's thinking: they are increasingly top-of-mind, "easy to think," and cognitively comfortable. Meanwhile, notions of context and advantage have been backgrounded, becoming less familiar and harder to engage. This means that nonprofits will have to work even harder to connect the dots for the public. Housing advocates, for example, will need to remind people that, in the words of Winston Churchill, "We shape our buildings; thereafter they shape us." People need help seeing that when housing is designed with such goals in mind as ensuring that people can walk safely, access healthy foods, and avoid exposure to harmful contaminants, this creates an environment that facilitates positive health and growth and dramatically increases the probability of healthy outcomes. Housing that makes physical activity onerous, makes it difficult to access healthy foods, and exposes people to mold and other contaminants decreases inhabitants' likelihood of healthy outcomes. These seemingly obvious points have become "harder to think," thanks to the ascendancy of self-makingness.

STEM learning offers another example. Here, self-makingness is evident in the widespread public assumption that science, technology, engineering, and mathematics are innate talents that, simply, some kids have and others lack. Viewed from this "either you've got it or you don't" vantage point, the availability and quality of STEM programming is of minimal importance.[8] But the existence of multiple ways of thinking and the ability of frames to orchestrate and activate these ways of looking at the world provide a dose of optimism. FrameWorks research shows that the determinism can be overcome when interrupted and replaced with a different frame: specifically, explaining that some kids have access to a host of rich STEM experiences that serve as "charging stations" for their knowledge and engagement, while others have few means of charging up their interest. By activating, and pulling forward, thinking about the ways in which communities have different levels of resources, STEM advocates can put self-makingness in its proper place, rounding it out with a more contextually sensitive perspective. Pulling forward ways to engage people in thinking about the contexts in which communities support or impede individual achievement and well-being requires that nonprofit communicators anticipate the dominance of self-makingness and prepare themselves with powerful strategies to cue alternative ways of thinking.

Separate Fates. When applying the separate fates cultural model, people reason that things that happen to individuals only affect those individuals and those immediately around them—larger communities, and our society as a whole, are unaffected. This model encourages us to see other people's "troubles" as regrettable, eliciting perhaps a charitable donation, but it masks our interdependence.[9] In other words, what happens to "those" people "over there" does not affect the health and well-being of "my" people "over here." Xenophobia, racism, and sexism were hugely visible in election discourse and media coverage this past year, but underlying these issues was the less visible assumption that we have separate fates. This model, however, is equally pernicious and perhaps more insidious, as it empowers those same "otherizing" perspectives but in a less obvious way. That is, the separate fates model feeds and encourages racism through the seemingly more polite and descriptive belief that we live in separate worlds, deal with separate problems, and must come up with separate solutions. It flies in the face of the civil rights movement's core positioning argument, by way of Martin Luther King Jr.: "Injustice anywhere is a threat to justice everywhere."

This separate fates frame is one reason behind the struggle many Americans have with the statement "Black lives matter." This is because they don't see Black lives as mattering to *their lives* or to society as *they* experience it. As FrameWorks noted in a recent report on juvenile justice, for many Americans, "African Americans are understood to live in worlds that are both geographically and culturally apart from mainstream America. This cultural model is strengthened when crossed with issues of juvenile crime, as juveniles are also understood to be a 'tribe apart.' When reasoning through this model, the issues young people of color face in the criminal justice system may be regrettable, but have little bearing on the society as a whole."[10] This model was clear in Trump's phrasing of "the Blacks" and "the Hispanics,"[11] and in his "otherizing" descriptions of life in Black America: "You're living in your poverty, your schools are no good, you have no jobs, 58 percent of your youth is unemployed—what the hell do you have to lose?"[12]

But, again, the dividing wall between "us" and "them" was on display across the aisle, as well. Clinton activated the separate fates model when she asserted that, "You could put half of Trump's supporters into what I call the basket of deplorables. Right? The racist, sexist, homophobic, xenophobic, Islamophobic—you name it. . . . Now some of those folks, they are irredeemable, but thankfully they are not America."[13] When uttering these words, Clinton was clearly attempting to make a strong symbolic statement about what America stands for—and what it doesn't. Yet her willing marginalization of one segment of the population undermined her "stronger together" assertions and cued unproductive "us-versus-them" thinking.

For nonprofits that advocate for the overall well-being of populations and the centrality of currently marginalized groups—whether African Americans or rural Americans—to America's future, the separate fates cultural model serves to unravel social responsibility beyond one's family or group. Moreover, it negates what public health experts assert to be core tenets of population health. At the most obvious level, how do you campaign for childhood immunizations when

For nonprofits that advocate for the overall well-being of populations and the centrality of currently marginalized groups . . . to America's future, the separate fates cultural model serves to unravel social responsibility beyond one's family or group.

anyone can opt out and become a "free rider"?

Many nonprofits will be challenged as this model becomes more dominant in the public mind. Watch for it in discussions of income inequality, where even people of good will can struggle to understand how inequality negatively affects society as a whole, or, conversely, why measures to address inequality benefit us all. Yet, scholars show that the effects of economic segregation reverberate across society and diminish the quality of life for everyone. A new FrameWorks report offers strategies to overcome the separate fates model and trigger more productive ones.[14] This will be especially useful in the year ahead as a way to remind people of what they already know—but might be forgetting—as a result of the election. As one of our new reports about socioeconomically mixed neighborhoods states, ". . . we strongly recommend that communicators consistently use the value of *Interdependence*. If the field coalesces around this value and finds resonant and authentic ways of using it in communications and outreach to groups across the political spectrum, this will, over time, help shift public thinking about socioeconomic mixing away from default individualistic modes and toward a more collective and systemic perspective."[15]

As FrameWorks has observed in past research, talking about places, how they interconnect, and inequitable distribution of services across different places helps people think about solutions. That's why advocates make the so-called "zip code argument" to call for better school financing, and why they use the "patchwork" metaphor to explain deficiencies in rural infrastructure. FrameWorks has found both these strategies to be effective. The separate fates model is assailable—but only if nonprofit communicators do not inadvertently reinforce it, keep their conceptual task in mind, and use frames that get to "we" rather than to "us" and "them."

As FrameWorks has observed in past research, talking about places, how they interconnect, and inequitable distribution of services across different places helps people think about solutions.

Business Knows Best. Looking at the world through the business knows best frame, corporations and the government are assumed to work in similar ways, but with one essential difference: corporations are understood to be inherently more efficient and effective than government, which is thought of as wasteful, inefficient, and inept. Trump used this assumption to great advantage during the election, and much of the public bought it. Having made money for himself and his company, many reasoned, he could do it for the country, too—and he could do it better than those without his business experience. Using this model, people are unable to see different purposes for business and government. Indeed, Trump's advantage as an experienced CEO made up for his lack of experience in government and measured formidably against Clinton's decades-long track record in public service. Moreover, Trump's corporate experience was understood as uniquely positioning him to solve problems and to avoid the massive inefficiencies and corruption that tend to be associated with government officials. As one Trump voter replied when asked to comment on an anticipated healthcare gap after the repeal of the Affordable Care Act, "a smart businessman like Trump would [not] let that happen."[16] Finally, business executives' lack of government experience only reinforces the purity of their motives. As Mitt Romney explained when he endorsed Trump nominee Betsy DeVos for secretary of education, "As a highly successful businesswoman, DeVos doesn't need the job now, nor will she be looking for an education job later."[17] In this formula, the successful businessperson is the ultimate public servant, because his or her wealth inoculates against self-interest and corruption.

This way of thinking is not new. A decade ago, FrameWorks conducted a series of studies into how Americans think about government, and found that "distinctions between public and private hold little meaning" for Americans. It is worth quoting from the study summary at length:

> There is widespread confusion over the difference between the public and private sectors, and numerous manifestations of this confusion. First, the private sector is presumed to be more accountable and efficient. Since there is little understanding of differences in goals and motivation between the sectors, the public sector has been degraded to a role that is, by definition, less effective than the private sector.

> When operating in this mindset, government would be better if it were "run like a business" because government would adopt business' standards of accountability and be more efficient and careful with tax dollars. At the same time, people are suspicious of the private sector's inherent lack of transparency and its "bottom-line" motivation, and see government as more open and accountable for actions. What is missing is a sense that government has a mission that is entirely different from private business: it is, by definition, supposed to be acting in the public interest.[18]

Similarly, in a series of studies on how Americans view education, FrameWorks found that "[b]roader societal goals for public education—such as public health or citizen participation—are rarely mentioned by the American public."[19] As Shore would say, the backgrounding and fuzziness over the value of the public sector and public service work have been a long time in the making.

The obvious consequence of this ascendant cultural model will come in a knee-jerk solution we are likely to see put forth in response to our social problems: "Privatize it." While many Americans may initially recoil at this recommendation, they are at the same time steeped in a cultural discourse that assumes that private is inherently better—more efficient, less expensive, and offering more freedom of choice—than public. As a result, the public may not resist arguments to privatization as the solution to social problems as vociferously as they might if pro-government cultural models were stronger.

This model has even more detrimental consequences. When people reason from a business knows best model, they see no reason to question why government shouldn't be run like a business. The question of whether this equivalency is appropriate doesn't come to mind. Without more explanation, Americans have little in their mental repertoire to remind them that taxes, public goods, and services are not immediate exchanges but are distributed over time. Some goods and services are

Without more explanation, Americans have little in their mental repertoire to remind them that taxes, public goods, and services are not immediate exchanges but are distributed over time.

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immediately available (such as education in public schools), but others aren't available until later (such as healthcare insurance coverage provided by Medicare, or long-term public transportation programs). Cutting taxes *now* leaves future beneficiaries behind, both in the sense that costs will be higher down the road and that meeting those higher costs may be altogether unaffordable. This model also prevents people from thinking about budgets and taxes as instruments to plan for the common good that reflect our shared priorities and responsibilities rather than our individual choices and preferences. Only when we make the differential goals of business and government *explicit* and when we *explain* the incremental steps toward long-term public welfare will people recall how taxes—as opposed to private savings accounts—support the public good.[20]

For nonprofit communicators, many of whom work with government agencies (and who are often indistinguishable from government in the public mind), the business knows best way of thinking means their very identity may cue resistance to their work.[21] Donors and community leaders may harbor unexpressed assumptions about nonprofit groups' inherent inefficiency, anachronistic missions, or outright corruption. Nonprofit communicators should not assume that people understand that healthcare coverage and services, public education, and subsidized housing serve the public good. They must clearly communicate the importance of public services and explain that, unlike nonprofits, businesses are not beholden to the public good but to their bottom line. Doing otherwise could be a costly communications oversight.

At the same time that the ideas above have been pulled forward in people's thinking, there is another set of models that were pushed to the background in 2016 and became "harder to think." These fall into three main categories: *our sociological imaginations*; *our ecological imaginations*; and *our civic imaginations*.

What Got "Harder to Think" in 2016

Our Sociological Imaginations. When thinking in self-makingness mode, attention is drawn to internal dynamics of character and effort, making it easy to ignore the conditions that constrain or promote success and well-being. As we exercise our self-makingness muscles, our sociological muscles begin to atrophy. It becomes more difficult to see how systems, structures, and places shape outcomes, or how inequities have been built into systems over time. How can we tell stories that enable people to practice using their sociological muscles so that they can rebalance the way they understand the roles of individuals and systems in our social worlds?

Our Ecological Imaginations. As long as the separate fates model is dominant, the ways that our surroundings shape us will remain beyond view. Our linked fate, dependent on other species, places, and populations, will be obscured. Without an ecological way to see the world, the problems that afflict others are regrettable but are not immediately salient, because they are not ours. How do we communicate in ways that make interconnections clear and discourage NIMBY (not in my backyard) thinking?

Our Civic Imaginations. As business knows best thinking gains cognitive and cultural real estate, we will increasingly focus on competition—as opposed to collaboration—when charting our path to the future, and civic space will take a backseat to private property. Key civic principles will get pushed out of mind: how society is strengthened when benefits are shared and our talents are diversified; why it is crucial that young people develop critical-thinking skills about the future they want to create through public policies and programs, and that they participate in public decision making. How can we make the benefits of our public systems clear and engage people in supporting them?

Rebalancing the Equation

Why are these predilections in the public's explanatory repertoire so perilous to nonprofits? Whether you are talking about access to children's oral health programs or services for older Americans, boys' and girls' clubs or affordable housing—in each case one begins the conversation with significant conceptual deficits. The public is likely to come to the conversation without an understanding of the links between

individual effort, environmental constraints, community assets, and the role that public policies play in solving social problems. Before the election, advocates faced many cognitive deficits when communicating with the public. It just got worse. The dominant models in our damaging election discourse let reasonable thinking off the hook and replaced it with what Daniel Kahneman calls "fast thinking": "[W]hen faced with a difficult question, we often answer an easier one instead, usually without noticing the substitution."[22] That is, when asked to consider policies to address complex sociopolitical issues like child development, climate change, or inequality, we are likely to fall back on our comfortable bag of tricks. Self-makingness, separate fates, and business knows best will all provide "answers" of sorts. These models tell us that access to quality pre-K is less important than the child's individual efforts; that the consequences of climate change outside my geographic view are regrettable but don't affect me; that opening new job opportunities for displaced workers in American businesses will amply address inequality. Done. To paraphrase Kahneman, our fast thinking told us a story, and we agreed to believe it.[23]

Perceptions of the truth are frame dependent. It falls to those of us who want to work with our neighbors, coworkers, and all whose fate we share to figure out how to get ourselves back into the commons and reasoning together.

There is an alternative: *slow thinking*, or the process we go through when our old models break down and our fast thinking is interrupted. "The spontaneous search for an intuitive solution sometimes fails. . . . In such cases, we often find ourselves switching to a slower, more deliberate and effortful form of thinking," Kahneman writes.[24] Nonprofit leaders know that self-makingness, separate fates, and business knows best will not stand up under scrutiny as solutions to America's complex problems. Evoking our sociological, ecological, and civic imaginations is difficult just now, as the faster models go uncontested in the current political discourse. They need to be interrupted. And nonprofits must be both instrumental in that interruption and ready to tell better explanatory stories that link values to solutions and use the power of metaphor to explain how the world actually works.[25] After all, it is in the context of silence that the old cultural models are allowed to harden and dominate. Coming out of a meeting to discuss the Obama legacy on healthcare, one participant recounted: "The president said that, you know, I guess we all could have done a better job of messaging to the American people just exactly what the value of this is to our country."[26] Exactly. The value it embodies, the way it works, what impedes and propels it, with what consequences for the country. In sum, a story that elicits slow thinking.

So, what are nonprofits to do going into 2017? For starters, if we want smarter citizens, we must promote better explanations of how the world works. This is not about slogans or niche marketing. It requires real community conversations about the nature of the problems that confront us and our options in addressing them. Those conversations will likely begin in problem mode, so they require significant reframing if people are to be able to enlist slow thinking and train it on solutions. This has been the fallacy of community convenings and deliberative democracy efforts that ignore the cognitive sciences in favor of a "truth will set them free" approach. Perceptions of the truth are frame dependent. It falls to those of us who want to work with our neighbors, coworkers, and all whose fate we share to figure out how to get ourselves back into the commons and reasoning together. Remind people of the values they hold for their communities, of the places they want their children and grandchildren to enjoy, of the institutions that have served people well in the past, and of the responsibility we share in building well-being for all Americans. In true American fashion, there will be hundreds of imagined Americas that result from that thinking as we experiment with various ways to bring it about. But only slow thinking will anticipate the problem areas, put plans in place to overcome them, and lead to reengineering new approaches to what besets us all. The "two Americas" myth is a serious distraction from that mission, and one that all nonprofits should eschew.

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How to Think Differently about Diversity in Nonprofit Leadership:

Get Comfortable with Discomfort

by Sean Thomas-Breitfeld

We have long known that the sector must diversify its staff and leadership to better reach, reflect, and advocate for its constituents, yet too many of us continue to edge around the issues and avoid plunging into the deeper work required for fundamental transformation. But creative conflict is exactly what is needed here. As the author writes, "Making progress on any tough issue at the intersection of social biases, policies, and structures and our nation's legacy of racism requires some discomfort; it's how we know things are changing."

It would be an understatement to say that the past few months have been uncomfortable. The national election was downright ugly, and it exposed just how naïve those pundits were who "dared ask whether the United States had finally begun to heal its divisions over race" after President Obama was elected.[1] The resistance that has sprung up in response to the new administration has also been fraught—apparent, most notably, in the tensions over race and feminism that were sparked in the lead-up to the Women's March on Washington, in January.[2] The critiques and dissent may have hurt some feelings but the march was an undeniable success, drawing historic crowds to the nation's capital and highlighting the leadership of the four cochairwomen—one Black, one Latina, one Muslim and Arab American, and one white. Nonprofit leaders should get ready for additional uncomfortable conversations over the next years and accept that conflict will be necessary for progress.

The diverse leadership of the Women's March was so notable because studies and surveys repeatedly show that people of color are underrepresented in CEO[3] and board[4] roles in the nonprofit sector. In preparation to launch our own national survey on nonprofits, leadership, and race last year, my codirector, Frances Kunreuther, and I conducted more than thirty interviews with other experts in the nonprofit sector about what we're calling the "nonprofit racial leadership gap." The basic question we asked is, "Why haven't we moved the dial on diversity?" The answers to that question varied widely and are far from conclusive, but without fail the most interesting conversations were with people who had personal experiences to get off their chests. Similarly, among the more than four thousand survey responses from nonprofit staff across the country, some of the richest data came from the hundreds of individuals who answered an open-ended question about how their race/ethnicity had negatively impacted their career advancement.[5] Knowing that discrimination still exists is one thing, but listening to and reading personal stories reveals that racial dynamics are

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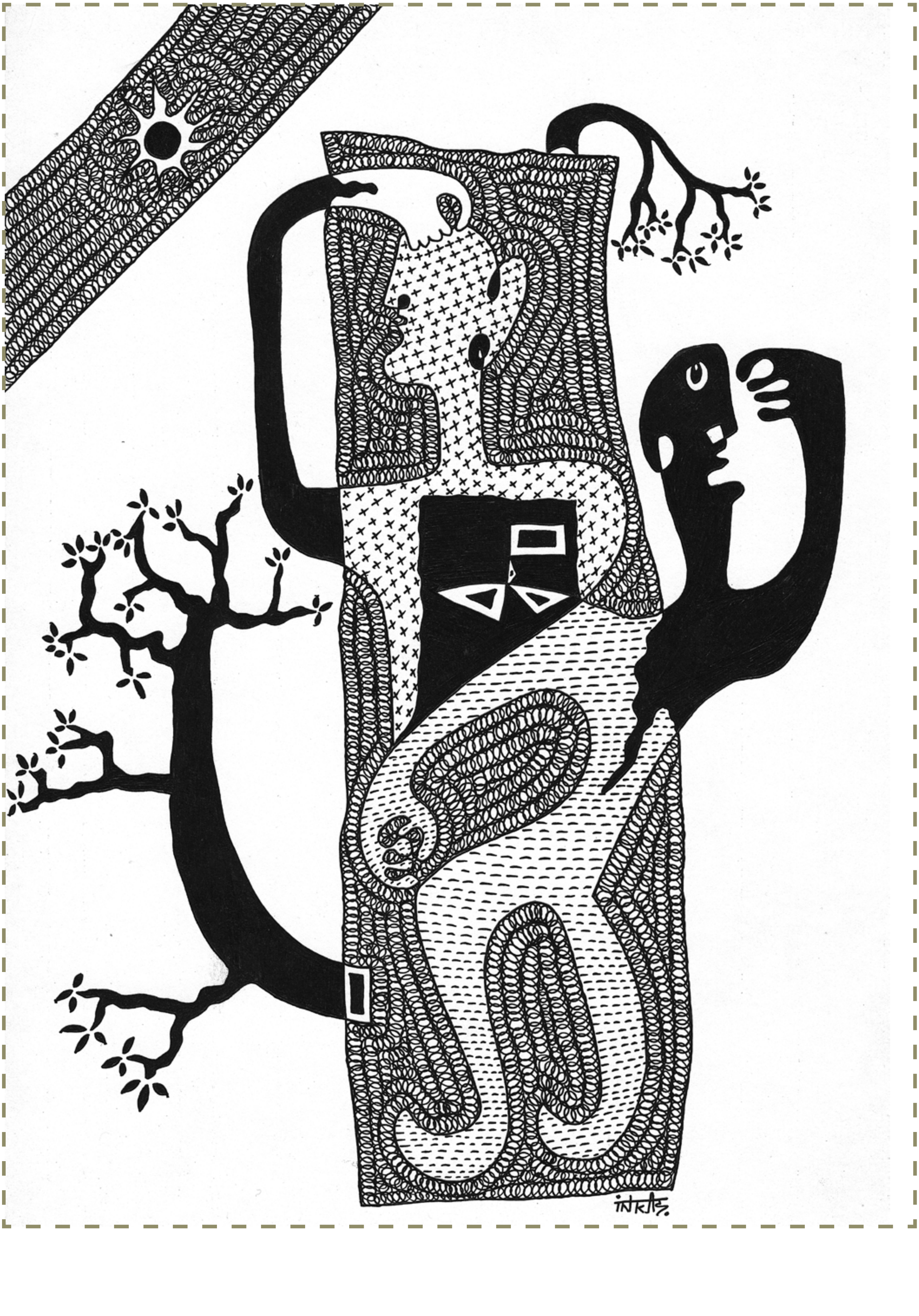
"SEARCHING FOR WHAT WE DON'T HAVE" BY SHANMUKHA INKAS/WWW.SAATCHIART.COM/INKAS; INKASART.BLOGSPOT.IN



as tense in our organizations as they are in our national politics.

The stories of racism that our interviewees and survey respondents described having confronted in nonprofit workplaces are not isolated incidents. In fact, they reflect clear trends documented by other surveys, focus groups, and high-profile cases over the last few years. In a 2010 survey by Commongood Careers of employees of nonprofits, more than a quarter of the respondents of color reported having left a job "due to lack of diversity and inclusiveness."[6] Similarly, a 2014 report from A Philanthropic Partnership for Black Communities (ABFE), based on focus groups and interviews with Black professionals in philanthropy, found that when asked why Black practitioners leave the field of grantmaking, roughly one-fifth gave "being pushed out" of philanthropy as the reason for leaving, and two in five indicated that isolation was a cause for leaving foundation jobs.[7] In 2015, an internal memo on diversity issues in one of the country's biggest and most powerful LGBTQ organizations was leaked to the press, shedding light on what "minority" staff (people of color, women, and transgender staff) had characterized as a "White Men's Club" environment inside of the organization.[8] All across the sector, working day to day in racially hostile, isolating, and oblivious environments is taking a toll on nonprofit staff of color and causing staff turnover and recruitment problems. This is a crisis for the sector, especially knowing that it needs to be diversifying its staff and leadership to better reach, reflect, and advocate for constituents who often are people of color.

The stories of racism that our interviewees and survey respondents described having confronted in nonprofit workplaces are not isolated incidents. In fact, they reflect clear trends.

But despite the evidence that systems and structures are leading to the isolation of people of color in nonprofit organizations, there still seems to be a hesitance to talk explicitly about racism in the sector. I bring up racism specifically, because talking about race in the abstract has proved insufficient. Appreciating racial, ethnic, and cultural differences is great, but too often that is the extent of multicultural work done in the nonprofit sector.

A 2012 study looking at how rationales for organizational change shape multicultural development in nonprofits found that when organizations undertake multicultural initiatives to be responsive to their client base (the top rationale given), the interventions they tend to choose focus on cultural competency, awareness, and sensitivity.[9] This responsiveness rationale probably reflects "cultural competency" finally catching on after two decades of practitioners, consultants, and academics trying to make it a best practice in the sector. By contrast, one of the rarer reasons that organizations took on multicultural programs was to "dismantle white/dominant culture."[10] But this was the only rationale (out of eleven) that led to organizations developing career ladder programs and mentoring programs to create opportunities for staff of color. Doing this much deeper multicultural work requires a commitment to "fundamental organizational transformation"[11]—a commitment that seems too rare in the sector.

If nonprofits are finally going to tackle how racial oppression shows up inside of organizations, they must be willing to be explicit about tackling the dominant white culture that compels people of color to "cover" or downplay their authentic identities at work. A decade ago, Kenji Yoshino's book on "covering" explained how coerced conformity and assimilation constituted the new assault on our civil rights, especially in an era when overt racism had been forced to simmer below the surface.[12] Yoshino's own personal reflections—as a gay Asian-American man who identified with certain aspects of dominant culture—also showed how complicated and nuanced the experience of racial oppression has become in multicultural America.

One of the profiles in the Commongood Careers report parallels Yoshino's notion of "reverse-covering"—that is, demands on people to act in stereotyped ways. The report profiles an African-American woman who recounted being asked questions about her background—such as growing up in the inner city and being a single mother—that didn't seem relevant to the job she was applying for.[13] Those questions only made sense once the interviewer told her that she would "be able to relate to students in the program." To be sure, being able to relate to program participants should be seen as an asset, not as an unfair or negative assumption; but regardless of the interviewer's positive—though apparently clumsy—intention to affirm the relevance of lived experience in the context of the job, being stereotyped still doesn't feel good. The tendency of nonprofits to tokenize people of color may get new staff in the door, but it doesn't lead to staff retention. And when this kind of racially charged environment becomes too uncomfortable, people would rather not rock the boat, and they wind up jumping ship and leaving their job or the sector entirely.

As a nation, our racial waters seem to be getting rougher. Polls show that people are alarmed that race relations are worse than in years before.[14] But history and recent movements show that the discord is probably necessary. Creating real opportunities to address America's continuing racial inequality and oppression is going to require conflict. Half a century ago, Martin Luther King Jr. explained the concept of "creative tension" to defend against criticisms of the protests and demonstrations of the day.[15] It is worth remembering that King's critics were friends and supporters of civil rights; they just wanted activists to wait rather than push so aggressively for change. And if the nonprofit sector is going to grow and evolve to fully embrace the leadership of diverse staff, change agents inside of organizations will need to follow their lead, despite appeals from colleagues to be patient and polite.

Under President Obama, activists constantly had to grapple with the urgency to push for change while facing appeals from supposed/professed "allies" to be quiet. From the grassroots activists who heckled the president at media events to the nonprofit leaders who got arrested in front of the White House, both the LGBTQ and the immigrant rights movements used the same tactics the president had learned from his own years as a community organizer.[16] With the emergence of the Black Lives Matter movement during President Obama's second term, there was renewed debate about activists' disruptive tactics targeting allies. Also, with their hoodies, T-shirts, and encouragement to supporters to be "unapologetically Black," the young activists refuse to "cover" and play into respectability politics. This revived spirit

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of activism is now in full swing in response to the current administration in Washington, so we can all expect the political debates to continue to get more heated and contentious.

> **When our own organizations fall short of our professed values of diversity and inclusion, we should expect staff to fight for progress internally with the same zeal that we call attention to injustice and inequity in the wider world.**

Just as nonprofits should embrace a more confrontational and overt style of advocacy and activism in their public fights over our nation's policy and politics, they must also prepare for a similar style of conflict and "creative tension" inside of the workplace. Any organization that is mission driven is going to have highly principled staff working to achieve social change in the world. So, when our own organizations fall short of our professed values of diversity and inclusion, we should expect staff to fight for progress internally with the same zeal that we call attention to injustice and inequity in the wider world. But, too often, leaders seem to regard critiques related to the lack of internal staff diversity as signs of disloyalty.

When staff take the personal risk to speak up about barriers to advancement, implicit biases playing out in hiring decisions, and experiences of tokenism, they are only bringing the discomfort and tension that exists within organizations to the surface. The ability of decision makers to hear that their organizations are not living up to their ideals is a crucial leadership capacity, and internal assessments of organizational climate are a powerful tool for starting the kind of honest discussions that are needed to make change. My organization developed a question on the racial match or mismatch between organizational leaders and clients/constituents for initial assessments we recently did with a cohort of organizations in Albuquerque.[17] When directors saw the data on how their staff perceived their leadership—particularly boards—to be mostly different from their constituents, it was met with some discomfort but also sparked necessary conversations. Now those organizations are learning together about strategies to diversify their boards and prepare both clients and board members to communicate directly with each other.

Facing the reality of race and racism inside nonprofit organizations is a necessary first step to making progress and making change. If we truly are going to diversify the leadership of organizations, people in positions of power will not be able to avoid feeling uncomfortable. Making progress on any tough issue at the intersection of social biases, policies, and structures and our nation's legacy of racism requires some discomfort; it's how we know things are changing.

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14. See Sack and Thee-Brenan, "Poll Finds Most in U.S. Hold Dim View of Race Relations"; William Douglas and Donovan Harrell, "Poll finds bleak outlook for race relations," *San Francisco Chronicle*, March 6, 2017, www.sfchronicle.com/nation/article/Poll-finds-bleak-outlook-for-race-relations-10978877.php; and Shiva Maniam, "Many voters, especially blacks, expect race relations to worsen following Trump's election," *Fact Tank: News in the Numbers* blog, Pew Research Center, November 21, 2016, www.pewresearch.org/fact-tank/2016/11/21/race-relations-following-trumps-election/.

15. Martin Luther King Jr., "Letter From a Birmingham Jail," April 16, 1963, The Martin Luther King, Jr., Research and Education Institute.

16. Peter Wallsten, "President Obama bristles when he is the target of activist tactics he once used," June 10, 2012, *Washington Post*, www.washingtonpost.com/politics/president-obama-bristles-when-he-is-the-target-of-activist-tactics-he-once-used/2012/06/09/gJQA0i7JRV_story.html.

17. Alicia Lueras Maldonado and Leah Steimel, "The 'Common Good' in Action," *Building Movement Project* blog, March 2017, 2017, www.buildingmovement.org/blog/entry/the_common_good_in_action.

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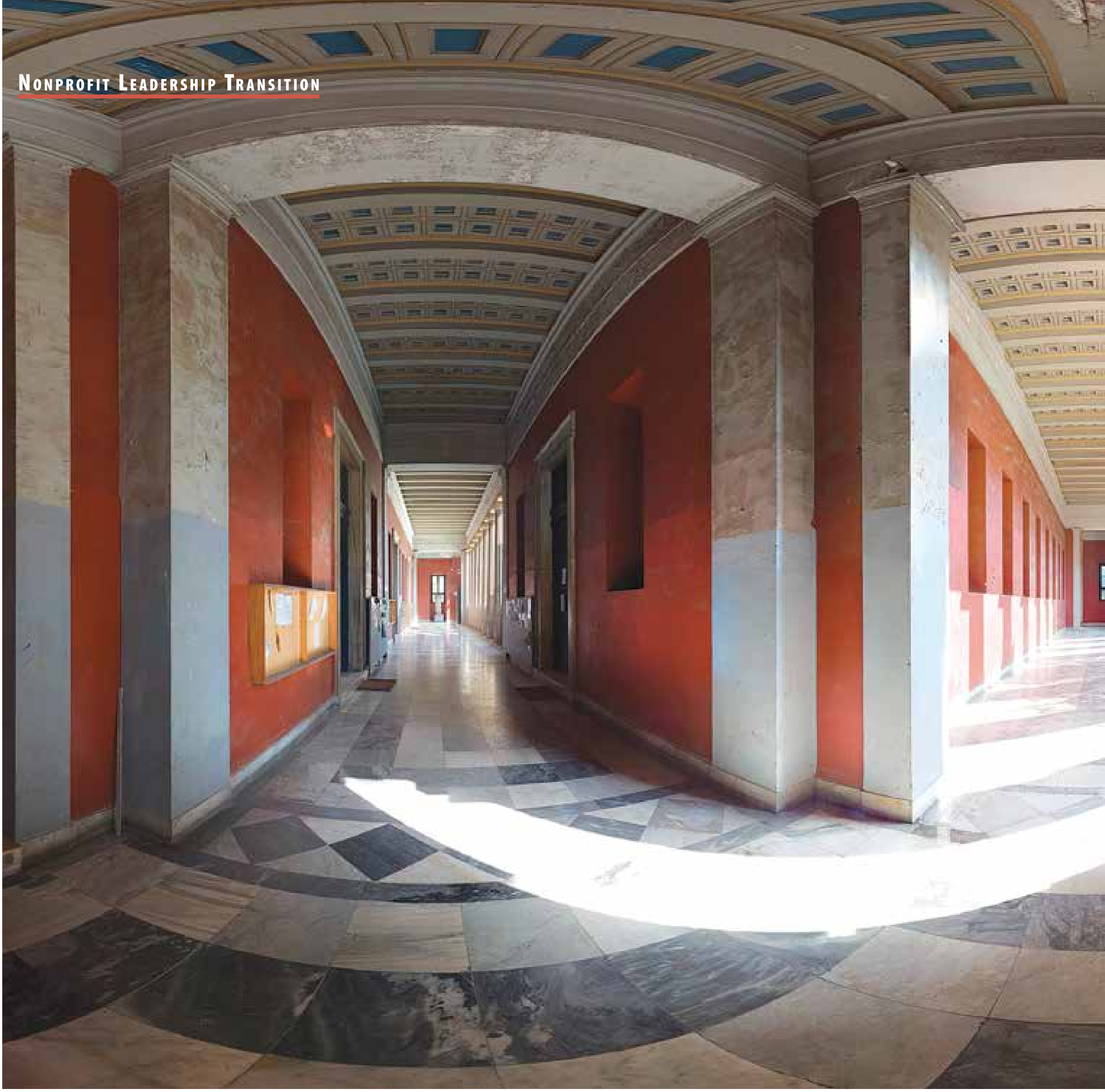

How to **Think Differently** about **Leadership Transition**

"PAN-IKONIKO-3" BY CHRISTOS SIMATOS/WWW.CHRISTOS-SIMATOS.COM

Editors' note: *We are coming up on two decades of sounding an alarm about who will take on the future leadership of nonprofits, but that alarm has not sparked much positive advancement, according to the data. This trio of hard-hitting articles is designed to alert nonprofit leaders to a change agenda—one that aligns the way we develop and choose organizational leaders with meeting our very real sustainability needs as well as our social intentions.*

Reflections on Executive Leadership and Transition Data over Fifteen Years

by Jeanne Bell, Paola Cubías, and Byron Johnson

If we keep doing the same kinds of succession planning, warn the authors, then "years after this current wave of retirements, we may look up and see that nothing has really changed; that we are still a predominantly white 'charitable' sector doing the bare minimum to disrupt the social and political status quo."

"PAN-IKONIKO-3" (DETAIL) BY CHRISTOS SIMATOS/WWW.CHRISTOS-SIMATOS.COM

OVER THE COURSE OF FIFTEEN YEARS, CompassPoint Nonprofit Services conducted four national studies of nonprofit executive leadership. The first three reports were called *Daring to Lead*, and were produced in 2001, 2006, and 2011.[1] And then in 2014–15, as part of a multifaceted project to explore our role in the executive transition management (ETM) field, we did another national gathering of data, specifically about executives and their most recent experiences of executive transition.[2] Each time, we have noted *how little* things are changing with respect to leadership demographics and dynamics—at least in the broad swath of community-based organizations that have been our primary research audience. Over those same fifteen years, the field of nonprofit leadership development (of which we are also a part) has grown extensively as evidenced by the breadth of leadership programs nationally, the emerging prevalence of methodologies such as leadership coaching, and the growing investment by foundations. Taken together, the stagnant data and evolving leadership discourse raise concern about whether as a sector (and as the leadership practitioners serving it) we are moving quickly and intentionally enough toward alignment of our leadership aspirations for the sector with our leadership reality.

In *The Evolution of Executive Transition and Allied Practices*, Tom Adams lays out how the field of ETM has evolved over twenty years of practice and where he and other experts see it going next.[3] Adams argues that even as ETM practitioners have strengthened and integrated their approach to organizational consulting—by adding succession and financial sustainability planning, for instance—they nevertheless encounter some seemingly intractable systemic forces: "These challenges—the elephants in the room—include the lack of diversity among nonprofit executives and boards; the bias toward unrealistic leadership expectations; underperforming or challenged boards; and the ongoing struggle to finance an overburdened sector."[4]

As we improve the way we work with or within individual organizations, we also need to consider how we can confront and finally overcome these systemic "elephants in the room." While there are many levers for change, this article looks at the disconnect between what's happening in most organizations and what the leadership discourse has been for at least ten years now with respect to the potential for leadership itself to change—that is, for fundamentally reconsidering who leads community organizations and how they lead them.

Hire by hire (and board recruit by board recruit), we are keeping the sector predominantly white—demographically, politically, and culturally.

Who Leads?

The Data

Race and Ethnicity of Executives	
Daring to Lead 2001	**Executive Transition 2014**
75% white	79% white
25% people of color	21% people of color

Graduate Education of Executives	
Daring to Lead 2001	**Executive Transition 2014**
42% without Masters and/or PhD	40% without Masters and/or PhD
58% with Masters and/or PhD	60% with Masters and/or PhD

The Contradiction in Current Discourse

It has become exceedingly common for leaders, funders, and practitioners to posit that the people impacted directly by an issue should have leadership in defining and solving it. Given the centrality of racism and white supremacy in all social issues, how then can we be satisfied with stagnant representation of people of color in nonprofit leadership over fifteen years? Hire by hire (and board recruit by board recruit), we are keeping the sector predominantly white—demographically, politically, and culturally. If we had really done the work to understand the catastrophic consequences of this from both an equity and organizational impact perspective, we wouldn't allow it to continue. But we haven't. We haven't confronted this elephant in the room: if few people of color want to lead your staff or serve on your board despite the fact that you work in

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We don't know how many fully capable leaders are overlooked by outgoing executives and boards who are looking for the next "heroic leader"—in the last one's mold, only better.

and with communities of color, it is entirely likely that people of color don't see your organization as a place through which to make social change.

Another contradiction exists in our attitude toward graduate education. Given the growing acknowledgment that professionalization of our sector has had significant negative consequences, our practice of favoring candidates with graduate degrees in our selection of executives would seem to be counterproductive. It suggests that many sector actors are simply not motivated to dismantle oppressive structures and systems (what many sum up as the "nonprofit industrial complex"). This is not to say categorically that graduate education is problematic (although some of it may very well be anathema to building equitable organizations and movements for change) but rather gives reason to ask ourselves if favoring graduate education in our selection of executives—and thus encouraging the next generation of leaders to partake in it—really is accelerating the sector's relevance and impact. And more obviously, given its exorbitant cost and consumption of nights and weekends, we should be asking ourselves who is being screened out of the sector's executive roles given this preference?

Where Do Executives Come From?

The Data

Executives Developed Internally	
Daring to Lead 2001	**Executive Transition 2014**
64% external hires	68% external hires
36% developed from within	32% developed from within

The Contradiction in Current Discourse

The leadership discourse is and has been for years overflowing with talk about preparing for baby boomer retirement, about next-generation leadership, about shared leadership, and so on. So, how can it be that only one in three organizations is capable of developing its own future executive? Or that only one in three at least recognizes the leadership already on its bench? We don't know. We don't know how many fully capable leaders are overlooked by outgoing executives and boards who are looking for the next "heroic leader"—in the last one's mold, only better.

We often hear the argument that small organizations—thus, the bulk of nonprofits—can't develop executives because there aren't enough layers and places to move up through. This is arcane, hierarchical thinking that does a disservice to the sector in so many ways, not least of which is the problem of not retaining millennials. In reality, a small organization offers *more* opportunity to loosen the grip of traditional job descriptions and allow people to grow together and with equal access to the strategic and financial realities of the organization.

How we lead in too many organizations—as though we are little 1950s companies—is actually thwarting internal leadership development. Moreover, not developing our own leaders is a contradiction in that so much of our work as nonprofits is in developing leadership in external milieus, such as communities and movements. For things to change, we have to take the espoused value of internal leadership development and operationalize it, including holding current executives accountable for the bench they nurture throughout their tenure and the organizational structures and cultures they develop to engage everyone in leadership.

Why Aren't Organizations Better Prepared for Transition?

The Data

Incoming Executives' Experience of Transition	
27% describe their transition into the organization as "smooth" or "fairly smooth"	73% describe their transition into the organization as "somewhat challenging" or "very challenging"

Inheriting Significant Financial Challenges		
60% describe the financial state of the organization as "weak" or "in crisis" when they arrived	30% describe the financial state of the organization as "moderately healthy" when they arrived	10% describe the financial state of the organization as "strong" when they arrived

Inheriting Significant Program-Relevance Challenges		
33% describe the programming as "weak" when they arrived	53% describe the programming as "in need of innovation" when they arrived	14% describe the programming as "strong" when they arrived

The Contradiction in Current Discourse

The field of executive transition management has been in the mainstream for twenty years now, with countless articles, books, and guides as well as hundreds of trained practitioners across the country. There is more than ample evidence that following its core tenets, even if outside consulting help is not available or affordable, increases the likelihood of a smooth executive transition. Retention of new executives and board and executive satisfaction are improved when these practices are followed.[5]

But, at a more fundamental level, these data demonstrate how far organizations get off course and how they then look to a new executive—typically from outside the organization—to try to "right the ship." This pattern, we suspect, only serves to reinforce current leadership demographics and dynamics. If an organization actually needs a "hero" to save it, how likely is it to make major pivots in its thinking about who leads and how? And compounding this, how many potential leaders—especially first-time executives of color, for whom the stakes are extremely high—will stay clear of the opportunity to lead given the inevitably protracted challenge of a "turnaround," if not the potential outright failure of one?

And finally, one has to wonder if so many organizations would in fact get this far off course if they were practicing and sharing leadership differently. The oft-touted "organizational agility"—the capacity to make constant sense of what's important and adjust programming, staffing, and financing accordingly—is fostered by distributed leadership, wherein more people than just a management team are doing the sensemaking.[6] This, too, has been part of the leadership discourse for many years. And yet, too few of us have actually deconstructed our top-down management to empower the diverse sensemakers across our staff, board, and constituency. As such, we are extremely vulnerable to the once-visionary executive who can't sense the shifting sands fast enough.

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These four studies were similarly conducted but independent (not longitudinal); however, the data—taken in concert with a divergent leadership discourse and the urgency of the political moment—more than gave us pause. It should be of great concern to the sector that who leads and how is not changing fast enough to catalyze the relevance of many nonprofit organizations. And further, that without sectorwide attention paid to the transition of leadership (as regards both the process of leadership and the leaders themselves), years after this current wave of executive retirements we may look up and see that nothing has really changed: that we are still a predominantly white, "charitable" sector doing the bare minimum to disrupt the social and political status quo.

It should be of great concern to the sector that who leads and how is not changing fast enough to catalyze the relevance of many nonprofit organizations.

The authors thank the David and Lucile Packard Foundation and the Annie E. Casey Foundation for their generous support of this project.

Notes

1. The *Daring to Lead* reports were funded by the Agnes and Eugene Meyer Foundation; Rick Moyers of the foundation served as a coauthor, along with Tim Wolfred and Marla Cornelius. Find the reports at daringtolead.org/.
2. These data were collected from 885 executive directors nationally, in partnership with the online magazine *Blue Avocado* and then editor-in-chief Jan Masaoka.
3. Tom Adams, *The Evolution of Executive Transition and Allied Practices: A Call for Service Integration* (Oakland, CA: CompassPoint Nonprofit Services, March 2017), www.raffa.com/successionandsustainability/documents/executivetransitionreport.pdf.
4. Ibid., 23.
5. Ibid., 12.
6. Brian J. Robertson writes about the role of "sensor" in *Holacracy: The New Management System for a Rapidly Changing World* (New York: Henry Holt and Co., 2015), 4–7.

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Blending Succession Planning and Executive Transition: A Successful Case

by Tom Adams

Experts have come to understand that responsible succession planning for most nonprofits requires much more than the question of how to fill the c-suite spot. This new approach involves blending sustainability and transition planning—groundwork that makes the most of a leadership transition and better positions the nonprofit for long-term success.

"PAN-IKONIKO-3" (DETAIL) BY CHRISTOS SIMATOS/WWW.CHRISTOS-SIMATOS.COM

Twenty-five years ago, when an executive director left a nonprofit, it too often meant a decline in performance—or even going out of business. Today, through supportive investments by national and regional foundations and the development of a practice focused on executive transition, most nonprofits move through times of executive transition without trauma or tragedy. The evolution of this practice and the development of nonprofit succession and sustainability planning are topics covered in a recently published essay (see *The Evolution of Executive Transition and Allied Practices*, 2017).[1] This article offers board leaders and executives a hands-on look at that essay's key points, and focuses on the experience of one organization, and what's different today from twenty-five years ago about the choices boards and executives have when they are faced with imminent or future executive transitions.

While it is tempting to deny it, every leader will transition someday. The approaches listed below offer leaders expanded choices that do the following:

- Transform the fear of executive transition into a proactive, empowering opportunity to increase focus on mission results and the leadership team needed to achieve the desired results.
- Reduce the disruption and risks of executive transition.
- Support organizations where needed in major repositioning or turnaround.
- Make more coherent the emotionally charged transitions of founders and long-tenured executives.
- Expand the culture and practices of leader development, inclusion, and diversity.
- Open the possibility of new approaches to sharing power and leadership.
- Consider more fully the possibility of a new partnership or merger before deciding to hire another executive.
- Address shifts in funding and the political environment, and rethink the connection between mission, strategy, and how the work of the organization is supported.
- Prepare for unplanned and planned transitions through a deeper approach to succession planning.

The case study that follows is intended to provide readers with an example of the power and potential of executive transition and its allied practice. It offers an example of how an organization faced and addressed big shifts in funding, board nervousness about viability and succession, and a potential internal succession where the board was divided in its enthusiasm for it.[2]

While it is tempting to deny it, every leader will transition someday.

Case Study

Six years ago, Community Builders Southeast faced a turning point.[3] Their aging executive director had let the board know he would retire in three years. On paper, the organization was doing well programmatically and breaking even financially in the midst of the recession. Yet the board chair and other executive committee members felt that the organization was drifting and that they needed a more strategic thinker. Three more years with the current executive scared them. These board members envisioned less government money, resulting in major changes in programs, and they doubted that the current executive, though operationally effective, could lead them through such a major change.

Tensions grew. The board chair was a successful business executive and an action-oriented, fix-it guy. The board treasurer longed for leadership like that of the executive who had left ten years earlier. The governance chair, who led a different kind of nonprofit, was getting impatient with the executive of this one.

What's different: Many boards in this situation would either do nothing or overreact and terminate the executive rather than wait three years. This organization chose instead to step back and consider its options before deciding.

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The possibility of a sudden, unexpected transition can be scary to managers and staff, and can result in rumors and unnecessary anxiety.

Deciding on Focus

The board was divided about what to do next. Some wanted to do nothing and wait until the executive was ready to leave, and then do a search. The board chair and a few executive committee members felt strongly that to do nothing was to abdicate and accept a status quo that looked okay but was more risky than it appeared. From their corporate experience, succession planning looked like the next action, so they started researching how to do nonprofit succession planning. A review of articles on the topic led them to a firm that offered succession planning for nonprofits.

The approach offered included a replacement review of all management positions, including a review of job descriptions and key functions and roles (sometimes called "unpacking the job"), along with an emergency backup plan for the executive director, chief operating officer, and four other senior managers. The board members would also develop a succession policy and get clear on their preference for internal promotion or an external search for the new executive when the executive transition occurred.

The board chair and executive committee were successful in convincing the board to make this investment. The fact that the board was divided in its opinion about the likelihood of internal succession as well as in its level of confidence in the current executive helped make it clear that outside guidance was needed.

The other complicating factor was the timing of strategic planning and how the organization did that strategic planning. The board chair had enlisted a private sector consultant to help with the strategic plan. This process had been repeated several times, had resulted in a complex set of measurable outcomes, and was understood by long-time board members (but not newer board members or staff).

The board's concern about reduced government support and decline in services to the community resulted in agreement to include a sustainability review to accompany the succession planning. Once the complexity of the strategic plan was made visible, willingness was heightened for an organizational sustainability review that focused on board and executive leadership, a strategy/business model, resources (financial and human), and organizational culture.

What's different: The board proactively decided to use the three years' informal notice to get ready for transition rather than waiting. The executive director overcame his fear that this process might result in the board deciding to pressure him to leave sooner. The board decided to focus on succession planning in order to be thoughtful about leader continuity and the possibility of internal succession. The succession planning was done with a focus on organizational sustainability—a more recent option particularly relevant to organizations with long-tenured or founder executives, or facing major changes in funding and environment. The board and the executive and management teams embarked on this broader planning process, which looked at strategy more broadly in the context of culture, resources, and leadership. They thereby reexamined their assumptions about organizational sustainability and how they updated their strategic plan. This decision allowed them much-needed time to go deep on these questions and not rush a decision.

Getting Started

Once there was agreement on the broad scope of the work with the consultant, the first focus was learning more about the management team and board. The possibility of a sudden, unexpected transition can be scary to managers and staff, and can result in rumors and unnecessary anxiety. By working with the management team and the executive director together toward understanding how succession planning would be done—and clarifying the roles of the management team and board in the process—some of the anxiety and distractions are reduced. For the management team, first actions included finalizing the questions for an organizational self-assessment to be completed by all staff, and agreeing to complete a worksheet to unpack their jobs.

The board formed a succession and sustainability committee and guided plans for a board self-assessment. The findings from these two surveys were compared to understand board and staff perceptions and alignment/disagreements. These data informed the later discussion on organizational sustainability and the connection between where the organization was at the time and what was needed going forward.

The unpacking of the management team jobs—key functions and roles, key relationships, and possible backup in an emergency—helped all to better understand the current roles of the CEO, COO, and management team, as well as how they were progressing. The COO quickly let it be known that she was interested in a CEO position at Community Builders or at another organization at some point in the future. The unpacking showed where the CEO (who had been promoted from COO nine years earlier) was still the detail person for the organization. The COO was in many ways more of a strategic thinker and visionary. This insight became helpful as the board began to consider the question of internal succession. Some of the board's anxiety about the pending transition was reduced by learning more about the very talented management team the CEO had put in place.

Succession planning resulted in a written, board-approved emergency backup plan and succession policy for the CEO, and written emergency backup plans and worksheets with leader-development and cross-training plans for all the managers.

What's different: Too often, succession planning is avoided entirely because it can seem uncomfortable for the executive and board. Or, it is done in a check-the-box superficial way by taking a template and filling in some details. Once the fear of succession planning is overcome, it is a very empowering process for both the board and managers. The process makes real everyone's passion for mission by focusing on ensuring that they are preparing the leaders that the organization needs. In this situation, the succession-planning process improved trust and communication between the board and managers, and affirmed the progress in developing internal talent.

Connecting Succession and Organizational Sustainability

Community Builders faced more than the challenge of transitioning its executive and planning for succession. Changes in federal and state funding for its work raised real threats to its long-term viability. Community leaders on the board could see that their neighborhoods and people served by the organization were at risk if the reductions in public support were not addressed. This concern made it hard to evaluate the internal candidate fairly, because she was associated with the old ways of supporting the organization.

The board and staff survey had asked questions about the four domains of sustainability: leadership, strategy/business model, resources, and culture. The survey data showed that some programs worked better than others both in terms of results and paying for themselves. The sustainability review engaged the management team and board in a process that included:

- Detailed discussion of the survey results and the questions the data raised about the organization;
- A line-of-business (programs) review to better understand the programs, their impact, their funding now and in the future, and their potential for growth (the board decided to ask the COO and her potential internal successor to work with the CEO in organizing and leading this review); and
- A board and management team retreat to discuss sustainability, succession, and the connection to the strategic plan.

Unexpectedly, this process resulted in a shift among the board leaders to unanimous support for the possibility of the COO's becoming the next CEO. This happened largely because of the deeper appreciation the board gained from knowing the managers better and seeing (via the line-of-business review) the strengths of the COO and the key leadership role she already played.

What's different: Community Builders looked at its need for a new executive through the broader lens of adapting its mission to a rapidly changing environment. One of the risks of executive transitions is the board's beginning to think about who the next executive might be before there is clarity about the organization's direction and priorities as well as the competencies and attributes required. Doing so comes from anxiety, and this anxiety is

One of the risks of executive transitions is the board's beginning to think about who the next executive might be before there is clarity about the organization's direction and priorities.

Integrating the sustainability review with succession planning allowed the board to gain a much better understanding of the organization, its future, and the leadership team already in place.

normal. We have a vacancy: Who do we know who could fill the position? This approach, however, misses the opportunity for growth and refocusing of organizational impact. Integrating the sustainability review with succession planning allowed the board to gain a much better understanding of the organization, its future, and the leadership team already in place. This resulted in a much more informed decision about whether or not to do an external search and how to shape the succession policy and eventual transition.[4]

The Executive Transition

From the planning described above, the board decided to offer the executive position to the COO on an incremental basis. Eighteen months before the CEO intended to retire, the COO was promoted to president. This promotion included increased involvement and work with the board, and overall responsibility for implementing the strategic plan and reporting organizational results. Based on six-month and one-year performance reviews of the president by the board, the COO was promoted to CEO six months before her predecessor retired. The former CEO became a senior policy advisor (and was also available as requested to the new CEO), and carried out discrete duties as assigned by the COO. (This arrangement is somewhat unique, and it worked because of a long, positive, and trusting relationship between the CEO and COO; typically, this type of overlap is not recommended.)

The board managed the communications about this process throughout to ensure both confidentiality and transparency as appropriate. The new CEO retained an executive coach during the process, and continued those services after she became CEO. The board established an onboarding committee to work closely with the two executives during the overlapping six months, and with the new CEO during her first year. Two years later, the organization has adjusted to the budget changes, expanded the role of a chief development officer, increased private fundraising, and successfully continued to achieve and expand mission results.

During this process, the board chair commented, "When we began planning for our CEO's retirement, I was really concerned. I knew we needed to change and wasn't sure how. This process supported the board and management team in exploring questions we had not been able to address, and making decisions that positioned Community Builders for long-term success."

What's different: The board navigated a complex situation and achieved both a good ending with its retiring executive and a great beginning with a new CEO who met their present and future needs.

Notes

1. Tom Adams, *The Evolution of Executive Transition and Allied Practices: A Call for Service Integration* (Oakland, CA: CompassPoint Nonprofit Services, March 2017), www.raffa.com/successionandsustainability/documents/executivetransitionreport.pdf.
2. For additional examples, see Tom Adams, *The Nonprofit Leadership Transition and Development Guide: Proven Paths for Leaders and Organizations* (San Francisco: Jossey-Bass, 2010); Tim Wolfred, *Managing Executive Transitions: A Guide for Nonprofits* (St. Paul: Fieldstone Alliance, 2009); and other articles found at www.raffa.com/successionandsustainability/pages/publicationsandresources.aspx.
3. This case is based on a real situation, with the organization name and industry changed.
4. The 2008–09 recession intensified for the sector the question of organizational sustainability. Most organizations faced funding challenges and the need to operate with fewer resources. Jeanne Bell, Jan Masaoka, and Steve Zimmerman advanced attention to sustainability in 2010 with the book *Nonprofit Sustainability: Making Strategic Decisions for Financial Viability*, which helped leaders to look at mission impact and financial viability together. This initial focus was followed by a second book, in 2014, *The Sustainability Mindset: Using the Matrix Map to Make Strategic Decisions*, by Steve Zimmerman and Jeanne Bell. The Foraker Group, the management support organization for Alaska nonprofits, and TransitionGuides (now part of Raffa, P.C.) also developed approaches that broadened the discussion of sustainability beyond mission and finances to include leadership, strategy, and culture.

Five Insights from Directors Sharing Power

by Jeanne Bell, Paola Cubías, and Byron Johnson

Far too many leaders bemoan how lonely it is at the top, yet bristle at the suggestion of a codirectorship. But why? When preparing for a leadership transition, we would do well to reflect on what we lose by sticking to traditional practices of leadership and what we stand to gain from being open to alternative frameworks and approaches.

"PAN-IKONIKO-3" (DETAIL) BY CHRISTOS SIMATOS/WWW.CHRISTOS-SIMATOS.COM

As part of a two-year project to reflect on our role in the field of executive transition management (ETM), CompassPoint Nonprofit Services convened a discussion in August 2016 among five progressive organizations that have formal shared leadership structures. This made sense as part of CompassPoint's reflection process for two reasons: First, we had been exploring alternative structures internally. Second, we had become increasingly concerned about our external practice of ETM—which, in focusing on the search for an organization's next, single leader, was upholding some traditional assumptions and practices of leadership that in the rest of our work we had been questioning for some time. We wanted to understand the motivations, benefits, and challenges the leaders saw in moving away from the traditional, single-executive-director model. The leaders we interviewed and their organizations are as follows:

- Building Movement Project
  www.buildingmovement.org
  Sean Thomas-Breitfeld and Frances Kunreuther, codirectors
- Community United Against Violence (CUAV)
  www.cuav.org
  Lidia Salazar and Essex Lordes, codirectors
- Housing Rights Committee of San Francisco
  www.hrcsf.org
  Fred Sherburn-Zimmer, executive director, and Aileen Joy, administrative director
- Management Assistance Group (MAG)
  www.managementassistance.org
  Susan Misra and Elissa Sloan Perry, codirectors
- Rockwood Leadership Institute
  rockwoodleadership.org
  Akaya Windwood and Darlene Nipper, partner leaders

It's important to note that the organizations had differences in how they were unpacking and distributing the single executive role: there were variations on codirectorship, and some were experimenting with even broader committee or collective structures. Despite these differences, there were powerful commonalities across the organizations' motivations and aspirations for sharing power. It's also important to note that none of the organizations is by any means putting itself forward as expert or as having "figured it out." Rather, we share these reflections to open up a conversation with others who are questioning aspects of traditional leadership and exploring alternative frameworks and approaches.

We share these reflections to open up a conversation with others who are questioning aspects of traditional leadership and exploring alternative frameworks and approaches.

1. Sharing leadership is an expression of our individual and organizational identities.

Soon into our conversation, we noted that of the ten leaders, nine are people of color, and all identify as queer. Darlene Nipper of Rockwood reflected, "The thing is that we're just different from white guys. We're different people from the folks who have informed the thinking about organizational leadership and management over the last one hundred years. We come at it differently." Susan Misra of MAG put it this way: "I think our innate approach is collaborative and collective. When the organization was thinking about who should be the next leader, it just felt wrong to think of one executive director." Sean Thomas-Breitfeld of Building Movement Project linked shared leadership to feminist theory: "I'm curious if people have thought about the interest and appetite for alternatives to very top-down, hierarchical, one-person-in-charge models as informed by feminism in terms of a world view, but also the organizational theory that might be coming out of that branch of academic research." Others referenced past experiences of traditional leadership that were oppressive. Essex Lordes of CUAV reflected, "That's also part of the motivation—having this bad experience of power." It was clear that, in part, the organizations are experimenting with shared leadership because traditional, hierarchical leadership is not resonant for the individual leaders themselves.

They are also experimenting with shared leadership structures because top-down leadership is in contradiction to the work that they do as organizations. In various ways, each of the organizations

Jeanne Bell is CEO of CompassPoint Nonprofit Services. **Paola Cubías** is an associate project director at CompassPoint Nonprofit Services. **Byron Johnson** is a senior project director at CompassPoint Nonprofit Services.

"It's not that you are doing less work or that somehow having two people is going to reduce the work. It actually is a lot of work, but the results are exponentially better, in my experience. What we're able to accomplish together is way more than I believe any one person could accomplish."

is trying to change the way that people, organizations, and systems relate to one another. They are all concerned with elevating the voices and wisdom of marginalized people and communities. They are all concerned with the conscious, responsible use of power. Given that, they feel a responsibility to structure themselves to the reality they are working toward. Elissa Sloan Perry of MAG put it this way: "We were really, really clear that MAG needed to shift its internal practice behavior and culture to reflect the world that we are contributing to making." Fred Sherburn-Zimmer of Housing Rights Committee talked about developing a committee-based structure that keeps the decisions with those most involved and impacted by an issue: "While we do all affect each other's work, it doesn't make much sense that folks who are not in public housing and working with public housing tenants, or come from public housing, have much say-so over the public housing program." He added that engaging tenants is their next challenge in sharing leadership system wide: "We have tenant leaders who are not only taking on their own eviction, but are taking on evictions of everyone on their block. These people need to have a part in our decision making, strategy, and vision." Similarly, CUAV came to the realization that internal leadership composition and structure are directly linked to external impact. According to Lidia Salazar, "We were noticing that our programmatic work wasn't reaching marginalized communities. So, in our transition, we also changed our mission to center black and brown people, people of color. Then, in turn, it made sense to have a leadership model that reflected this in order to reach these communities and in order to make informed decisions for the organization." These evolutions of leadership structure are breaking down the false distinction between the organizations' external organizational identities and their internal practices.

2. Sharing leadership is not only about the individual leaders sharing power; it is also an organization-wide ethos.

Each of the organizations is working to include the voices of all staff in decision making and direction setting for the organization and to adopt practices that deepen equity on all fronts. Susan Misra said, "Shared leadership does really work, and when it's working well, it's not just about the few people who are the codirectors, it's actually about the whole organization." Essex Lordes reflected, "Unless you have a certain background or training, oftentimes in organizations you're not allowed to bring whatever your lived experience is. For us, it's having a structure that allows people to embody more of their leadership; to be able to bring the fullness of their experience; to bring in that wisdom that we inherently have as oppressed people in different ways and turn that into insight into how we can support the broader community."

Building equity internally extends to organization-wide practices such as compensation, which most of the groups had lately rethought. As Elissa Sloan Perry described it, "Internally, we are working to get closer to a practice where the highest paid do not make more than three times the lowest paid. We have also created a decision-making guide so that people understand where and how they can make decisions on their own." Darlene Nipper added, "We, too, have a policy of no one making more than three times anyone else. And there are others besides the codirectors who have lots of decision-making authority. Give lots of different people the opportunity to make decisions [we say] and move me and Akaya out of the center of decision making for lots of the work." Institutionalizing shared leadership and equity means giving everyone, not just the codirectors, the power to step into their capacity to lead.

3. Sharing leadership is not about less work; in some cases, it may be about more.

For the majority of us, neither the primary motivation nor the result so far of shared leadership is having less work to do. As Darlene Nipper put it, "It's not that you are doing less work or that somehow having two people is going to reduce the work. It actually is a lot of work, but the results are exponentially better, in my experience. What we're able to accomplish together is way more than I believe any one person could accomplish." Interestingly, some codirectors were attempting to split the job into fairly distinct domains, while others have the same job description and work out where they intend to co-decide and where they can act on their own. And co-deciding, of course, can add time to decision making—a challenge that was raised by some. Sean Thomas-Breitfeld said, "I think among staff under us there is frustration sometimes around the length of time it takes to make decisions that lead to action." Susan Misra added, "Theoretically, you could have one person do it faster, but I think that Elissa and I are doing it better collectively. It's not a time-sharing strategy, though I think initially we thought it would be." Shared leadership can challenge the notion that decision-making efficiency, rather than decision-making quality, is the desired end game.

Though it's not less work, the leaders spoke to another kind of burden being lessened: the psychological burden of solo positional leadership. Frances Kunreuther, who had led Building Movement Project on her own before joining forces with Sean Thomas-Breitfeld, described the difference this way: "It's not fewer hours, but it is less pressure and isolation. I can't even say how different it is. It's dramatically different, which is a big sustainability issue for me." And Darlene Nipper said that although she and her codirector consult each other constantly and "partner-lead," their distinct role clarity "brings me a lot of psychological space to really focus on what I bring to the table in terms of my gifts and attributes for our work."

4. Sharing leadership requires balancing individual and collective voice.

All agreed that shared leadership requires ongoing attention to the issue of voice. Elissa Sloan Perry asked, "Where do we speak as ourselves individually and where do we speak together? For example, one of the things we have talked about is creating a codirectors e-mail address so that there are things that people cannot attach to just one of us." Darlene Nipper added, "I think, depending on how we demonstrate and use our voices differently, it can create some fissures—a little bit of different people aligning in different ways. So that just takes a lot of care and attention." And there is the outside world, of course, that often expects one voice. As Frances Kunreuther said, "Funders can sometimes be a challenge in that they expect to talk with the person they know; I wouldn't underestimate that." Clear and frequent communication between the leaders is the foundation for their clarity of voice with others.

5. Sharing leadership is both relational and replicable.

When it came to the question of whether the organizations would continue with shared leadership if one or more of the people currently sharing power were to leave, to a person the folks in variations of the codirector model were clear that the quality of the relationship between them, which often predated their current leadership partnership, was a critical success ingredient. Elissa Sloan Perry said, "Susan and I are pretty clear that one of the things that really makes this work is that we knew and trusted each other pretty deeply before we came into these roles." Similarly, Darlene Nipper said, "I'd been working with Rockwood as a consultant and trainer for a number of years. Akaya is someone I had gotten close to and really respected." And Sean Thomas-Breitfeld said, "Frances and I had a very strong relationship, mutual trust, and admiration. I was really looking forward to learning with and from Frances."

The group grappled with what these stories of close relationship meant for adoption of codirectorship and other shared leadership structures across the nonprofit sector. Sean Thomas-Breitfeld challenged us—and by extension the sector—eloquently: "I'm thinking about how many of us can't imagine doing this with someone else. How do we reframe that as not a barrier to replicability? How do we instead lift up the virtue of relationship and of incorporating a value of relationship into leadership structures in our organizations? How do we make it a virtuous thing instead of saying, well, if people can't find the right match, then this model is just this quixotic thing that only applies to a few random POC, queer-led organizations?" That's a powerful reframe of who leads and how.

We left the conversation inspired to continue with our respective efforts and to stay in dialogue with one another and others wanting and needing something different from organizational leadership—something more closely aligned with our individual and organizational identities.

The authors thank the David and Lucile Packard Foundation and the Annie E. Casey Foundation for their generous support of this project.

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Shared leadership can challenge the notion that decision-making efficiency, rather than decision-making quality, is the desired end game.

How to Think Differently about Your Money:

Capital Explored

by Hilda Polanco and Dipty Jain

How can your organization better comprehend and work to optimize its capital structure, identify key sources and uses of capital, and understand how to budget for and monitor capital grants and expenditures over time? This article discusses how nonprofits typically obtain capital, and how that capital can be put to use—not only to acquire a hard asset like a building but also to build capacity to recover from past economic shocks, innovate, or scale up.

When you use the word *capital* in the nonprofit sector, you must take the time to define your terms, because so far there is no thorough understanding of the structures of financial capital inside nonprofits. This lack of shared understanding is a big problem, because it is capital that helps organizations to both smooth out the inevitable rough spots and expand impact and improve quality.

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"CELTIC ROCK" BY RAYNA TODOROV/WWW.ETSY.COM/SHOP/RAYNAART

None of this is brand new, but our increasingly shared clarity about capital *is*—and the stronger that clarity gets, the easier it will be for all of us to raise capital, grant capital, and reflect capital in our financial statements.

Some of this capital exists in areas other than money—in the unpaid time people are willing to spend on the mission, in the social capital that an organization builds with stakeholders, and in things like reputation and clarity of purpose and fit with the environment—but this article discusses *financial capital*, which does not stand completely apart from these other types but is a structural support that needs to be much better understood and deployed by nonprofit board members, funders, leaders, and managers.

What It Is

A simple way of thinking about capital is as the type of financial resource that supports an organization for the longer term. This can be contrasted with the operating revenue that a nonprofit needs to operate day to day over shorter periods.

Of course, for a very long time among nonprofits, the word *capital* was used almost exclusively in relationship to a capital campaign, and it was largely understood as capital for brick-and-mortar (and related) costs. But current usage is more sophisticated, and lays out a number of types of necessary capital:

- Working capital for liquidity and reserves;
- Change capital (sometimes referred to as risk, growth, or innovation capital);
- Capital campaigns for hard assets; and
- Endowment in perpetuity.

In addition, capital is no longer thought of as needing to be primarily associated with a traditional campaign, but may be raised:

- Internally over time, or
- From external sources.

None of this is brand new, but our increasingly shared clarity about capital *is*—and the stronger that clarity gets, the easier it will be for all of us to raise capital, grant capital, and reflect capital in our financial statements.

Working Capital for Liquidity and Reserves

Working capital is necessary to most nonprofits even in stable times, in that it helps to smooth out the misalignments in the timing of revenue and cash outlay. This is the definition of liquidity. Liquidity allows an organization to pay its bills on time and not have to worry about vendors being unhappy or the organization being delayed in payroll or any other critical investment. A chronic lack of liquidity drains organizations of staff time, reputation, and social capital. It also obfuscates the real financial position of the organization. To operate confidently, organizations need a sense of security that they can meet their operating obligations without a feeling of crisis.

For more unstable times, we need a different sort or level of liquidity in a healthy reserve fund. Reserves help us to face and survive unpredictable but not uncommon problems such as loss of a revenue source or an unexpected need for an outlay—or, as many of us may remember confronting, a recession.

Change Capital

Change capital—sometimes referred to as *risk capital*, *growth capital*, or *innovation capital*—may include money for expansion, changes in strategy, and replenishment of depleted funds. If an organization can see an opportunity for greater impact through growth or innovation—and if it can lay out a clear case for how to get from its current state to a more desirable one—it may be able to raise capital to do so. Such efforts are inherently risky, as they are often based on strategy and assumptions. This is why some foundations refer to change capital as *risk capital*. In some cases, your business model may require regular recapitalization—as in the performing arts, where the product needs to be paid for before it's ready for consumption and before patrons choose to pay for it. This is inherently risky, and repeatedly so. Or, maybe you're in the mental health field, and there is some research and testing of a new approach that needs to be done. These are the kinds of things many organizations regularly must do in order to stay current with their environments and responsive to their own evaluations—and all of it needs capital.

Also in this category of change capital is a periodic need for replenishment. If an organization has had rocky operations in the past and has accumulated deficits, it may need to replenish some of those resources that have faltered. A good example of this would be the hundreds of arts organizations caught mid–capital outlay in the beginning of the recession. As mentioned above, performing arts organizations make those outlays quite often—for example, on scenery, rehearsals, and any number of other items—but if the economy goes very sour between the time an organization makes such an outlay and the time it stages the event, it may not reflect on the organization's management in the least. Thus, while these needs may be due to internal issues, like a faulty business plan or inadequate technological capacity, they can also be driven by external circumstances, like a recession.

Sometimes, this manifests through the balance sheet, a statement of financial position for an organization, which in such cases would show that the organization is in a negative unrestricted net assets position—an indication that the organization is in need of replenishment.

In none of these circumstances does the capital need pose the same kind of ongoing requirement for funds as does operating revenue.

The capital for growth, expansion, and innovation is really capital for areas for investment and infrastructure (facilities, people, technology). An organization has a vision. It wants to be in a different place. The capital needed to get from here to there pays for infrastructure but also sometimes for an operating plug during a limited period. This gives a new revenue model a chance to catch up. So, it's for a period of time when the organization needs some extra infusion of funds to be able to build these new capacities that it doesn't have right now.

Without an understanding of capital structure, a declining position may not be clearly noted before pricey ground has been lost. If an organization has a building it has invested in, its unrestricted net assets may look very strong, because they include that building. But, in our definition of *LUNA* (*L*iquid *U*nrestricted *N*et *A*ssets)—a concept that you may have been exposed to through Fiscal Management Associates (FMA) materials and webinars—we look at unrestricted net asset balances without that building. And, when an organization does that, it might find itself in what we call *negative LUNA*, which means that the organization has had these deficits, and oftentimes it's not that clear—it's not that transparent. But, for leaders of organizations that find themselves in that situation, it can be almost impossible to raise operating revenue to recover those accumulated deficits. Still, in such circumstances a nonprofit may be able to wage a one-time campaign to rebalance the organization's infrastructure, replenish those resources that were invested in the past, and set the organization on a path to success. (A word of caution: this is a well one shouldn't visit repeatedly.)

Despite what you may think, however, change capital is not impossible money to acquire. We at FMA have worked with organizations where grants have been made by foundations to do not only the replenishment—because that only gets us to zero—but also to build toward the future. So, there are ways not only to replenish through capital but also to combine it with growth and expansion. And those are a part of what we could call a *capital campaign*—a campaign for sustainability, the fund for the future, capacity capital. There are many different ways to describe what we refer to here as *change capital*.

Capital Campaigns for Hard Assets

In terms of *capital campaigns for hard assets*, it is important to emphasize that these are not just for construction or for building acquisitions. Capital campaigns that involve buildings also need to include two additional elements. One element is on the ramp-up side: these newly constructed buildings that are now up and running are not necessarily going to be fully utilized immediately—an organization may be doubling its capacity to deliver a program, and it may need some funding to get to the point where it can actually maximize the use of the building to fully cover its costs. Another component of a capital campaign that is critical is some level of reserve to cover operations in the future. The more that the organization can raise toward this reserve, the more peace of mind it will have when the building is ultimately up and running.

Endowment in Perpetuity

In some cases, *endowment money* that feeds investment income to the organization becomes necessary. With endowments, we encourage organizations to challenge themselves with the question: Do we have the capacity to raise sufficient funds such that the earnings from these funds would have sufficient impact on our operating results? A $100,000 endowment in the days that we're in right now—and probably will be for some time in terms of interest rates—doesn't really contribute much to operations, yet such an endowment is locked in perpetuity for use. In addition, we have seen several cases where the creation of an endowment has cannibalized contributions from operations and in the short term hurt the organization's fundraising efforts. Grants for reserves and grants for change capital provide much more flexibility for the organization. Finally, an endowment can also be a component of the capital structure of an organization. Endowments generate revenue in perpetuity. So, the base of the endowment—the principal—is never touched, and the funding that is available comes from the residual income that the organization earns.[1]

At FMA, we believe that understanding the net assets composition—unrestricted, temporarily restricted, and permanently restricted (also known as "endowments")—and the goals for each is critical to creating an effective long-term capital plan for an organization.

How to Get It

Capital accumulation can happen in one of two ways. It can come from *internal resources*—for instance, when a nonprofit strategically grows a pool for investments and risk taking. Such internally developed funds may be accrued through budgeting surpluses—and, indeed, this is often how working capital has been accumulated in the sector. The second method is, of course, to raise funds from *outside investments*, particularly to act as capital not just to purchase equipment or space but also to grow an organization or to strengthen an organization's operations as the business model is refined.

Internal Resources

An accumulated surplus for an organization is an *internal resource* that has accrued over time, and this excess represents the organization's profit. The excess of revenues over expenses—or surplus—is absolutely critical for long-term sustainability. When organizations have a focused strategy to accumulate a certain level of surplus so that accumulation can be available for the right decisions at the right time, that is a source of capital. *LUNA* is part of an organization's internal capital structure. Also—somewhat a cross between internal and external—there is the idea that organizations can at times leverage either free or low-cost resources that are available to grow the organization, whether it's donations of time or of space. Those are often overlooked when we think about where our capital is coming from.

Outside Investments

Outside investments would normally come from foundations or major donors, and those outside investments are earmarked for things like we mentioned earlier, either physical capital or change capital—meaning for things that are going to be done differently in the future. Grants may also be given to provide liquidity through working capital or reserves.

An area of outside investment not always thought of as such is *debt*. In this context, debt may serve as a short-term source of working capital or as a long-term vehicle. In both cases, it represents leverage. An organization might have a mortgage—or, an organization might have a line of credit or might be interested in exploring a program-related investment, also known as a PRI.

The line of credit as a source of capital can have a lot of emotion attached to it. There are many board members who question the use of a line of credit in the nonprofit sector, and we often refer to this fear as having scars of war. They've been on nonprofit boards where the line of credit wasn't managed as strategically or carefully as it should have been, and there's concern. We believe that a line of credit is a necessary business tool, and any organization that needs to weather storms of timing in terms of cash should look at this as an option.

PRIs come in different forms, but in most cases a PRI is a recoverable grant that looks like a long-term debt instrument. In these arrangements, the third party (primarily foundations) is looking at this as a type of investment just like it would a grant—but the vehicle in this case is a recoverable grant, meaning that the organization will need to return those dollars at some point, and there's a return on investment that the foundation is looking for, which becomes for the organization a cost of capital.

How to Record and Monitor It

In this next section we focus on recording and monitoring growth capital. Our focus is due to the multiple ways in which this capital is at times presented in audited financial statements, and the need to best correlate this external reporting with ongoing operating results as managed internally. We also believe it is important to connect this financial reality to external dialogue with funders who are investing in the growth plan.

Impact at a Point in Time

So, when we think about all these sources of change capital, we wonder how they show up in our financials. Some funds come in the form of debt, some are operating revenue, and some are additions to reserves. Where can we find all this, and how should you monitor your capital structure?

An organization's net assets composition is one of the most important components of financial health and an indicator of capitalization. At FMA, we believe that understanding the net assets composition—unrestricted, temporarily restricted, and permanently restricted (also known as "endowments")—and the goals for each is critical to creating an effective long-term capital plan for an organization.

The following illustrates where capital may be found in the net assets section of the statement of financial position—also known as the balance sheet—recorded as of a *point in time*.

The key is to be able to articulate the capital story to outsiders and insiders, including the board, and show where this capital is recorded and what its ultimate use will be.

Change capital can be reflected entirely in the unrestricted net assets section of the balance sheet. Figure 1 shows three reporting options. In the first example, unrestricted revenue includes risk capital that had been received with no specific deliverables—just in support of the plan overall. As the surplus accumulates from one year to the next, the **capital is a part of unrestricted net assets**, until it is spent.

In the second example, the board set up a separate fund for the capital campaign, and this **board-designated fund is broken out separately** as a component of unrestricted net assets.

In the third example, the funder restricted the use of funds, such as for an evaluation system or technology, and these funds carry forward for several periods into the future—thus they would be deemed **temporarily restricted net assets**.

All of these examples are completely appropriate presentation formats. The key is to be able to articulate the capital story to outsiders and insiders, including the board, and show where this capital is recorded and what its ultimate use will be.

Impact in the Year of the Grant

There are a few ways to show the *impact for the year* in which the donation is received, which gets reflected on the statement of activities (often referred to as the *income statement* or the *profit and loss [P&L] statement*). The variations are a function of whether the capital is intended for activities that can be clearly allocated between operating and nonoperating.

For those of you who have been following the changes in the nonprofit accounting standards, the Financial Accounting Standards Board (FASB) has finally released its new guidelines on the presentation of nonprofit financials, but these guidelines still have one element remaining to be resolved in a future phase—and that is the definition of *operations*. The clarification of operating versus nonoperating sources of funds has brought with it much difference of opinion among the accounting profession, nonprofit leadership, and the funding community, so that's to be continued. Given that the FASB hasn't figured it out, we're okay with accepting the confusion as to the correct way of showing operating versus nonoperating results.

Figure 1

Management Reporting: Balance Sheet

Options for Reporting

1 Change capital lumped in Unrestricted Net Assets

Assets	
Cash	950
Accounts Receivable	360
Fixed Assets	330
TOTAL ASSETS	**1,640**
Liabilities	
Accounts Payable	280
Line of Credit Payable	310
TOTAL LIABILITIES	**590**
Net Assets	
Unrestricted Net Assets	830
Temp Restricted Net Assets	220
TOTAL NET ASSETS	**1,050**
TOTAL LIABILITIES & NET ASSETS	**1,640**

2 Change capital separated Board-Designated Fund

Assets	
Cash	950
Accounts Receivable	360
Fixed Assets	330
TOTAL ASSETS	**1,640**
Liabilities	
Accounts Payable	280
Line of Credit Payable	310
TOTAL LIABILITIES	**590**
Net Assets	
Unrestricted Net Assets	
Board-Designated Growth Fund	500
Undesignated	330
Total Unrestricted Net Assets	830
Temp Restricted Net Assets	220
TOTAL NET ASSETS	**1,050**
TOTAL LIABILITIES & NET ASSETS	**1,640**

3 Change capital grant in Temp Restricted Net Assets

Assets	
Cash	950
Accounts Receivable	360
Fixed Assets	330
TOTAL ASSETS	**1,640**
Liabilities	
Accounts Payable	280
Line of Credit Payable	310
TOTAL LIABILITIES	**590**
Net Assets	
Unrestricted Net Assets	330
Temp Restricted Net Assets	720
TOTAL NET ASSETS	**1,050**
TOTAL LIABILITIES & NET ASSETS	**1,640**

It’s very important for the financial story to explain the purpose of the capital, how capital’s been utilized, and the activity to date.

While there are different interpretations of operating versus nonoperating funds out there, organizations should be consistent in how they present their capital activities, and should be able to explain them. The following examples illustrate various ways to represent operating expenses and related revenue in the budget and for management reporting purposes.

In Figure 2, the actual dollars that come in for capital have been grouped with operating results, because it’s **difficult to differentiate these revenues and expenses designated for an overall growth strategy with ongoing activities**. It’s very important for the financial story to explain the purpose of the capital, how capital’s been utilized, and the activity to date. It’s also very important to keep an eye on any milestones associated with the plan.

Figure 2

FMA **Management Reporting: Statement of Activities / Budget**

No differentiation between operating and capital

	Unrestricted
Revenue	
Foundations	780
Individuals	270
Special Events	150
Release from Restriction	220
TOTAL REVENUE	**1,420**
Expense	
Personnel	560
Consultants	370
Supplies	140
Technology	150
Occupancy	140
Other Expense	70
TOTAL EXPENSE	**1,380**
SURPLUS / DEFICIT	**40**

Grant(s) for growth capital lumped in with other foundation funding

Expenses related to expansion included with operating costs in various line items

Any growth capital not yet used remains in temporarily restricted net assets, which is not shown here

In Figure 3, the expenses related to the capital cannot be separated out, but a grant was specifically given in support of a growth strategy. The **grant for growth capital is therefore shown below the line of operating results**, and the presentation is clear with respect to how much of the growth capital has been used in the current year. In essence, the organization is building a deficit, in that it has operating revenues that it is accounting for, and then it has expenses that can’t be isolated from growth-oriented activities—such as expenses related to talent development or fundraising.

Figure 3

FMA **Management Reporting: Statement of Activities / Budget**

Capital grants are shown “below the line”

	Unrestricted
Revenue	
Foundation Grants (operating)	280
Individuals	270
Special Events	150
Release from Restriction	220
TOTAL REVENUE	**920**
Expense	
Personnel	560
Consultants	360
Supplies	140
Technology	150
Occupancy	140
Other Expense	70
TOTAL EXPENSE	**1,420**
PRELIMINARY SURPLUS / DEFICIT	**(500)**
Foundation Grants (growth capital)	500
SURPLUS / DEFICIT	**-**

Includes only grants for operations

In this example, growth-related expenses cannot be isolated from operating expenses

Grant for growth capital shown below the line

Any growth capital not yet used remains in temporarily restricted net assets, which is not shown here

Where it is possible to separate the expenditures related to the growth trajectory or the milestones in a capital campaign, an organization might present its **capital grants and expenditures in a separate column** (see Figure 4). This shows activity through satisfaction of the terms of restricted grants or just general operations. The FASB’s goal is for nonprofits to distinguish operating results from nonoperating results, so this idea of a separate column might very well be where they end up.

Figure 4

FMA **Management Reporting: Statement of Activities / Budget**

Capital grants and expenditures are shown in a separate column

	Unrestricted		
	Operating	Capital	Total
Revenue			
Foundations	280	-	280
Individuals	170	-	170
Special Events	150	-	150
Release from Restriction	220	400	620
TOTAL REVENUE	**820**	**400**	**1,220**
Expense			
Personnel	410	50	460
Consultants	70	250	320
Supplies	90	-	90
Technology	40	100	140
Occupancy	100	-	100
Other Expense	70	-	70
TOTAL EXPENSE	**730**	**400**	**1,130**
SURPLUS / DEFICIT	**90**	**-**	**90**
Net Assets, Beginning of Period	240	-	240
Net Assets, End of Period	330	-	330

Grant for growth capital was restricted, and is being released as milestones are accomplished

In this example, growth-related expenses can be isolated from operating expenses

Any growth capital not yet used remains in temporarily restricted net assets, which is not shown here

Figure 5 illustrates the idea of capital for physical property, such as buildings. Many organizations have operating budgets, and they may be funding depreciation over time but they don't necessarily have capital budgets. The **sources and uses of their capital needs** would look something like the below, and on an ongoing basis the organization would continue to follow the concepts of capital budgeting for replacements and new acquisitions in the future.

Figure 5

FMA **Management Reporting: Budget**

Sources and uses of capital

FY17 Capital Budget	
Sources of Capital	
Foundation Grant (capital)	200
Mortgage	850
Reserves	50
TOTAL SOURCES	1,100
Uses of Capital	
Building Design	150
Construction	800
Ramp-up Costs	50
Creation of Maintenance Reserve	100
TOTAL USES	1,100
REMAINING FUNDS	-

Monitoring the Growth Plan

When capital represents funding for a growth or scaling campaign, the mechanisms for monitoring results become critical. Growth campaigns are based on best estimates of operating costs at levels of scale never experienced by the organization. The plan is necessary as a basis for initial investment, but the monitoring framework needs to allow for the likely possibility that the plan may need to change as time goes by to reflect lessons learned from the scaling efforts.

Figure 6 is an example of a report format that is critical to understanding and *monitoring an overall growth and scaling plan*. It's not used as the organization's annual budget; rather, it is a budget document that is critical for planning and capital fundraising efforts, reporting progress internally and to investors, and helping to communicate strategic changes in the plan along the way to stakeholders.

Figure 6

FMA **Monitoring against Growth Plan Goals**

Growth Activities	Year 1	Year 2	Year 3	Total	Status Notes
Original Budget					
Creation of key leadership positions	100	200	300	600	
Evaluation system	250	50	-	300	
Technology platform	50	250	30	330	
Total	400	500	330	1,230	
Spending Analysis at end of Year 1					
Creation of key leadership positions	50	-	-	50	*Hiring behind schedule*
Evaluation system	250	-	-	250	*Spending on track*
Technology platform	100	-	-	100	*Cost overrun on tech implementation*
Total	400	-	-	400	
Revised Projections at end of Year 1					
Creation of key leadership positions	50	250	300	600	*Bulk of hiring moved to Year 2*
Evaluation system	250	50	-	300	*Projected to be on track and on budget*
Technology platform	100	300	30	430	*Projection increased by $100*
Total	400	600	330	1,330	

Establishing an original budget for a scaling plan. Typically, when you first do a growth plan, you develop an original budget for three years and give your best guess as to what it will cost to achieve the goals that you have. As the breakouts from Figure 6 show (below and following page), this scaling plan had three key deliverables over a three-year period for a $1.2 million growth-capital campaign. These three-year budgets had lots of detail and assumptions that went out to funders explaining what the plan was and what it would cost. We can't stress enough that documentation of those assumptions is critical. Organizations are giving it their best shot, but they've certainly never done this before, and the funders don't necessarily know whether the numbers are exactly right or wrong, because they are unique to each organization and to where each organization is and where it wants to be.

FMA **Monitoring against Growth Plan Goals**

Growth Activities	Year 1	Year 2	Year 3	Total	Status Notes
Original Budget					
Creation of key leadership positions	100	200	300	600	
Evaluation system	250	50	-	300	
Technology platform	50	250	30	330	
Total	400	500	330	1,230	

Spending analysis at the end of year one. Thus, the assumptions behind the growth plan are absolutely critical as benchmarks for the future—so that after the first year or six months, however often you need to monitor it, you can ask yourself how you are doing. You do a spending analysis at the end of year one. An organization might ask: How are we doing with the creation of the key leadership positions? Well, we've only spent $50,000; we're behind. We haven't been able to find the chief development officer that we were looking for. The evaluation system? We're right on track. We're spending and we have an accounting system that tells us that. We're able to track that these costs for these vendors are for the evaluation system. And then, lastly, the technology platform actually cost us $100,000 in year one. Is it an overrun? Are we spending more than we thought, or is it a timing issue? Are we accomplishing this deliverable sooner than we thought?

These are critical questions for an organization vis-à-vis monitoring internally how they're doing against their plan, but it is equally as important to be able to speak to their funders about the growth plan and say, "Here's where we are."

So, at the end of year one, an organization might conclude: We thought we were going to be able to do this for $1.2 million. Here's what we learned from year one. We've refined our thinking, and let me tell you what that means for changes in the future—years two and three. That's the third part of this analysis.

Growth Activities	Year 1	Year 2	Year 3	Total	Status Notes
Spending Analysis at end of Year 1					
Creation of key leadership positions	50	-	-	50	*Hiring behind schedule*
Evaluation system	250	-	-	250	*Spending on track*
Technology platform	100	-	-	100	*Cost overrun on tech implementation*
Total	400	-	-	400	

Revised projections at the end of year one. Finally, you want to do a revised projection at the end of year one. An organization might decide: In the case of the leadership positions, we're going to move the hiring to year two and year three, and we're still going to be able to do it with the $600,000 we expected. As far as the evaluation, we're on track exactly as we planned it. As concerns the leadership positions, there will be more in year two, but we're fairly confident that with the reaching out we've done and the candidates we have in line for these positions, we're going to be able to catch up and be on target for the leadership hiring. And, lastly, with respect to the technology platform, we thought it was going to cost $50,000, but it cost us $100,000, and it's not going to go down in the future. We have to accept that we're going to need more money for technology, and we need to think through what the total cost will be. So, based on this growth plan and its first-year results, it really needs to go up to $1.3 million from $1.2 million.

Growth Activities	Year 1	Year 2	Year 3	Total	Status Notes
Revised Projections at end of Year 1					
Creation of key leadership positions	50	250	300	600	*Bulk of hiring moved to Year 2*
Evaluation system	250	50	-	300	*Projected to be on track and on budget*
Technology platform	100	300	30	430	*Projection increased by $100*
Total	400	600	330	1,330	

• • •

This is the financial story of the growth plan, and this is the financial story of the capital campaign as it relates to growth. Armed with this analysis, an individual raising dollars for an organization can go to a funder, and say, "Here's where we are, and let me tell you why we need to increase the amount of the investment in future years." Funders who choose to invest in capital are partners with their grantees. They think about how they can be supportive. They ask themselves, "What are the right questions to ask that are strategically inclined so that we're working toward a common goal?" This is not a compliance framework; it's a partnership framework. And, for the organization that's carrying out that plan, it's really important that this one-pager—which looks fairly simple but has a lot of thought behind it—make the difference in that communication, as the story often evolves. If in year one the organization is off, that doesn't mean it did something wrong. It doesn't mean it made a mistake and the funder will not be happy. It means that here's what it learned and here's how it's going to adjust for that in the future.

So, we encourage you: if you're thinking about a growth campaign, have one in the works, are building one, or are in the middle of one, come back to these framing questions and ask yourself what it would take for you to understand and clearly articulate the financial story around your plan.

We've gone through the different sources of capital, the different purposes, the different ways to report on it. Raising dollars is not just fundraising for the operations for the year—it's for long-term sustainability, for an ability to grow and experiment and take risks. It's a longer-term framework. It's very difficult to seek this type of capital without a long-term view toward the strategy that you want to implement. If you can't tell your multiyear financial story, it makes it very difficult to raise capital. On the flip side, if you have a well-articulated strategy with a well-documented financial plan, you'll be in a much more successful position going out and raising the capital that you need not just to operate but also to thrive.

Note

1. For more on reserve grants, see Hilda H. Polanco and John Summers, "Keeping It in Reserve: Grantmaking for a Rainy Day," *Nonprofit Quarterly* 23, no. 1 (Spring 2016), nonprofitquarterly.org/2016/05/02/keeping-it-in-reserve-grantmaking-for-a-rainy-day/.

Some Capital Questions Answered

The Nonprofit Quarterly *asked Hilda Polanco to answer some questions about crucial capital strategy for nonprofits . . .*

What is the benchmark for an accumulated surplus or for reserves that people are supposed to have in hand?

Hilda Polanco: I think the right answer here is, *it depends*. Of course, that's not the answer we want to hear, because we need to know a number. So, it depends on the business model. It depends on how urgently an organization may need to respond. A relief organization needs to have a higher availability of reserves than some other types of organizations, because it may need to react very quickly, without much time to raise needed funds. But putting aside exceptions like relief organizations or other organizations that need immediate cash in large sums, for regularly operating organizations, the rule of thumb (for bankers and others who think about this) is three to six months. But three to six months of what? Three to six months of total operating expenses is the most conservative estimate. What that would mean is that if the world were to stop in some significant way—revenues stop coming in, the perfect storm happens—we have three to six months of operations in our reserves.

The issue with that is that sometimes organizations have grants that fund specific activities, and they're thinking: If I didn't have those grants, I wouldn't incur those expenses. So, an organization in this position might modify the base for calculating the number of months to have in reserves to only include "core" operating expenses, and decide what it would take for the organization to responsibly cover a period of three to six months of its core operating costs. And then there's my definition of adequate core operating expenses that I share with folks when we are together in trainings, which I often think of as, what would it take for the executive director to sleep at night? And risk tolerance varies. I've had EDs tell me, "It takes a year of core operating expenses for me to sleep at night," and others say, "Three months is all I need—I can make it with three months." So, every organization has to make that number their own. It's the number that's going to shift someone from crisis to long-term strategy and then grow from there. So, that would be my minimum number: for some, it's one month or two months of payroll, two months of rent, and they can sleep at night. It depends.

How do you position an organization to ask for change capital? Under what conditions do you think that it is awarded?

HP: I think the positioning is about focus and clarity. So, if an organization raises money to run programs to deliver its mission, that's what funders, individuals, foundations support. And they support that year's operations—and, if that's all that we can position, they support the operations for the year, number of people served. That's what we can raise money for. If we're positioning ourselves for change capital, for risk capital, we need to have a vision of that. So, I think a first step toward a capital campaign is that there needs to be a plan where an organization allows itself to dream beyond the restrictions of available resources today: If I could develop our curriculum in this way to get outcomes of these types, what would that take, and how would I know that I've succeeded when I get there? So, clarity around what the outcomes are. That's what investors are going to invest in—those outcomes. And, to get there, what will it take? Where do I need to develop my infrastructure? What do I need to do in the form of experimentation?

I think it's a process that is very different from one's regular operating budget planning, which is somewhat focused on the here and now. This is giving the organization the permission to think beyond the current and then articulate that in a well-positioned plan. A growth campaign is going to be funded by those funders who have already invested in

(continued next page)

you and have seen the outcomes and believe in them. It's somewhat unusual for funders to invest in growth capital for organizations they've never funded before. Having said that, there is a growing level of philanthropy that focuses on identifying a good idea and then helping an organization scale that. With that clarity, I think the organization will be best positioned to go after those grants. That's assuming that this question is about the capital campaigns in that context, not working capital or any of the others.

How do you convince foundations to replenish capital when you've had a number of bad years, and how do you convince them that some of those bad years could perhaps be put at the feet of not great management, or what people perceive as not great management?

HP: I think the answer to that is very similar to the one we just covered, which is a mix of clarity, cost, and outcome. So, first, the clarity in this case may require a bit of humbleness—it may require that you say, "We are in an accumulated deficit of $75,000, and we know how we got there." This statement shows that you understand how you got to that deficit, and as such, you're more likely not to repeat it in the future. So, understanding what caused the deficit would be the beginning of clarity.

Second, the clarity would be in understanding what you are doing differently that is going to ensure that the deficit is not a repeatable offense in the future. If the issue that caused the deficit is about management, and that's already evident to the funder and to the leadership, then how is management changing? How is the board engaging to ensure that those activities that caused the deficit have been turned around? That's only part of the way. Now, the question is, how is this organization going to be sufficiently strong and sufficiently strategic to turn the corner with those past challenges and go forward in a positive way? And that goes back to, what's your plan? There is a reason the organization exists. It may have had positive years and then had a few negative years. Well, let's come back to the positive. What is it about its approach to its work that allows it to achieve those outcomes? Once you've gone beyond explaining the past and indicating how the future is in a different direction, then it's a growth plan like any other growth plan. We've worked with funders who have said, "Tell me the number. What is the number that is going to allow this organization to rebalance (meaning replenish) those deficits and go forward in a strategic way? I don't want to fund the number that will just make them whole; I want the number to make them whole and position them for success in the future." And that organization needs to know what that number is—not only the accumulated deficit, which comes right from the financials, but also what the long term will be.

Third, when you're recovering from something that didn't go as well as you hoped, there more than ever you need clarity—a partnership between the staff and the board for ultimate outcome. So, how is the board a part of that—not only on paper, but also how is the board a part of those asks and part of the commitment that that potential funder could see?

What are the barriers to building strong balance-sheet health?

HP: One of the barriers, I think, is not understanding the business model and the revenue and expense drivers that get an organization to its final results for the year. So, if we understand that we're delivering services within our means and we're accepting grants that cover their costs—and if they're not, we're raising the difference—we have to have an eye on the model, because the balance sheet is not an accident; it's an outcome of what has transpired over the life of the organization. So, stabilizing the business model so that the organization generates sufficient revenue to cover its cost *plus*—that would be the most critical step to having a strong balance sheet. And I'll end this answer by saying, if the revenues and expenses in the budget that you present to your board for approval are absolutely equal—which I see very often—then the message is, we have every intention of spending every dollar we raise, and we are taking no steps toward strengthening our balance sheets. So, a first step toward strengthening your balance sheet is making sure that you're in your budget and setting the parameters for the year—budgeting for a surplus, which is meant to increase the strength of your reserves.

Want to Improve Governance? Context Matters

by Louise Coventry

How indigenous actors adapt and respond to external demands for "good governance" points to the "possibility of emerging hybrid models of governance that draw on and integrate both local and international understandings of governance. Therein," the author concludes, "may lie the future for nonprofit civil society governance."

That context matters is a truism. Leading academics exploring issues of governance consistently argue that governance models need to be contextualized to ensure their relevance and applicability.[1] So, how exactly should context be taken into account when approaching issues of nonprofit civil society governance? Here, I offer one answer to the "how" question, drawing on personal experience of working on issues of civil society governance in the specific contexts of Cambodia, Myanmar, Laos, and Vietnam. Focusing on these contexts is not to say that the context question does not matter among various types of civil society groups in, for instance, the United States. It matters greatly—and, in fact, some of the worst failures of civil society governance might be found in the one-size-fits-all assumption with which many approach the development of governance structures.

Before addressing the "how" question, a preliminary question is, who is it that will take context into account? In acknowledgment of the imbalances of power across the globe, it is important that Western and westernized actors such as donors, advisors, and the international partners of local civil society organizations make serious efforts to learn from those of the Global South. How do they navigate the challenges they face with resilience, creativity, and versatility in applying imported ideas, adapting them to their contexts, and, ultimately, determining satisfactory ways to govern their civil society organizations? The fact is, there is absolutely nothing that proves that Western funders have found the promised land of civil society governance, and there is much to be gained from setting aside preconceived ideas and looking intently for what really works for local people.

Dimensions of Context

At least seven different dimensions of context need to be considered when designing governance models and practices, although this is likely not an exhaustive list. Two of these dimensions are already familiar to many of us working in the field, where we are commonly exposed to debates about *sectoral* and *organizational* contexts. Moving us into less familiar territory are the five contexts that follow—*cultural*, *political*, *legal*, *social*, and *historical*.

Sectoral Dimension

What I mean by the sectoral context is twofold. First, there is the extent to which insights from corporate governance (which underpins most governance theory) can be applied to civil society organizations.[2] Many of the assumptions that underpin corporate governance—and even agency theory itself, the foundation of corporate models of governance—do not apply to civil society organizations, where the organization's "owner" is typically not able to be clearly identified. Second, different types of organizations—federations, self-help groups, cooperatives, membership organizations, and umbrella groups—tend to prefer slightly different models of governance. These distinctions and debates should already feel familiar, and discussion of such issues is more often hosted in Western circles than in Southeast Asian ones, so I won't go into further detail here.

Organizational Dimension

Contingencies at the organizational level provide important contextual cues for consideration. Following Patricia Bradshaw, we can understand these contingencies to include organizational size and complexity, mission, life stage, and history—to name a few.[3] This simply means that governance policy and practice will differ across organizations depending on their unique characteristics. There is no one size that fits all. A large and long-established international NGO, a professional association of, say, financial counselors or health professionals, and a small, newly created self-help group will each need to practice governance in a manner customized to its very different needs. But this issue is not specific to civil society in Southeast Asia and will not be discussed further here.

Cultural Dimension

Of obvious importance is the cultural context. There is increasing evidence that Asians think differently and follow different social norms and mental models than do Westerners.[4] For example, Southeast Asian polities such as Cambodia, Laos, Vietnam, and Myanmar generally attribute higher value to the maintenance of social hierarchy, harmony, and collectivist ideals than do Western societies. These cultural differences make a mockery of the ideas of independence and conflicts of interest that are peddled by many Western donors. Picking up on these mismatched assumptions, the World Bank recently produced a new conceptual framework for international economic development, premised on an expanded understanding of human behavior and the acknowledgment of different mental models in different communities and societies.[5]

Political Dimension

Regularly, NGOs mirror national governance standards and practices. The possibilities of local NGOs transcending the limits of national governance seem bleak. National governance practices, whether historical or contemporary, may be the only experience on which local NGOs can draw for inspiration. Across Southeast Asia, governance models based on patronage and, more contemporarily, neo-patrimonialism, are common. Vietnam offers a striking example of the importance of accounting for political context: there, civil society cannot be understood as separate from the state but rather is an extension of it.[6] Jörg Wischermann found that, regarding internal decision-making processes, “most if not all Vietnamese Civic Organizations’ representatives’ bodies of thought and practices disclose patterns of authoritarian political thinking,” matching the mode of rulership adopted by the Communist Party of Vietnam.[7]

Legal Dimension

National governments set parameters on civil society governance through legal means, some of which may defy Western normative understandings of governance. As an example, we can see that the new law of associations and NGOs in Cambodia[8] is not premised on agency theory—commonly, the Royal Government of Cambodia regards executive directors, rather than boards, as the rightful “owner” of an NGO. And the 2009 decree on associations in the People’s Democratic Republic of Laos, which established for the first time a legal environment for civil society, has proven difficult for NGOs to access in that registration typically takes several years. Strangely, some for-profit organizations have been able to register under the law for nonprofit associations with greater ease than NGOs. This underscores the importance of deep learning about the legal context for operation; it may not conform to your expectations.

Social Dimension

Here, the example of Myanmar springs to mind. Civil society activists in Myanmar survived the harsh regime of military rule of nearly fifty years by honing skills in discernment, giving high attention to issues of trust, and developing underground networks. These skills and resources, so critical to (literal) survival—let alone being functional—no longer appear to serve the interests of a growing civil society, which is increasingly encouraged toward greater transparency, collaboration, and partnerships. Perhaps, then, there is some “unlearning” to be completed in Myanmar, but it cannot be forced and will likely happen slowly.

Historical Dimension

Recently, when I asked young Vietnamese workshop participants, “What is governance?,” my question was met with another question: “Do you mean what we learned under French rule?” Clearly, the history of colonialism reverberates powerfully to this day, influencing what young people feel entitled to know about governance and what they believe to be legitimate. But history is a big topic, and the history of language is also of interest. When I explored the etymology of governance in Cambodia, I was fascinated to learn how the term for “governance” has shifted over the ages: from *reichkar* (royal work) to *rothcar* (state work) and back to *reichkar*, and then to *akpibalkech* (a technocratic version of governance), a term that is poorly understood—indeed, likely never heard of—outside of the capital, Phnom Penh. What is common across these terms is that *governance* is either an elitist term or someone else’s business, the work of others. Thus, when we talk about governance in the local language or with the help of interpreters, subtextually we may be reinforcing the message that governance is not the concern of everyday people. Quite probably, that is the very opposite of the message we may wish to convey.

The Perils of Helicoptering Western Models into Non-Western Contexts

With the above seven different dimensions of context to take into account, we can conclude that it simply does not hold that models of governance used in large Western corporations and international NGOs can be assumed to be relevant to civil society organizations in developing contexts and with differing political regimes. Models from Western countries are helicoptered into non-Western development contexts at our collective peril.

In my work in Southeast Asia, I have observed three overlapping patterns in terms of how local NGOs respond to donor requirements to uphold certain (Western) governance standards: these are *to disregard*, *to comply*, and *to capture and co-opt*. Public and overt resistance is uncommon in Southeast Asian contexts, but it is the "hidden transcripts"—to channel James Scott—that need to be assessed.[9]

Disregard

Disregard is not usually willful but rather about mismatches in understanding. For example, an edict issued by an international donor for the mandatory adoption of conflict-of-interest policies by the donor's partner organizations in Asia was met with genuine bewilderment. The idea of maintaining separateness in performing different roles is uniquely Western yet not always acknowledged to be so. I recall lengthy conversations with an indigenous women's cooperative, which rotated their leadership on a periodic basis, in accordance with traditional practice, and explicitly valued fluid movement across different roles within and around the organization. They had received the donor's edict, and I attempted to explain the donor's requirement and its underpinning assumptions. In a rare example of overt resistance, the women's cooperative chose to argue their case with the donor that deliberately fusing the interests of—and transgressing boundaries between—staff, board members, and stakeholders was important to them; and in this context, managing conflicts of interest made no sense. In other, similar instances, the edict to develop a conflict-of-interest policy may simply be ignored. (This kind of mismatch of governance models may also apply to the United States and elsewhere—causing, for example, friction between feminist organizations and their funders.)

Compliance

Compliance—or at least attempted compliance—with donor requirements is common, which makes sense given the extent to which face saving and the maintenance of harmony is valued in Southeast Asian cultures. Compliance, however, is often more superficial than thorough. The very existence of a board (whether on paper or otherwise) serves an important symbolic function and, in itself, represents an act of compliance with donor requirements—notwithstanding the likely irregular nature of meetings and the board's likely inability to wield meaningful power. It is often too difficult for organizations to marshal compelling arguments about why a board may not be meaningful in their context and offer a viable alternative. Thus, consistent with Patrick Renz's analysis, NGOs adopt the prevailing norms and values of the prevailing institutions within their environment (here, the donor) in order to secure legitimacy.[10] In identifying with societal (donor) expectations rather than having intrinsic motivations toward effective governance, boards are likely to take on a maintenance role and adopt a minimalist approach—although, let's be clear, being attentive to donor requirements is itself demanding.

Capture and Co-option

Co-option of donor requirements can lead to a hybrid form of governance that blends elements of patronage and corporate governance models. Such hybridity is also most common and, in effect, is a mirroring of the neo-patrimonial governance practices observable at the national governmental level in these very same country contexts, whereby patronage networks merge with legal–rational bureaucracy.[11] Usually lamented as dysfunctional, there are also functional ways to create hybridity. Capturing and co-opting corporate governance and blending it with patronage is a logical and constructive strategy that NGO leaders can and do use to navigate the complex duality of requirements facing NGOs in Southeast Asia. As an example, boards may appoint a meeting facilitator rather than a chairperson, thereby disrupting the hierarchical power relations typical of patronage. Alternatively, boards may draw relationships between organizational stakeholders and examine how these connect to the board members, and potentially also connect individual board members to a personal constituency or client base, thereby creating a functional form of patronage for organizational stakeholders who may otherwise be overlooked in governance and decision making.

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Returning to our opening question about how best to take context into account, we can now conclude that in Southeast Asian contexts, where systems of patronage are strong and longstanding, it is useful for international NGOs and donors to accord extra care to understanding the cultural, historical, sociopolitical, and legal dynamics at play, and then develop strategies for working with—and not against—existing systems and practices. In other words, the imperative is to understand and build on preexisting understandings of governance rather than attempt to negate or replace them. Ultimately, it is indigenous understandings of governance that create the context in which civil society governance practices succeed (or fail). If we pay close attention, we can learn a lot from how indigenous actors adapt and respond to demands for "good governance" that are imposed from outside. These actions and responses point to the possibility of emerging hybrid models of governance that draw on and integrate both local and international understandings of governance. Therein may lie the future for nonprofit civil society governance.

Notes

1. See Chris Cornforth, "Nonprofit Governance Research: The need for innovative perspectives and approaches," in Chris Cornforth and William A. Brown, eds., *Nonprofit Governance: Innovative Perspectives and Approaches* (New York: Routledge, 2014); Judy Freiwirth, "Community-Engagement Governance: Engaging stakeholders for community impact," in Cornforth and Brown, *Nonprofit Governance*; and Francie Ostrower and Melissa M. Stone, "Moving Governance Research Forward: A Contingency-Based Framework and Data Application," *Nonprofit and Voluntary Sector Quarterly* 39, no. 5 (October 2010): 901–24.
2. See Jurgen Willems et al., "A Coalition Perspective on Nonprofit Governance Quality: Analyzing Dimensions of Influence in an Exploratory Comparative Case Analysis," *VOLUNTAS: International Journal of Voluntary and Nonprofit Organizations* (2016): 1–26, doi:10.1007/s11266-016-9683-6.
3. Patricia Bradshaw, "A contingency approach to nonprofit governance," *Nonprofit Management & Leadership* 20, no. 1 (Fall 2009): 61–81.
4. See Richard E. Nisbett, *The Geography of Thought: How Asians and Westerners Think Differently . . . and Why* (New York: Free Press, 2003); and The World Bank, *World Development Report 2015: Mind, Society and Behavior* (Washington, DC: World Bank, 2015).
5. The World Bank, *World Development Report 2015*.
6. See Irene Nørlund, "Civil Society in Vietnam: Social Organisations and Approaches to New Concepts," *ASIEN* 105 (October 2007): 68–90.
7. Jörg Wischermann, "Civil Society Action and Governance in Vietnam: Selected Findings from an Empirical Survey," *Journal of Current Southeast Asian Affairs* 29, no. 2 (2010): 39.
8. "Cambodia's parliament approves NGO bill amid opposition boycott, protests," *ShanghaiDaily.com*, July 13, 2015, www.shanghaidaily.com/article/article_xinhua.aspx?id=292298.
9. James C. Scott, *Domination and the Arts of Resistance: Hidden Transcripts* (New Haven, CT: Yale University Press, 1990).
10. Patrick S. Renz, *Project Governance: Implementing Corporate Governance and Business Ethics in Nonprofit Organizations* (Heidelberg: Physica-Verlag, 2007).
11. Pak Kimchoeun et al., *Accountability and Neo-patrimonialism in Cambodia: A critical literature review* (Phnom Penh: Cambodia Development Resource Institute, 2007).

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Ready to Launch? How the 1023-EZ Has Changed Your Nonprofit Start-Up Options

by Tivoni Devor and Laura N. Solomon, Esq.

One big reason why small organizations choose fiscal sponsorship over forming a 501(c)(3) is *speed*: the Form 1023 takes three to six months to process, while fiscal sponsorship is very quick. Now, however, we have the 1023-EZ, whose process takes only weeks. But there are many reasons for opting for a fiscal sponsor beyond start-up speed—and, as it turns out, there are some disadvantages associated with the 1023-EZ. The truth is, the new form is not as, well, *easy* as it may first seem.

Editors' note: *The 1023-EZ provides an opportunity to launch a 501(c)(3) faster—changing some of the assumptions of the requirements of nonprofithood. And when you marry that lower barrier to tax exemption to the 990-N (e-Postcard), the standards and reporting requirements become minimal. This changes the way we look at the choice of whether or not to become a nonprofit, which changes the need base for fiscal sponsors, and so on. It goes back to the old systems thinking adage: "You can't do just one thing."*

ARE YOU TRYING TO DECIDE BETWEEN forming your own independent 501(c)(3) charity and using a fiscal sponsorship?

Your decision would have been straightforward before July 1, 2014—the date the IRS issued the Form 1023-EZ Streamlined Application for Recognition of Exemption. Until then, if you had a charitable mission *and* enough money for the legal, accounting, and filing fees, you would have incorporated a nonprofit corporation and filed the IRS Form 1023 to get 501(c)(3) status. If instead you had only a short-term project, or if you lacked funding, you would have used a fiscal sponsor. That sponsor would have received and receipted charitable contributions on your behalf, and made distributions for your expenses—typically for a fee equal to a percentage of the funds you raised. The fee a fiscal sponsor charges covers your portion of the overhead costs associated with running a nonprofit (administrative staff, insurance, Form 990, audit, etc.).

But the IRS Form 1023-EZ has changed the equation. Now, the cost-benefit analysis is different, because the IRS made it cheaper and easier for many organizations (most organizations with gross receipts of $50,000 or less and assets of $250,000 or less) to apply for tax-exempt status. Instead of an IRS filing fee of $850 for the 1023 for organizations with $50,000 or more in revenue, the filing fee for the 1023-EZ is $275. And, instead of the significant legal fees to complete the 1023, the 1023-EZ requires much less attorney time. And then there is the near-instant gratification: Form 1023 processing—which has gotten faster—typically takes three to six months; the IRS processes Form 1023-EZ in a matter of weeks.

The IRS has, in essence, lowered the barrier of entry for new charities. This can be a good thing if the charitable mission is worthwhile and the founder has the knowledge, commitment, and resources to pursue that mission. But this lowering of the barrier has also been controversial. The longer and more detailed Form 1023 requires significant disclosures, including three years of projected budgets, a detailed narrative description of activities, articles of incorporation, and by-laws. These aid the IRS agent's review in determining whether the organization is legitimately formed and will be operated for charitable purposes, allowing the IRS to weed out unqualified would-be charities. Conversely, the IRS Form 1023-EZ is just three pages long, with boxes to check—and applicants self-certify as to the charitable nature of the organization and its planned activities.

According to a recent IRS Taxpayer Advocate Service Annual Report to Congress, the brevity of the 1023-EZ has caused the IRS to erroneously grant 501(c)(3) status to unqualified organizations.[1] The net effect is a proliferation of new charities that, but for the 1023-EZ, would have either not been approved by the IRS or launched under fiscal sponsorship. Long term, this may lead to inefficiencies, as an increasing number of organizations create duplicative services and infrastructure while competing for the same grants and contributions. A single fiscal sponsor can efficiently sponsor hundreds or even thousands of activities under the umbrella of one legal entity, reducing administrative and programmatic expenses. Ironically, many grantmakers have recently begun funding mergers and collaborations to counteract existing duplications. As funders push for consolidation, the 1023-EZ makes proliferation all the more easy.

The Nonprofit Quarterly asked Laura N. Solomon, Esq., founder of Laura Solomon & Associates, and Tivoni Devor, manager of partnerships and outreach at the Urban Affairs Coalition, to debate this new wrinkle in the decision-making process for start-up nonprofits.

When and why do you recommend fiscal sponsorship or 501(c)(3)?

Laura Solomon: I recommend fiscal sponsorship when a client has a short-term or single project, like a client of mine who rowed across the Atlantic Ocean to raise money for ALS. I also recommend fiscal sponsorship or a donor-advised fund when an individual or group doesn't have the money or appetite for the ongoing responsibilities of running a nonprofit. A good fiscal sponsor can provide the platform to further great charitable missions and programs nationally and even internationally. Conversely, if a founder has a serious commitment to the mission and the responsibilities of starting and running a nonprofit—together with the financial and other resources—an independent 501(c)(3) may be the right choice.

Tivoni Devor: Naturally, I am a big proponent of fiscal sponsorship for short- and long-term projects, both big and small. But now that we have the 1023-EZ, I usually recommend that especially small nonprofit start-ups—those with budgets under $50,000—use the 1023-EZ. Smaller organizations typically don't need all the bells and whistles of a full-service fiscal sponsor. They don't have staff, so they don't need HR support, nor do they need to provide any payroll or benefits. Their finances are simple and can usually be done in Excel or QuickBooks. A sub-$50,000 nonprofit can also choose to file the Form 990-N during tax season, a form that is also called the e-Postcard 990 because it is so easy to complete—and organizations that file a 990-N fall under most audit-compliance thresholds. I tell small nonprofits that are not projecting to cross the $50,000 level to go with the 1023-EZ first, and then, when they grow and scale, to look to fiscal sponsorship to help them manage that growth and the challenges associated with that growth.

What are the pros and cons of each?

LS: The advantages of having your own charity are clear. You have control over your activities, finances, and mission. With that control comes the "cons," though—which include the costs and burdens of start-up and compliance together with the significant job of running a nonprofit, including formation of a working, engaged board of directors. Fiscal sponsorship provides freedom from those costs and burdens but also comes with the "cons" of the fiscal sponsorship fee and a lack of control. Some sponsored projects find that, as they grow, larger or more established donors want to see that the project is its own independent 501(c)(3)—perhaps as a sign of legitimacy, permanence, or commitment. Other donors simply won't make a gift through a fiscal sponsor because they know that a portion of their donation is going toward sponsorship fees.

TD: I'll push back a little on the "cons" of fiscal sponsorship when you talk about the fees and control. As you are considering choosing between fiscal sponsorship and your own 501(c)(3), you have to weigh the costs of the fees you are paying against the expenses of doing it yourself. Often, we find savings for 501(c)(3)s when they join us, especially in audit, insurance, and employee benefit costs. Your fiscal sponsor should have an economy of scale that reduces these costs for you. Now, each organization that provides fiscal sponsorship is different and offers different levels of oversight that may feel controlling. Often, independent organizations are able sometimes to play a little fast and loose in terms of compliance, but for a large fiscal sponsor with many client partners, one bad apple can spoil the bunch. One bad act of a single client's may trigger a funder to avoid funding any client using the same fiscal sponsor, and I will agree that fiscal sponsors can be bureaucratic and risk averse. Sometimes we turn down an applicant if the organization's program combines power tools and youth, or has a business model that may seem to have some inherent conflicts of interest between the funders and the program. In the long term, risk management is what keeps programs operational and sustainable, especially in environments where nonprofits can be attacked for all sorts of administrative and financial reasons.

LS: I also strongly recommend that any fiscal sponsorship relationship be documented with a fiscal sponsorship agreement that sets out all of the responsibilities of each party, including the fees, obligations of the sponsor, accounting for funds and reports, ownership of intellectual property, and timing and requirements for distributions of funds upon termination. I've seen problems with "divorcing" projects, in which the parties end up arguing over the intellectual property created by the project, or get frustrated when the sponsor won't grant the balance of funds to a new sponsor or 501(c)(3) that the project forms.

TD: I completely agree. When one nonprofit fiscally sponsors another and it is not its main mission and there is no agreement, I call that *casual fiscal sponsorship*, and it can lead to all sorts of trouble. I define *formal fiscal sponsorship* as a partnership with a nonprofit whose mission is to provide fiscal sponsorship as a service and that has a clear agreement for you to sign.

When does fiscal sponsorship make more sense than getting your 501(c)(3), and vice versa?

LS: There's no one-size-fits-all approach here. My job as counsel is to review each option and its pros and cons in depth, and to guide the client to the option that's right for that particular client. It will depend on the personalities involved, depth of commitment, time horizon for the activity, and resources.

TD: Each nonprofit is different, just like each fiscal sponsor is different. It has to be a beneficial partnership. The fiscal sponsor must be able to provide a platform for the client partner to grow and flourish, and the client partner must be mission-aligned with, and not a financial burden on, the fiscal sponsor. In general for a start-up, if you want to launch your nonprofit quickly and with access to the experience and support of an invested partner, go with a fiscal sponsor. If you want to work inside a community, being a part of a fiscal sponsor's family of projects gives you access to deep nonprofit knowledge, networks, and flexibility that you may not have on your own. But if you want to launch a cheap and nimble organization so that you can take risks and experiment and have no bureaucracy, go with a 501(c)(3). Keep in mind, however, that in doing so you expose yourself to compliance issues in the long run due to the new streamlined application.

When would it make sense to do fiscal sponsorship followed by 501(c)(3) status, or both, concurrently?

LS: If a client is planning to apply for 501(c)(3) status but believes that it will take some time to gather the resources, fiscal sponsorship may be a great short-term option so that fundraising can begin. In fact, some clients put a fiscal sponsorship arrangement in place while they start up, so that they can fundraise as soon as they incorporate and while the 1023 is pending with the IRS. Note, though, that this makes sense for organizations filing the 1023 but not the 1023-EZ. That's because the 1023 takes three to six months, typically, but our firm has gotten 501(c)(3) status for clients using the 1023-EZ in as little as ten days. Remember, though, to focus on the fiscal sponsorship agreement termination provisions and to make sure that any funds remaining with the sponsor can be paid out to the new 501(c)(3) once it gets its exemption.

TD: Often, this is funder driven—as in a funder wants to give a client money but the client can't accept it without access to a 501(c)(3). We see this often, and we find a way to quickly ramp up so that the client can take advantage of the funder's interest and time line. My organization, the Urban Affairs Coalition, has been doing fiscal sponsorship for over forty-seven years, and we've had fiscally sponsored programs leave to be 501(c)(3)s and then come back to us a few years later. We've also seen groups with fiscal sponsorship as well as their own 501(c)(3) to manage property or, again, to satisfy a funder's requirement.

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In the end, deciding between getting a fiscal sponsor or using the 1023-EZ to register as a 501(c)(3) may be based on simple geography—for instance, is there a fiscal sponsor in your area that you trust? Also, it may be good to have both: you can have your programming occur under fiscal sponsorship and leverage the advantages of fiscal sponsorship, but keep your real estate or intellectual property separate under an independent 501(c)(3), and have legal agreements signed between the two.

Note

1. Taxpayer Advocate Service, *FORM 1023-EZ: The IRS's Reliance on Form 1023-EZ Causes It to Erroneously Grant Internal Revenue Code § 501(c)(3) Status to Unqualified Organizations*, MSP #19, "Most Serious Problems," 2016 Annual Report to Congress, vol. 1 (Washington, DC: Internal Revenue Service, 2016): 253–65.

Tivoni Devor, MBA, is manager of partnerships and outreach at the Urban Affairs Coalition, an organization that unites government, business, neighborhoods, and individual initiatives to improve the quality of life in the region, build wealth in urban communities, and solve emerging issues. **Laura N. Solomon**, Esq., is the founder of Laura Solomon & Associates, a law firm devoted to the representation of nonprofit, charitable, and other tax-exempt organizations and philanthropic planning for individuals.

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2. Then, check to see if you're eligible to use the new IRS Form 1023-EZ (starting on page 11 of the instructions, www.irs.gov/pub/irs-pdf/i1023ez.pdf).
3. Learn more about fiscal sponsorship.
4. Consult with a lawyer who can help you to evaluate the best option to further your mission.

To Learn More . . .

1. IRS website (www.irs.gov)
2. IRS Form 1023 (www.irs.gov/pub/irs-pdf/f1023.pdf)
3. IRS Form 1023-EZ (www.irs.gov/pub/irs-pdf/f1023ez.pdf)
4. www.stayexempt.irs.gov
5. www.laurasolomonesq.com
6. www.uac.org
7. National Network of Fiscal Sponsors (www.fiscalsponsors.org)

Growth Hacking for NGOs and Nonprofits: How a Few Staffers Can Mobilize Millions

by Julie Szabo

When nonprofits mobilize, they often focus on breadth—gathering large numbers of supporters as a way to build power. When nonprofits organize, they tend to invest deeply in nurturing volunteer leaders to ensure there are skilled, committed people in place to do the organization's work. Blending the two into one model, however, may be the special sauce.

Editors' note: *This article is adapted from* Beyond the First Click: How Today's Volunteers Build Power for Movements and NGOs, *a report copublished by Mobilisation Lab (MobLab), Change.org, and Capulet. This article is an expanded version of an article first published on* NPQ*'s website, on March 10, 2017.*

If you spend five minutes in the company of software entrepreneurs, you'll hear the phrase "growth hacking." It refers to a mixed bag of experimental strategies and tactics that start-ups use to grow quickly and exponentially. So, what does growth hacking look like in the nonprofit world?

Research for *Beyond the First Click: How Today's Volunteers Build Power for Movements and NGOs*[1] began with a phone call to author and academic Hahrie Han. While studying civic engagement models for a recent book, Han discovered that organizations that *blend* "mobilizing" and "organizing" techniques can engage people at scale more quickly. We (the groups involved in research for *Beyond the First Click*—Mobilisation Lab, Change.org, and Capulet) were intrigued by the idea, and, as we interviewed more NGOs and experts, evidence for Han's thesis snowballed.

In Han's definition of *mobilizing*, nonprofits tend to focus on breadth—on gathering large numbers of supporters as a way to build power. *Organizing* nonprofits, however, tend to invest deeply in nurturing volunteer leaders to ensure there are skilled, committed people in place to do the organization's work. Han says:

> There are some organizations that just do organizing; they do that really deep work in local communities . . . but they're never able to take the great work they do and scale it. On the flip side, I see organizations that have a ton of scale because they do a lot of mobilizing. But even if they're able to achieve changes they want to make, those changes are fragile because they don't have the leadership core, that depth, that continues to advocate for change over time.[2]

Showing Up for Racial Justice (SURJ) is an example of an organization that is successfully growth hacking by blending mobilizing and organizing for scale. SURJ has a tiny staff—just two full-time employees and a few part-timers. Still, they support more than seven million white Americans in the movement to end white supremacy and build a racially just society. Scaling the movement with volunteers is central to SURJ's theory of change.

From hosting kitchen table conversations to organizing hundreds of rallies across the United States, SURJ's work "just can't be done without volunteer leaders with very big responsibilities," says Randall Smith, a member of the National Staff Team. "Without these leaders, SURJ wouldn't exist."[3]

Amplifying an organization or movement with volunteers isn't a new idea. Becky Bond and Zack Exley, who were leaders in Bernie Sanders's presidential campaign, say it's a lost art. They argue that when organizations and campaigns hire more full-time staff, they tend to engage fewer volunteers and lose power. During the Bernie campaign, we witnessed what volunteers are capable of, and Bond and Exley encourage organizations to follow suit. "Every group that stands for something important, no matter how small, has a list of supporters. Those supporters want to help your effort succeed. Put them to work!"[4]

When 350.org launched its Fossil Free campaign in 2012, it used mobilizing techniques—petitions and public actions—to pressure universities and institutions to divest from fossil fuels. 350.org is an expert at going wide, but it's also going deep with Fossil Free by building distributed teams of highly trained activists to scale up the movement on university campuses. "We've made a very intentional effort to train individuals so they can help broaden the movement," said Anna Goldstein, U.S. Team Coordinator.[5] The Fossil Free Fellowship program trains fellows and places them in paid summer internships with host organizations to get hands-on organizing experience.

"Being a fellow brought me into community with other strong, determined organizers and allowed me to find my own role in this fight. It gave me hope, and taught me lessons that will carry me through organizing for climate justice for the long haul," said Lex Barlowe, a 2014 fellow.[6] Fossil Free has spread to more than five hundred campuses and institutions globally, thanks to the work of volunteer organizers.

Anyone who works at a nonprofit knows it's tempting to equate impact with growing supporter numbers. But, isn't going deep with volunteers who will lead with us and for us just as important? If NGOs are going to build stronger, distributed networks more quickly, Han, Smith, and Goldstein agree, NGOs will need to blend web-based movement-building techniques with a deep commitment to training and nurturing volunteers. That's their NGO growth hack.

Questions that will help you to explore the roles and the potential roles of volunteers in your organization [7]

Reflections on volunteer coaching

1. How does your organization coach volunteers?
2. Is there a partner or foundation that could provide resources for leveling up volunteers?
3. How could a fellowship model work in your organization?
4. Which "on-the-job" skills can you teach to volunteers who will practice them immediately in the real world?
5. Who on staff—if anyone—focuses on your volunteers' health, happiness, and success?
6. Is there an existing training model you can tap into without having to develop your own coaching curriculum?

Reflections on volunteer contributions and performance

1. Do volunteer leaders contribute to strategy at your organization? How?
2. Does your organization back away from giving volunteers mission-critical work and holding them accountable for outcomes? Why?
3. Aside from number of volunteer hours, what metrics do you use to track volunteer performance? For example, how does their work contribute to the mission? Does the work add to your volunteers' sense of well-being, contribution, and place in society?
4. What steps can you take to support personal successes for your volunteers?

Reflections on blending mobilizing and organizing

1. Does your organization rely on a mobilizing model, an organizing model, or both?
2. What opportunities are there for you to go deep with volunteers? How could they support the mobilizing work you're already doing?
3. Alternatively, how well are you able to mobilize members, to create opportunities for involvement that match interests that people already have?
4. What would a lightweight, agile experiment with mobilizing or organizing look like for your organization?

Reflections on creating remarkable volunteer experiences

1. What do volunteers look forward to most when working with your organization?
2. How can you make volunteering a remarkable experience?
3. What new or unique experiences can volunteers expect when they work with your organization?
4. Do you back away from asking volunteers to make big commitments—emotionally and/or logistically?
5. In what ways can you explore and support your volunteers' interests rather than simply expecting them to support yours?

Notes

1. Julie Szabo and Darren Barefoot, *Beyond the First Click: How Today's Volunteers Build Power for Movements and NGOs* (Amsterdam, San Francisco, and Burnaby, BC: Mobilisation Lab, Change.org, and Capulet, December 17, 2016).
2. Interview with Hahrie Han, by Mobilisation Lab, December 15, 2016, soundcloud.com/user-926123477/interview-with-author-hahrie-han.
3. This and subsequent quotes are from interviews by the author unless otherwise noted.
4. Becky Bond and Zack Exley, "The Revolution Will Not Be Staffed: How Big Organizing Can Take Down Trump," *The Nation*, November 30, 2016, www.thenation.com/article/the-revolution-will-not-be-staffed-how-big-organizing-can-take-down-trump/.
5. Szabo and Barefoot, *Beyond the First Click*.
6. Ibid.
7. These "reflections" were taken from Szabo and Barefoot, *Beyond the First Click*; they have been lightly edited for this publication.

Julie Szabo is codirector of Capulet, an organization that makes Remarkables—high-impact digital marketing campaigns that attract attention and get people fired up about causes and organizations that are making positive change in the world.

NPQ wishes to thank our Annual Fund 2016 donors, without whom we would not exist.

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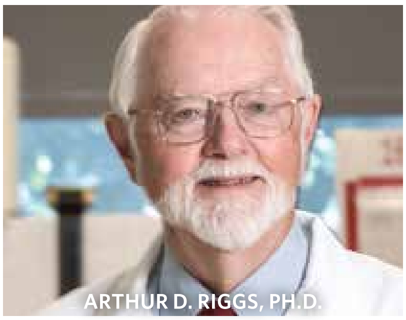

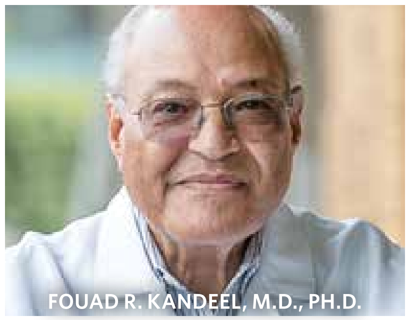

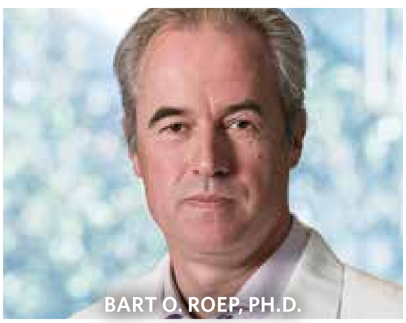

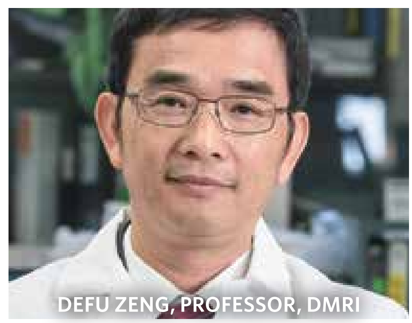

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