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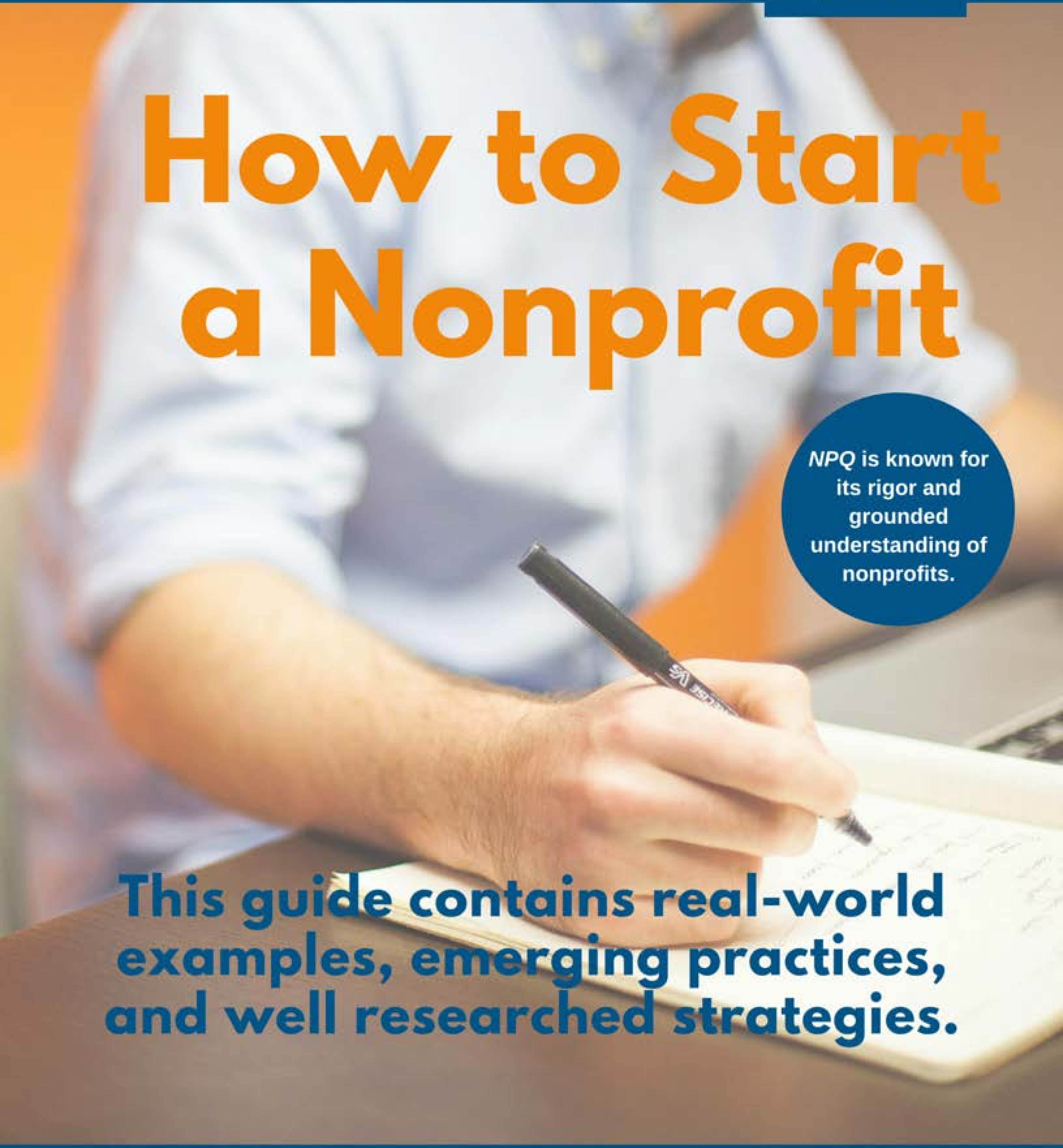

How to Start a Nonprofit

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NPQ

Innovative thinking for the nonprofit sector

To 501(c)(3) or Not to 501(c)(3): Is That the Question?

by Frances Kunreuther

In the 1980s, I was part of a group of staffers from youth and AIDS programs that met every month to discuss our concerns about the growing epidemic and what it meant for adolescents. We included youth workers and medical teams and funders and shelter workers and early AIDS service providers. What we all had in common was an understanding that young people were having unprotected sexual relationships, often with older partners, and we were scared. Each month, 20 to 30 people came to share information, develop educational programs, talk about raising awareness and listen to presentations on epidemiology and behavior. And then we decided to write a grant for funding, raising the question—should we become a 501(c)(3)?[1]

How many of us have been in this position? We voluntarily come together to make something happen—address a crisis, take action on an issue, share some mutual interests—when someone pops the question. Do we want to found a formal organization? When we asked that question in our AIDS group, I am not sure we really thought about it too long. We felt that formalizing our work was a natural progression, a law of nature for how organizations in the nonprofit world develop.

Now that wisdom is being challenged. Not everyone is quick to believe that formal nonprofits are the right choice. More important, many are raising concerns that a 501(c)(3) status is the *wrong* choice for some groups. Two years ago, the Building Movement into the Nonprofit Sector project held meetings around the country with leaders of social change organizations. We were surprised to find that in each meeting there was a story—or two—about why groups might want to stop and consider whether they really want or need to become an independent incorporated organization.

[M]any [nonprofits] are raising concerns that a 501(c)(3) status is the wrong choice for some groups.

Should volunteer-driven groups incorporate? Will they ruin their character and work once a legal structure has been imposed? We know that many groups choose to become 501(c)(3)s and go on to provide important and constructive contributions. These organizations take on many different characteristics—in style, form, function, issue area, involvement of citizens and volunteers and even in the type of incorporation status they choose to take. Yet, it is still worth listening to what all the fuss is about, so that whether or not they decide to become incorporated, groups have thought through the pros and cons of their

Frances Kunreuther is the director of the Building Movement into the Nonprofit Sector Project, housed at Demos.

“We found our best, most militant, most politically aware, most mission-oriented leaders, when they moved to the board and we became a 501(c)(3), then became involved in the intricacies of running a corporation.

decision. Because of all the benefits attached to being a formal organization, many volunteer groups are still likely to incorporate. But organizations must first grapple with the tough question of whether a more formal structure fundamentally moves the work of the organization forward, and at what cost.

What's the Problem?

There are three concerns about incorporation: (1) the potential impact on the involvement and energy of the organization's key people; (2) the risk that incorporation will shift the group's focus from its mission to organizational survival; and (3) the constraints implicit in forming a corporation, registering with the state and becoming accountable to the government.

Involvement and Energy

Nonprofit groups were once viewed as sites for creating a vibrant citizenry engaged in public life. However, those attending our meetings questioned this assumption. They believed—or feared—that the process of incorporating depleted rather than enhanced voluntary participation.

In Denver, one person talked about the power and energy she felt in a volunteer organization where 150 women and men showed up each month to address the issue of violence. But when the group decided to become a nonprofit organization, everything changed. She explained, “The more structure that was placed on the group, the more people fell away because there was no place for them to engage in the direction or the meaning of the organization; no place for them to give of their talent and their passion.”

Incorporating for Funds

One motivation for groups to incorporate is to receive funds from foundations or donors. Funding was a way to address burnout of volunteer staff and to ramp up the group's work. Once the money came in, though, some groups found that it created other problems.

At the Atlanta meeting, a participant explained how her group had operated for years with outside funding: “We funded everything: attorney's fees, copying, office, all of that stuff.” Receiving grants expanded the work of the organization but narrowed it in unexpected ways. She says, “It's like being between a very big rock and a very hard place, because we can do the work a little easier because we're not having to kill ourselves. But the level of work that we're doing is not what it used to be because so much of our time goes into fundraising.”

Several people worried that funding—whether a group is incorporated or not—can turn the group's focus toward what funders want or expect and away from the original mission. Our Atlanta participant noted this impact as well, stating, “We have looked very hard at how the nature of our work has changed since we began to seek outside funding. Are we less aggressive now than we were when we financially controlled and supported our own agenda? . . . Are there things that [we] would have done before that we won't do now, because viewed by the funding world it may be a little over the top?”

Nonprofits and the State

Those working toward progressive social change expressed considerable concern about whether the incorporation process itself had an impact on groups' ability to seek deeper systemic change. One person whose organization deliberately decided against incorporating explained that they had considered becoming a 501(c)(3) to gain resources. He explains, “We decided that no, that's a barrier in itself . . . with that, your hands are tied.” Others talked about how they housed unincorporated groups in their organizations to support their independent work. Still others talked about the early social movement theorists who cautioned that building organizations would undermine movements for fundamental social change.[2] Why did all these people worry about becoming a 501(c)(3)? As one New York City participant noted: “We found our best, most militant, most politically aware, most mission-oriented leaders, when they moved to the board and we became a 501(c)(3), then became involved in the intricacies of running a corporation. So one of the things we found was that the people who were leading the movement . . . were now involved in developing personnel policies, developing bylaws, looking at financial statements, transferring funds to a CD . . . and were not involved in any kind of the fun, action-oriented, political pieces."

How to Decide

Has incorporation ruined the vitality and spirit of the nonprofit sector? Is it preventing groups from speaking up about the issues they care about or curtailing their action? Many of the people we talked with worked in incorporated nonprofit groups. But they wanted to raise the question of what it means to decide to formally join the nonprofit sector. In assessing their options, groups should ask themselves the following questions:

Why are we thinking about incorporating? What will it bring us and what are the costs?

- Who is driving the decision to become a 501(c)(3)?
- What impact will it have on those of us currently involved?
- What impact will it have on our other constituents?
- How will it advance our mission and vision?

Is incorporating tied to raising funds?

- Do we have to incorporate to receive the funds we need?
- Can we become a project of a group already incorporated, such as a fiscal sponsor, rather than obtaining our own 501(c)(3)?
- How will funding affect our work?

What sort of voice do we have collectively and how will a 501(c)(3) status affect that voice?

- Will we still speak out once we are a formal organization?
- Is becoming an organization supporting our current structure and operation?
- How do we express ourselves now and what will change?

Conclusion

Not every group has to become a 501(c)(3). At the same time, not every 501(c)(3) has to look and act the same. The passion to achieve the mission does not have to end with incorporation, but the organization may need to create new structures for channeling the fervor that initially brought people together. In our meetings we heard from groups that had incorporated that found amazing and creative ways to address some of the concerns raised above. They took specific steps to nurture the continuing commitment and energy of the original volunteer activists. They asked themselves regularly if they were remaining true to their mission and created innovative strategies for staying on track.

Organizations that incorporate must consider how funding can enhance or limit the mission and achievement of their vision. Funding solves some problems and creates others, so a key challenge is for incorporated organizations to mitigate the negative effects of funding and remain conscious of choosing work based on connection to mission, not availability of resources.

Finally, one participant pointed out that the regulations that come with incorporation can cut both ways: they can inhibit groups but they can also ensure that groups are accountable to their mission and bylaws. Incorporation is also a vehicle to capture foundation and government funds and use them for purposes that neither the public sector nor the for-profit sector would normally support. Incorporated organizations have a status and legitimacy that those in other institutions of power recognize and reckon with.

The decision about whether to incorporate is fundamental. Rather than assuming that incorporation is necessary, groups—and those who advise them—face the challenge of making a thorough and conscious decision about incorporation while being attentive to maintaining the vitality of the vision and mission of the work. So, to 501(c)(3) or not to 501(c)(3), that is an important question.

The passion to achieve the mission does not have to end with incorporation, but the organization may need to create new structures for channeling the fervor that initially brought people together.

Boards and Leadership Hires: How to Get It Right

by Deborah Linnell

How a board handles a leadership transition can have powerful and long-lasting effects. This article discusses how the board's handling of this pivotal moment can result in long-lasting problems—and what your board can do to get it right.

Consider this example. For three years, the board of an organization that promotes volunteerism has struggled with a lack of faith in its executive director. The mild-mannered director lacks personal energy and functions as a coordinator rather than as a manager. His leadership style creates a loss in momentum, although the organization's rates of volunteer participation are high. Made up of young professionals, the board has let its frustration build, prompting this executive to intuit that he has not met expectations and resign. The board decides it needs a real go-getter who will focus on fundraising, and it gets what it wants: a motivated, former junior staff consultant at a for-profit firm serving nonprofits, who drives ahead without consulting others. In fact, she often appears annoyed when others voice their opinions. Staff begins to filter out.

Always involved in setting the organization's agenda, the board soon realizes that it has made a mistake. The problem is, its members have spent valuable social capital in promoting the new director as organizational savior. The director leaves within the year and the organization—now significantly weakened and disheartened—is consolidated into another. How do such things happen?

Board Perceptions Inaccurate

By design, boards are often disengaged from the day-to-day work of an organization. This detachment means that boards do not understand an organization's cultural dynamics as its staff members do, and this lack of understanding can prompt a board to develop uninformed beliefs and make poor decisions based on those beliefs. In the above example, the board developed a narrative about its executive director but failed to recognize that the director's role as a coordinator encouraged the organization's numerous volunteers to step up and get involved in core functions. The new executive was given a "charge" by the board to take greater "executive" leadership, and her approach ultimately stripped the organization of what kept it alive during times of struggle.

Anyone who spends a lot of time in nonprofit environments has seen a hundred variations on

Always involved in setting the organization's agenda, the board soon realizes that it has made a mistake.

Deborah Linnell is the director of programs at Third Sector New England.

Nonprofit Governance as Adaptive, Not Prescriptive

For several decades, nonprofit boards have adopted a prescriptive approach to governance. But given the variety and dynamism of nonprofit organizations, some of these prescriptions do not make sense. A primary consideration for recruiting board members should be their passion for organizational mission. Organizations should convince attorneys, accountants, and other experts to volunteer their time as needed. They should also create a fundraising committee that is not board-centric. Those who govern should focus on stewardship of the mission on behalf of the constituents in whose name the nonprofit holds its tax-exempt status.

This kind of stewardship requires ongoing learning—about the organization, its culture, the field in which it works, the field's history and evolution, and the systems affecting constituents and the organization. It means adapting communication vehicles for this kind of ongoing learning and, most important, not relying only on the executive director to interpret the organization's current situation. This requires attracting board members who are system thinkers rather than bean counters and who can hold current reality and future vision in their minds while also aligning with the best elements of the organizational culture. This requires a different kind of recruitment, orientation, and ongoing management of governance and a deconstruction of the sacred-cow notion that board members should talk only with the executive director.

How Boards Can Get It Right

While the belief system of a board is developed upstream of an organizational transition, it flows down into the organization as a product of the hiring process. If boards want to do an excellent job at this powerful moment, they should take certain steps before a leader departs as well as once a leader decides to leave an organization.

Boards should take these actions before a leader declares readiness to leave:

- Board members should be recruited primarily for their commitment to the mission over skills, connections, or other characteristics.
- On occasion, have board members "intern" by taking part in the organization's core work so that they can familiarize themselves with the way the organization really functions.
- Create board/staff/stakeholder committees so that the board is integrated into organizational culture.
- Research nonprofit life cycles so that the board understands some of the reasons for an organization's behavior.
- Ensure that the organization has depth or bench strength to prevent overdependence on a single leader.
- Solicit information formally and informally and listen to constituents, clients, community members, staff, and funders; ask them to tell the truth. If an executive director is in continuous friction with any or all of these parties, he does not understand leadership, and the board should act to move this person out for the health of the organization.

Boards should take these actions once a leader declares readiness to leave:

- Do an early exit interview to get perspective on an outgoing leader's belief systems; style; and experience with board, staff, and other stakeholders.
- Assess the organization—its position in the field, its financial state, its relationships with stakeholders, its culture—any chronic problems and strengths, and lay out a list of desired characteristics for a new director. It is almost always better for an external party to do this evaluation, but take the time to challenge your own assumptions about what the organization needs. Leadership transition consultants may be the best external candidates for this role.
- Create a position profile for the new executive based on internal and external assessments and a consideration of the organization's needs relative to its life cycle over the next five to seven years.
- Involve the staff and, where appropriate, other stakeholders in hiring the new director.
- Create a set of interview questions that identify the leadership qualities that promote a healthy organizational culture and ensure that regardless of the skill or experience of a new hire these qualities remain "the essentials" for executive leadership.

this theme. The board sincerely believes that it has taken the organization "in hand" even while it eliminates some of its most useful assets. Even if a board listens carefully to an executive director, it may get a distorted view of what an organization needs. For instance, a board may "know" from the organization's executive director that the staff underperforms. But does it also know that keeping your head down and "covering your butt" are the order of the day? Seeing the production problem as the result of recalcitrant staff takes you someplace quite different from seeing the problem as a combination of these problems: a lack of distributed accountability, a fear of stepping out to make suggestions, and the absence of a passionate shared sense of mission. Many boards get stuck on a superficial characterization of the state of an organization that falls short of real understanding.

Disconnection becomes particularly acute when board members make assumptions based on a narcissistic attachment to their own knowledge and experience. Some board members join a board with a "deficit attitude" and assume that nonprofits do not understand how to operate well and that they need a more business-like approach. Boards are attracted to such people for three reasons: (1) boards believe it is best to recruit members from a short menu of professions, such as human resources, accounting, marketing, and law; (2) boards want members who can build a bridge to the money; and (3) boards tend to reproduce themselves, recruiting like-minded people to replace retiring members. But if these board recruits have little knowledge of an organization's history, context, or constituents and only the vaguest understanding of its programs, their conversations revolve only around what they know.

These misconceptions are not the fault of individual board members, whose orientation often does not require them to "live" in the organization's core work for a day or two. Some consultants and executives, in fact, frown upon "normalizing" board members (i.e., having them take part in an organization's day-to-day life), but the likelihood of board-staff misalignment increases when dialogue between board and staff members is discouraged. Lack of board-staff connection often occurs and is justified out of a fear of "inappropriate communication" between the bodies. The underlying thinking smacks of a fear of transparency and of a rigid organizational hierarchy that blocks board members' understanding and can make board members truly dangerous in the hiring process.

Defaulting to Individual Style

Over the course of three years, a large animal rescue league had two "unintentional interim" leaders after the founding director departed. The first was inexperienced and took all her direction from an overly involved board president who in essence ran the organization. Her inexperience caught up with her, however; the board of directors turned on the officious board president, and she was terminated. Another interim was hired who was extremely harsh on staff to the point of being disrespectful. The organization's reputation was in tatters; staff and all-important volunteers were demoralized and left in droves; and the board supported the inappropriate interim, believing that standing behind the executive director was its role.

By threatening a union drive, the remaining staff forced the question and ousted the inappropriate interim. The organization lucked out with its next interim, who eventually became the executive director. He believed in supporting staff to become critical thinkers and reflective practitioners and asked for their opinions about everything. He also believed in stakeholder involvement and constituent voice and continuously surveyed for feedback on the organization's performance relative to its mission. In less than two years, the organization's operations had turned around completely.

But the executive director neglected one critical area: recruitment of board members who would align with the healthy culture he had built. Because he was a capable leader, he managed the board by producing excellence, good reports, good results, a good reputation for the organization, a rebuilt funding capacity, and even program innovation. But because of his lack of time, interest, or belief in the influence of the board of directors, he did not change board membership much. He did not ask board members to do what they had been required to do in the past: to volunteer for at least six months in the animal shelter learning the ins and outs of the business, getting to know staff and volunteers, and deeply understanding the culture of animal rescue work.

After seven years, the director decided to leave. He presented the board with materials on executive transitions, but board members decided to conduct the hiring process themselves. The next director they hired had an excellent fundraising résumé in a different field (social services) and had some experience as an executive director of a local affiliate of a national organization that

Disconnection becomes particularly acute when board members make assumptions based on a narcissistic attachment to their own knowledge and experience.

Leadership That Promotes a Healthy Nonprofit Culture

While no leader is perfect, an effective leader maintains the essential qualities of a healthy organizational culture: that is, being purpose driven, transparent, and accountable; having a commitment to ongoing learning with and on behalf of constituents; and having sound management. These leaders can do the following and facilitate others to do so as well:

- *Partnership building.* Leaders who partner with and inspire the groups who make up the system to move together are able to leverage capacity toward achieving mission and vision.
- *Continuous learning.* These leaders actively seek constructive feedback to enhance leadership and professional skills and incorporate diverse opinions.
- *Analysis and synthesis.* Such leaders also analyze and synthesize historic and current patterns and systems affecting constituents or creating barriers to change. Recently popularized as "right-brain thinking," this approach enables leaders to see the interrelatedness of events and understand the impact of the community and constituents on the organization. Smart leaders enlist multiple perspectives to understand the current situation—its merits, flaws, and areas for change.
- *Whole-systems thinking.* These leaders understand that they are part of the system and organizational culture, not outside of it. Executive directors and board members often mistakenly believe that they are in charge. They can influence a system through their decisions, but those who make up the system affect it as well. Since no individual controls the organization, its members are in a continuous dance of influence with one another. Good leaders understand this and facilitate a mutuality of purpose and identify management disciplines that are most effective rather than exert individual mandates.
- *"Authentic" communication.* These leaders communicate authentically from their true selves and do so transparently with all stakeholders. Healthy, self-aware leaders who can communicate clearly and honestly enable organizational cultures to thrive. This means respecting confidence and boundaries, not hiding behind excuses like "The auditor says," or by "gatekeeping" information from staff, constituents, and, yes, the board.
- *Understanding of cultural dynamics.* These leaders understand the dynamics of the dominant culture within the organization (and the systems in which an organization exists) and its impact on diversity and the inclusion of people, ideas, activities, and community impact.
- *Effective management.* Finally, these leaders manage well. They ensure that finance, fund development, human resources, and facilities management are attended to and done well. Many good leaders have the various skills listed above but are undone by an inability to accomplish and delegate important management functions in a timely, well-organized way.

had required a good deal of responsibility on the ground. But despite these experiences, the director came in and led hierarchically. Staff and volunteers who were used to a culture in which they were respected and their opinions were heard and most often acted upon, bristled under the directiveness of the new executive. Within a year, the director had undone the vibrant culture built by her predecessor over the prior seven years—and with the blessing of the board of directors, which had always been slightly suspicious of the former director's facilitative, f attery-based style of leadership but never questioned it given the unprecedented success of the organization under his leadership.

In a matter of months, a healthy organization became unhealthy. The former executive could have helped the organization he worked so hard to rebuild with one small point of leverage: by developing a board of directors aligned with the culture of the organization he had built. If he had done so, the board would have understood that it would take a particular kind of leader to build on the success of the previous executive. And it might have prevented a new executive from managing based on her own dictates and without consideration for the organization's past, the field in which the organization was situated, or for staff, volunteer, and community needs. Four years later, this organization has lost more than 50 percent of its staff, and its reputation is once again suffering with funders and community partners.

In these situations, line staff members are often excluded from the process of selecting a new executive director. The expectation is that a new boss will "manage" staff, and boards fear self-interest will taint such participation.[1] But boards ignore an important perspective when they do so, since line staff tends to embody the culture of the organization. Rather than taking the time to hire a candidate who is a good match for the culture of an organization (someone capable of asking, "Does the organization need to be nudged in a new direction, or does it need its best characteristics reinforced?"), boards often hire a manager and allow him to manage in whatever way he wants—as if management style were value-neutral.

Management Trumps Leadership

For years, boards have hired for management skills over leadership skills. This trend has increasingly placed a premium on the ability to manage finances and fundraise over competencies that ref ect whole-systems thinking, such as the ability to build shared vision and facilitate the ongoing engagement of multiple stakeholders toward that vision. Management skills are important, of course, but they aren't the drivers of true "nonprofit excellence."

Still, hiring primarily for management skills is understandable. Many nonprofits have trouble finding a visionary leader and a supermanager in the same person. And when organizations move from the first, or "family," stage to the second, or "improving management systems," stage, a board often defaults to management attributes simply because it has experienced the fallout of inadequate financial or human resource systems. Again, this focus is not necessarily wrong in the moment, but it may stall the organization for years to come by assuming that the preponderance of needs now (concerning policies and procedures, for instance) will remain the same over the next five or 10 years. Boards tend to hire based on their problems with a departing executive director. As a result, they often rush into the hiring process to "fix" those issues rather than take the time to ref ect on where the organization is now, where it is going, and how to find the best leadership fit for the future.

When boards do not recognize problems as being related to a stage of development—and in particular, when an organization is making the transition from the first to the second stage—it can make common mistakes with predictable outcomes. For instance, if a board overcorrects and hires a rigid and controlling director, the organization's staff, members, or constituents may revolt, spit out the newcomer, and return to the first stage.

Or if a board hires an operations person without strong leadership capacity, the organization may wander forward slowly without recognizing it has lost its potential for inf uence and excellence. Too many boards are satisfied with well-managed nonprofits and fail to question whether an organization has optimized its mission or validated its strategies through close engagement and work with constituents—even if the effort means the organization must reinvent itself to do so.

Risk-Averse Managers as Board Proxy

Boards may hire risk-averse executives in reaction to a visionary but unstructured leader. Boards who see themselves as protecting an institution's integrity often place a premium on financial and organizational stability over, say, fighting the good fight with the powers that be about an unpopular issue. Risk-averse hiring may also result in community institutions that feel more bound by their grants and contracts than by those they serve. In the end, this approach limits an organization's appetite for organizing, advocacy, and innovation and diminishes its focus on community impact in favor of institutional security.

Ideally, board, staff, and other stakeholders weigh risk taking and risk management and tip the scales in favor of constituents' best interests. This sometimes requires a willingness to choose the less secure path, but that choice becomes nearly impossible if a board hires a director who is more interested in compliance or the organization's image with corporate funders than in doing what is right on behalf of constituents.

Leaders in Board's Own Image

If a board ignores its organization's constituents and its staff's requirements of a leader, the hiring of a new executive can create a disconnect that rocks organizational culture. The mutual reinforcement of board members and executive directors concerning management style, choice of programmatic strategies, race, gender, and class creates a closed loop of people with the same attitudes, mental models, reference points, and blind spots. If they do not have a strong discipline of inquiry, a desire to challenge the status quo, and an ingrained curiosity about how best to serve constituents, this closed-loop system can't align with the community it serves and organizational culture fractures. Soon, it becomes a requirement to "gatekeep" ideas and approaches that diverge from the norm and to support the board's and the director's perspective—even if this perspective runs counter to the truth. Creative disruption is neither understood nor welcome.

If a board ignores its organization's constituents and its staff's requirements of a leader, the hiring of a new executive can create a disconnect that rocks organizational culture.

Resource Wise:
How Some Nonprofits Perform above Their Budget Grade

by Jon Pratt and Ruth McCambridge

The *Nonprofit Quarterly* invited readers to describe ways in which they were able to cut costs within their organizations while also improving upon their work, and anchored the responses to the Statement of Functions page of the Form 990 that all nonprofits must complete for the IRS. This special insert includes a blank form that you can use to explore your own cost-saving opportunities.

POLITICAL AND CULTURAL COMMENTATOR David Brooks is fond of saying that wisdom lies not in knowledge but in knowing how to work with one's own limitations. This applies also to organizations. Jody Williams, who won the Nobel Peace Prize in 1997 for her work with the International Campaign to Ban Landmines (ICBL), once described her use of a fax machine (which at the time was a recent technology) and telephone to help coordinate an international network of NGOs. As reported by Tavaana:

> They found that mail did not evoke a sense of urgency, whereas the fax machine, at the time a new and exciting technology, was considered harder to ignore. The ICBL also tried to set up as many face-to-face meetings as possible in order to foster close personal relationships with global leaders. Williams credits the personal relationships between the ICBL and governments for the success of the Mine Ban Treaty.
>
> The journey of the ICBL illustrates that with determination, careful strategy and strategic allies, an activist movement can accomplish great things. "It's breathtaking what you can do when you set a goal and put all your energy into it," Williams told the *Christian Science Monitor* in 1997. "I think you have to believe you're right. You say, 'This is what we're going to achieve, and this is how we're going to do it.' And if people get upset about it, tough."[1]

The above is an example of an organization that was far larger in impact than its budget would have you imagine. Williams also wrote that the effort purposely kept bureaucracy to a minimum:

> A core strength of the Campaign, which still seems ill-understood by many, has always been its loose structure. The ICBL is a true coalition made up of independent NGOs. There has been no secretariat. No central office. The NGOs that make up the ICBL have been joined together through their common goal of banning landmines, but there has never been an overarching, bureaucratic

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Nonprofits have a unique characteristic that has allowed some groups to produce far more than their annual budgets might suggest: the capacity to attract energy and resources far beyond what available cash might allow.

> campaign structure that could dictate to the members how they should best strive to contribute to the goal—or that member organizations could expect to do the critical work of the campaign for them. The ICBL was deliberate in not establishing a central office; each NGO had to find a way to participate in making the campaign work. This structure helped to insure that the ICBL ‘belongs’ to all of its members and that these members would have to be active in the process to achieve the campaign’s goals.
>
> Members of the ICBL have always met regularly to develop overall strategies and plan joint actions, but beyond that each NGO and each National Campaign has been free to carry out whichever aspects of the work best fit its individual mandate, political culture and circumstances. ICBL meetings have never been a coming together of “talking heads”—each meeting has resulted in concrete plans of action. And these plans of action were made up of steps that have been believed to be achievable and that would help build and maintain a sense of forward motion and accomplishment in the ban movement.[2]

Williams’s description has always stood out as enormously savvy. She understood that for people to contribute in ways that were generative to the whole campaign, they needed to be drawn into partnership. She understood the central importance of information f ow in that partnership and the need to maintain some looseness in the structure along with a tight focus on purpose. The structure of the campaign was brilliant and cost-efficient at the same time.

Most nonprofits in this country have minuscule budgets, but that does not mean that their outcomes are necessarily minor. Nonprofits have a unique characteristic that has allowed some groups to produce far more than their annual budgets might suggest: the capacity to attract energy and resources far beyond what available cash might allow. Voluntary partners—individual or institutional or both—expand reach, work product, and inf uence, and keep budgets lean. That does not mean that there is no capital investment in these voluntary capacities but, rather, if they are strategically maximized, one’s financial budget can be used differently for more impact and one’s effort can become more sustainable.

In May 2015, the *Nonprofit Quarterly* invited readers to describe ways in which they not only cut costs but also expanded/improved their work while doing so. The idea was to explore how organizations could reasonably expect to cut costs on the expenditures they make to advance their missions. As responses poured in, we were surprised to see how many were about the wise engagement of volunteers; second to those were about the wise uses of technology. Some things just do not change.

The graphic that appears on the other side of this insert builds off of the Statement of Functional Expenses page of the IRS Form 990, where nonprofits are required to report their expenditures in a list of twenty-four categories. We inserted some of our own suggestions (note that we ignored items not relevant to cost-saving strategies); we also anchored to that graphic readers’ responses selected as best exemplifying items from that list.

Finally, we included a clean Form 990 so that you can write in where *you* think you can cut costs. Have at it!

Notes

1. “The International Campaign to Ban Landmines: How One Woman’s Vision Created an International Network,” Tavanna.org, accessed June 6, 2015, tavaana.org/en/content/international-campaign-ban-landmines-how-one-womans-vision-created-international-network#_edn19.

2. Jody Williams, “The International Campaign to Ban Landmines—A Model for Disarmament Initiatives?,” Nobelprize.org, September 3, 1999, www.nobelprize.org/nobel_prizes/peace/laureates/1997/article.html.

Mission-Maximizing Cost Savings

Zacary Smucker-Bryan, Investor Relations and Communications Manager, Working Capital for Community Needs (WCCN): Our online presence has been greatly enhanced by volunteers. Through LinkedIn, I was able to post a volunteer position for free, which was filled by a talented volunteer who helped our organization redesign and launch a mobile-friendly website in WordPress. We used a complete online strategy review with a talented group of MBA students at Johns Hopkins University through www.changetheworld .org. Now we have a profile up with #charity to help us find an SEO volunteer to increase traffic to our website.

In short, we have cut many costs by using online tools that connect volunteers with nonprofits. The two completed projects above (online presence review and website redesign) likely saved us at least $10,000, if not much more. The biggest challenge was learning enough to properly manage a skilled volunteer. If I had just said, "I don't understand this but I know I need help. PLEASE HELP!" I would probably not have been as successful. I spent a lot of time writing the job posting/ project description and doing my research ahead of time so that I could make informed decisions rather than experiencing decision paralysis or leaving the whole direction up to the volunteers. (**Lines 7, 9, and 11**)

Cat Anthony, Operations Director, Sportable: Just a few days ago, there was a piece of equipment that our organization needed. The downside was that it cost $1,000. I called a small business and told the owner how awesome the piece of equipment would be for our organization, and I asked for a discount. The key was being patient over the phone, listening, and f attery. I told him that they would get a small piece in our newsletter (which has 1,500 subscribers), their pamphlets set up on our resource table, an in-kind donation letter, and that his business would be helping impact our athletes. He asked me how much I would be willing to pay. I got the piece of equipment for $200.

Also, we use volunteers and our athletes/participants. Tomorrow we have our big donor mailing, and we have an athlete and his mom coming to stuff and stamp envelopes. Our participants want to support us because they believe in our organization. This weekend, I have an athlete manning our marketing table at an event. Depending on your organization, participants can also volunteer and give back! (**Lines 7 and 22**)

Ann T. Lisi, President/CEO, Greater Worcester Community Foundation: When our longtime CFO retired, we replaced the role with an independent contractor. The difference in expense is huge! (**Line 11 c**)

Tricia Maddrey Baker, Executive Director, Pitt County Medical Society: When I came on board three years ago, our website was static and unresponsive. Each update, at the fee of $40, was performed by a web designer.

For $1,800, we had a designer construct a WordPress site, where we have full access to update and refresh weekly. In addition, we added a "Find a Physician" page for the public. As time passed, we added more pages and tabs as the needs grew and changed. The designer took the antiquated logo and refreshed it, sending us several versions of the same image to use in a variety of functions. When we needed website changes that required fresh code, including the advertising ad/links and making the site mobile friendly, the designer was able to complete these changes economically. Even with the subsequent small charges, the cost was less than the $3,200 that had been estimated by the previous web designer for just a basic site.

Using a WordPress site means that designated administrators can make continuous updates and changes. To keep the site fresh in the search algorithms, we add or change something on the site at least weekly. There are easy-to-use blogging plug-ins available through WordPress, too, so that blogs can become part of the wraparound social-media strategy.

A little time after creating the social-media strategy, the "hits" on the website increased more than sixfold! The activity remains high on the website, which has a seasonal variation. Social media activity, including Facebook, Google+, and LinkedIn drives more attention to the website, as well. I learned how to perform those duties through several no-cost webinars, one of which I still attend weekly because the field continues to evolve. (**Lines 11 and 12**)

David A. Scholl, Executive Director, V.O.I.C.E., Inc. of Michigan: We are a small (annual revenue just under $1 million), Michigan-based nonprofit providing American Sign Language interpreting services for deaf individuals and in-home care for individuals with disabilities.

The problem we encountered was our lack of resources (qualified interpreters) to cover the areas from which we have seen an increase in request for services. Our solution was to introduce technology in the form of video remote interpreting (VRI).

In VRI, the deaf individual and the hearing individual—such as a medical professional—with whom he or she is interacting are in the same location, and the interpreter is either in our office or working from a remote location (such as a private office space in his or her home) and is providing the services via Internet connection. With no expensive hardware or software programs required, we were able to roll out this service and even reduce the costs incurred by the parties using our services! (**Line 7**)

Tony Silbert, President, Silbert Consulting Services, Inc., and Chair of the Board, The Harmony Project: We are a youth development program centered around music education in disadvantaged communities. When we started, in 2001, we offered private music lessons (violin, f ute, etc.) almost exclusively. Early on, we determined that sustaining program quality relied on using professional teaching artists (as opposed to volunteers or other less expensive alternatives). Consequently, we very quickly evolved to offering group lessons in addition to private ones. This was not only economically essential—it also offered advantages in terms of developing intergroup dynamics, leadership, shared responsibility, and more. (It should be noted that all of our services are provided tuition free to children and youth from low-income families.)

Our real breakthrough came many years later. We had developed a robust program of private and group lessons, ensembles, performances, juries, enrichment opportunities, parent support, and linkages to social services, etc., for close to one thousand students. While we were limiting private lessons to the highest echelon of students, we were growing so fast that this component of the program was unsustainable (plus the recession was hitting and we were concerned about making our budget). In response, rather than cutting back we created a peer mentor program whereby our most advanced students received private lessons (or "semiprivate," with one other advanced student); but in order to receive them they had to teach two younger students. Not only did this multiply the number of students getting private lessons exponentially—at almost no cost—it also created incredible leadership development opportunities for our advanced students. The private lessons included training and guidance on how to teach others—and, as everyone knows, nothing accelerates your own learning like teaching. In addition, it brought to life an institutional culture of giving back among our students. They now understand that advancing creates great opportunities but also carries great responsibility. It was truly a win-win-win—saving our budget, improving our program, and catalyzing an enhanced organizational culture.

We take great pride in this response to our budget crisis. We realized the power and value of our service recipients and channeled it back into the organization. (**Line 7**)

Rebecca S. Gaylor, CEO of Active Money Management, Inc.:

- Program redesign. We have a focus on real program results with an operations manager giving a monthly report that includes agencies serviced as well as volunteers used for those results.
- New uses of technology. We have a board member who has set up a customer relationship management (CRM) system so that all involved can access and update contract information to expand our tracking of relationships overall.
- Different deployment of staff and/or volunteers. After over twenty-five years and only one full-time employee, we have set up a part-time employee whose title is "Relationship Manager" and who is reaching out to businesses to create new and additional "raving fans" for our program mission. A part of this has involved becoming a member of the Scottsdale Area Chamber of Commerce, where relationships are getting strengthened, too. For the past couple of years, our relationship with the Phoenix Suns and Mercury has become a nice addition to the efforts of getting more throughout the Valley of the Sun to become aware of [our affiliate] Shoebox Ministry. (**Line 7**)

Form 990 (2014) Page **10**

Part IX Statement of Functional Expenses

Section 501(c)(3) and 501(c)(4) organizations must complete all columns. All other organizations must complete column (A).

Check if Schedule O contains a response or note to any line in this Part IX . . . . ☐

	Do not include amounts reported on lines 6b, 7b, 8b, 9b, and 10b of Part VIII.	(A) Total expenses	(B) Program service expenses	(C) Management and general expenses	(D) Fundraising expenses
1	Grants and other assistance to domestic organizations and domestic governments. See Part IV, line 21				
2	Grants and other assistance to domestic individuals. See Part IV, line 22				
3	Grants and other assistance to foreign organizations, foreign governments, and foreign individuals. See Part IV, lines 15 and 16				
4	Benefits paid to or for members				
5	Compensation of current officers, directors, trustees, and key employees				
6	Compensation not included above, to disqualified persons (as defined under section 4958(f)(1)) and persons described in section 4958(c)(3)(B)				
7	Other salaries and wages				
8	Pension plan accruals and contributions (include section 401(k) and 403(b) employer contributions)				
9	Other employee benefits				
10	Payroll taxes				
11	Fees for services (non-employees):				
a	Management				
b	Legal				
c	Accounting				
d	Lobbying				
e	Professional fundraising services. See Part IV, line 17				
f	Investment management fees				
g	Other. (If line 11g amount exceeds 10% of line 25, column (A) amount, list line 11g expenses on Schedule O.)				
12	Advertising and promotion				
13	Office expenses				
14	Information technology				
15	Royalties				
16	Occupancy				
17	Travel				
18	Payments of travel or entertainment expenses for any federal, state, or local public officials				
19	Conferences, conventions, and meetings				
20	Interest				
21	Payments to affiliates				
22	Depreciation, depletion, and amortization				
23	Insurance				
24	Other expenses. Itemize expenses not covered above (List miscellaneous expenses in line 24e. If line 24e amount exceeds 10% of line 25, column (A) amount, list line 24e expenses on Schedule O.)				
a					
b					
c					
d					
e	All other expenses				
25	**Total functional expenses.** Add lines 1 through 24e				
26	**Joint costs.** Complete this line only if the organization reported in column (B) joint costs from a combined educational campaign and fundraising solicitation. Check here ▶ ☐ if following SOP 98-2 (ASC 958-720)				

Form **990** (2014)

Pension plan: Select low-fee provider via RFP process.

Payroll taxes: Average 2.95% of payroll; savings available via workers compensation pool; reimburser status for unemployment compensation (see www.chooseust.org).

Legal: Pro bono often possible for under-$10 million organizations.

Accounting: Opt for non-prime-time audit; RFP to audit firms; also, explore outsourcing services like bookkeeping and accounting.

Lobbying: Can be done in-house more cheaply (professional lobbyists are very expensive)—it is also difficult to evaluate their effectiveness.

Information technology: Free/reduced software via TechSoup.

Occupancy: Average 4.6% of budget; cost savings available via negotiated rent reduction, ownership, and exemption from property tax.

Compensation: Don't pay board members—bad practice.

Other salaries and wages: Don't save by paying less than living wage—there is a moral cost; also, make better use of volunteers, including program participants.

Advertising and promotion: Engage people as ambassadors (online and in community).

Office expenses: Publicize wish list and negotiate prices.

Travel/entertainment expenses: What kind of lousy idea is this?

Interest: Short-term borrowing for cash f ow can be virtually eliminated by having an operating reserve; the window of opportunity for refinancing long-term debt is closing but some organizations might yet be able to benefit.

Depreciation, depletion, and amortization: Negotiate prices on capital expenditures.

Insurance: Casualty/liability averages .69% of organization budget.

How Can *YOU* Save?

Part IX Statement of Functional Expenses

Section 501(c)(3) and 501(c)(4) organizations must complete all columns. All other organizations must complete column (A).

Check if Schedule O contains a response or note to any line in this Part IX . . . . ☐

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Models and Components of a Great Nonprofit Dashboard

by Hilda H. Polanco and Sarah Walker

The process of developing a powerful organizational dashboard should be inclusive and based on strategy, but the metrics should be sparing—with a laser-like focus on the organization's key drivers. And all of the above must be presented on a clear, easy-to-scan platform.

***Editors' note:** This article was adapted from a webinar presented by the* Nonprofit Quarterly *on February 17, 2016. The webinar was led by Hilda Polanco, founder and CEO of FMA, the go-to capacity builder to which foundation and nonprofit leaders turn to address nonprofit financial-management issues. Polanco was a founding member of the selection committee of the New York Nonprofit Excellence Awards, established by the* New York Times *and the Nonprofit Coordinating Committee. When not speaking publicly or leading FMA's team, she provides direct capacity-building, training, and coaching services to foundations and nonprofits across the country.*

NONPROFITS ARE COMPLEX ENTERPRISES. THEY are built around mission and desired outcomes but must be supported by the right revenue and expense models—which together comprise an integrated enterprise model. As an organization's goals, strategy, and operating context shift over time, a dashboard allows a nonprofit to monitor both the effectiveness of this enterprise or business model, as evidenced by the organization's financial health, and the impact of the programs and services being provided.

Ideally, dashboards are presented quite simply and graphically, so that decision makers can see at a glance whether and where the organization is on the path it has laid out for itself. Dashboards focus the conversation at the board and staff levels, clarifying the goals and strategy of the organization for both groups. Additionally, dashboards can be used with funders and other stakeholders to transparently show progress toward the desired goals.

This article focuses more on the financial component of a dashboard than the programmatic one, and it uses examples from organizations that deliver a relatively more "countable" service than those doing less tangible advocacy work. But the examples demonstrate many of the critical principles involved in dashboard creation, and are a good start to understanding the components of a great dashboard. The aim of this article is to set readers on the path toward creating an effective dashboard or improving one already in use.

HILDA H. POLANCO is founder and CEO of FMA. **SARAH WALKER** is a lead consultant at FMA.

"LET'S GO FOR A DRIVE" BY GLEN FREAR/GLENFREAR.TRIPOD.COM

The Process of Developing a Dashboard

Deciding what data you will track and understanding how that data will influence decision making are two of the most critical points in the process. There is no one-size-fits-all approach to creating a dashboard.

The hard work in developing a dashboard starts with setting a strategy, establishing goals, and defining the associated metrics. This process should involve the board and key staff from across the organization in rigorous, team-based discussions. These discussions should be ongoing, because no dashboard is final. While some baseline metrics, especially financial measures, might be a semipermanent fixture on a dashboard, parts of any dashboard may be experimental. They should illustrate a hypothesis in a form such as, "If we do more of *this*, then we expect *this* outcome as a result." Due to environmental, technological, or market changes, however, formulas that work one way today may function differently tomorrow, and it is important to continue to question, evaluate, and reset not only goals and strategy but also the metrics being used to measure success.

A dashboard must do the following:

- Align definitions of success across the organization;
- Encourage dialogue about progress toward goals;
- Facilitate timely identification of successes and challenges;
- Ground decisions in concrete data and evidence; and
- Illuminate relationships between different activities.

Successful dashboards also do the following:

- Effectively communicate strategic-level results;
- Present data in a user-friendly visual format;
- Create a snapshot of current status as well as trends over time;
- Clearly show performance against defined targets;
- Highlight out-of-the-ordinary results; and
- Include a manageable set of key performance indicators (KPIs).

Selecting the Dashboard Elements

Deciding what data you will track and understanding how that data will influence decision making are two of the most critical points in the process. There is no one-size-fits-all approach to creating a dashboard, though much can be learned by looking at other dashboards in (and also outside) your field of practice. One key question to clarify as you begin the dashboard design process is whether the dashboard will track metrics at an enterprise level or just for a particular program or function. Another question is that of audience: Will this be a reporting tool for your board, staff members, or funders—or some combination of the above?

As you begin to define what to measure, one of the issues to consider is interrelationships between data points. If you thought, for instance, that controlling staff turnover would improve the way patients experience service at your health clinic while at the same time lowering human resources costs, how would you test this idea? Your goals may be to control costs and provide better service and patient outcomes in some kind of measurable way, but first it is important to test your hypotheses about how one thing affects another. Dashboards can help you to connect the dots through carefully selected metrics. Then again, you may decide on a more independent goal, like developing a particular level of reserves or achieving a proportion of revenue that is unrestricted. These goals are related to financial stability and liquidity, and while there certainly may be some correlation between these goals and overall organizational performance, goals of this nature are less of an "if this, then that" proposition.

What Should We Measure?

The metrics measured on a dashboard are commonly referred to as *key performance indicators*, or KPIs, and should be chosen in a deliberate, thoughtful, and team-based process. KPIs should be identified by means of an understanding of your organization's business-model drivers—on both the expense and the revenue side. Consider each revenue stream and the factors that influence the reliability and predictability of that stream; examine key expense categories and what contributes to the rising or falling of those costs; finally, define the program delivery mechanisms that are influencing results—enrollment levels, quality of patient care, member retention—whatever it is that drives engagement in your program delivery.

At FMA, we often speak to program directors who feel challenged by the fact that they are asked or expected to budget at full capacity, when in fact, historically, they've never reached full enrollment. So, how realistic is that budget?

With this information in hand, select the KPIs that focus the organization on data that will support decision making. Consider whether you need a dashboard that ref ects trends over time or performance against goals—or both.

Successful KPIs do the following:

- Represent business model drivers;
- Ref ect progress toward intended outcomes;
- Guide priorities and decisions ("what gets measured gets done");
- Are limited to a number that can realistically be monitored (the *key* in KPIs is important); and
- Are periodically reassessed (a set of KPIs isn't forever).

Business Model Drivers

Different types of nonprofits have different enterprise models with different drivers for success. In many cases, we can learn a great deal from examining the dynamics of organizations that have drivers similar to our own—sector notwithstanding—but there are times when we will need also to look at the specifics. Over the next few pages, we will look at specific business models to clarify how to identify the drivers in each model and design KPIs relative to those drivers on a dashboard.

Early Childhood Education: Key Driver - Enrollment

We will begin with an organization that provides early childhood education. Whenever you have a fee-for-service delivery model, as in this example, it is important to monitor enrollment levels and the profitability of the programs given those enrollment levels. So, in this case we're going to look at three particular things—we're going to track enrollment; we're going to track the resulting revenue from our enrolled program participants; and we're going to monitor the overall surplus/deficit of the program. The questions we want to focus on as we analyze the results may include: Are we charging the right amount in fees? Are we collecting on those fees? Are we underenrolled? Are our costs low enough for us to generate a profit?

On the following page is a picture of what a dashboard for an early childhood education program might look like. A key thing to note is that, with respect to the year-to-date operating results, we want to look at actuals against budget as well as against past performance. When we compare this year's actuals to these two other data points, we can see right away how the organization is doing against its current plan, and how it is doing compared to last year's performance.

FMA DASHBOARD: EARLY CHILDHOOD EDUCATION

This multiservice organization provides a range of youth-based programs for the community it serves, including an early childhood education program. Revenue for this program is a mix of government contracts and tuition/program fees.

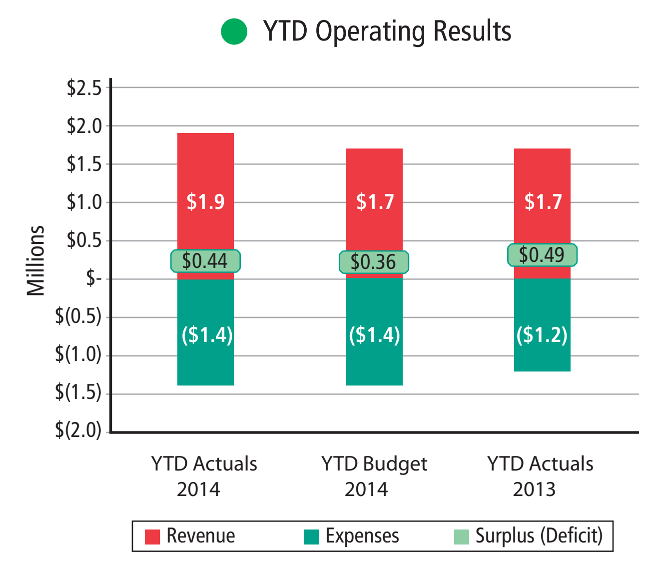
Key Driver: Enrollment Levels

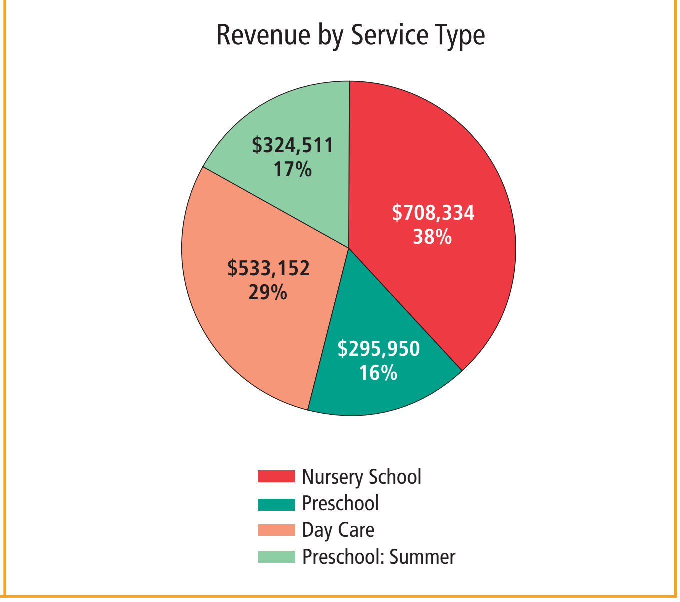
Key Performance Indicators

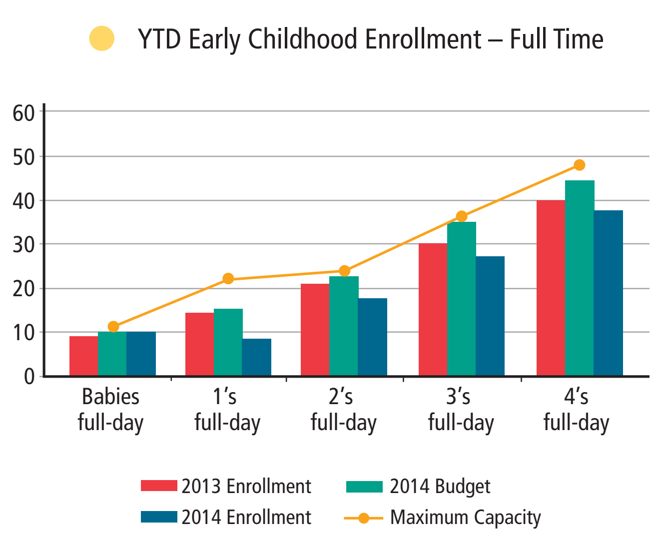
1. Monitor the program's **Operating Surplus (Deficit)**
2. Track **Program Enrollment** and attendance
3. Track revenue from **Program Fees**

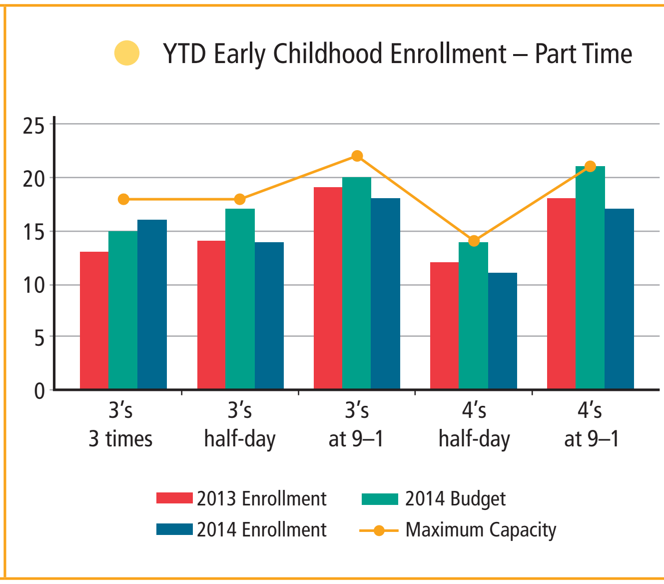
Another key area to highlight is demonstrated in the picture's bottom two charts. These charts address this idea of enrollment, separating out the data between full-time participants and part-time participants. The charts not only give us the enrollment for the past year (what the organization is hoping to accomplish) and where it is as of this point in time, but also make reference to maximum capacity. When it comes to enrollment as a key revenue driver, the question of whether the organization is achieving maximum capacity is an important one. At FMA, we often speak to program directors who feel challenged by the fact that they are asked or expected to budget at full capacity, when in fact, historically, they've never reached full enrollment. So, how realistic is that budget? In contrast, the early education dashboard allows us to see where the organization is really pushing: on the half day, for the four-year-olds, it's budgeting at maximum capacity. It hasn't reached that level in the past, and it's not quite on track to reach it now, but that's where the push is. We can see in other classes that there's an acknowledgment that the organization hasn't reached maximum capacity in the past and is not expecting to reach it this year, either.

EARLY CHILDHOOD EDUCATION









These measures give a sense of how this organization is planning relative to the past, and they emphasize the primary importance of program enrollment as a business driver; the organization will never realize its revenue goals if it doesn't have the individual children in the individual seats at the right pricing. The conversation around this dashboard, therefore, brings program managers into a very deep engagement around the financial outcome of enrollment, and it helps program staff understand the consequences of not reaching the stated goal.

Anyone who has attended an FMA workshop or webinar has heard us talk about months of *l*iquid *u*nrestricted *n*et *a*ssets—or *LUNA*, for short. LUNA is essentially equivalent to the idea of operating reserves.

Community Health Clinic: Key Driver - Liquidity

Community health organizations are another type of direct service provider, and, in the healthcare world, operational efficiency is a very important driver. In this vein, the key things that community health clinics may want to look at include the optimization of the revenue cycle as well as the cost per patient served. In this type of organization, there is also often a heavy facilities component. So, if you run a clinic—or any type of organization that requires funds to maintain buildings and capital equipment—you want to keep your eye on whether you have the reserves you need, the cash flow, and the ability to carry the level of debt that may be required in order to maintain the necessary facilities and equipment.

The business model of a clinic ultimately depends on the organization's ability to deliver high-quality patient care; but, on the financial side, the key is getting the cash to come in the door as quickly as possible to fund the operations. As soon as the mechanism for billing starts to slow down, liquidity comes to a halt. It's a different model than that of a foundation-funded organization, where there is a $100,000 grant that comes in at the beginning of the year and the organization is set. In this world, revenue optimization has to be continuously refined, with attention paid to the engine that drives the cash while at the same time ensuring a focus on patient quality of care. You can see how significantly the priorities of this model differ from the enrollment statistics from the previous dashboard example.

FMA DASHBOARD: COMMUNITY HEALTH CLINIC
Designated as a Federally Qualified Health Center (FQHC), this community health clinic offers medical, dental, and behavioral health services to the rural population it serves. Revenue sources are a mix of patient fees, Medicare/Medicaid, and payments from private insurers.
Key Driver: Liquidity
Key Performance Indicators
1. Monitor the **Operating Surplus (Deficit)** by business line
2. Track **Access to Capital**, including reserves, cash flow, and debt levels
3. Analyze the efficiency of the **Revenue Cycle**
4. Track the **Cost per Patient Visit**

Anyone who has attended an FMA workshop or webinar has heard us talk about months of *l*iquid *u*nrestricted *n*et *a*ssets—or *LUNA*, for short. LUNA is essentially equivalent to the idea of operating reserves. In this particular case, the goal is to have three months of LUNA—and they're working on it, but they're not quite there yet. So, you can tell right away that there's a goal, and that it hasn't yet been reached—and you can ask what it will take to get there. There are charts that track cash flow and debt—all in service of making sure the organization has the resources it needs to remain sustainable, flexible, and able to meet any challenges it may have in maintaining adequate facilities in which to provide services.

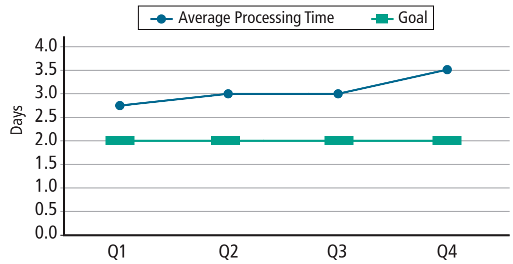
If you focus on the metrics related to the optimization of the revenue cycle, you can see the days in accounts receivable—often referred to as *accounts receivable aging*—which tracks how long it's taking claims or bills out to insurers to come back paid. There are also two other metrics that are indicative of what's behind the scenes driving the aging of the receivables: average time to process claims and initial claim denial rate. For this organization, the processing time of the claims is very important, because the sooner it can process the claim, the sooner the claim can be turned into cash—and cash, of course, means liquidity. On the community health clinic chart (following page) you can see there is a goal of processing claims within two business days, which the organization is currently failing to meet. And you can tell right away that something happened in the last quarter that caused the processing time to increase. Interestingly, the goal is not just about processing a claim and getting it out the door as quickly as possible; it's also about getting it out the door and getting it *right*. So, the organization looks at the time to process together with denial rate, and then the resulting impact on receivables.

If we presented this dashboard to the clinic's program and operational leadership, we could talk about what they need to do differently. Obviously, they're doing something right when it comes to reducing claim denials—so we would talk about what they changed and why it worked. Then again, claim processing time is inching up. There should be a discussion about what is

COMMUNITY HEALTH CLINIC

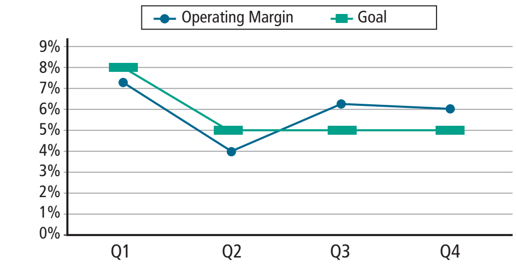
Revenue Cycle Optimization

Average Time to Process Claims

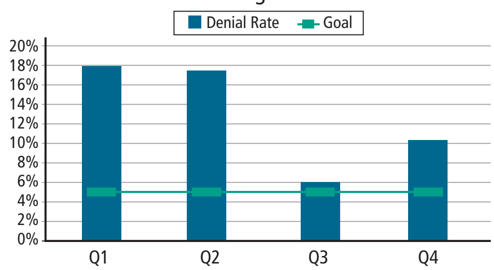


Operating Results

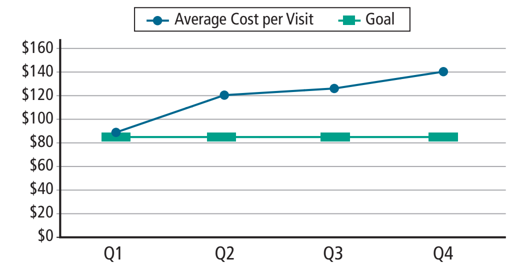
Operating Margin



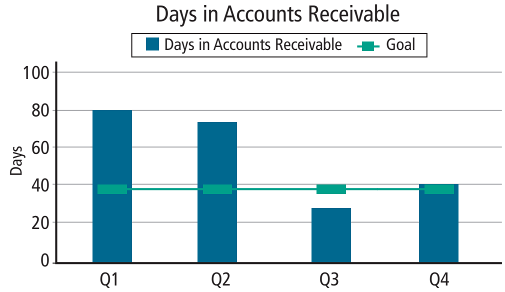
Claims Processing: Initial Denial Rate



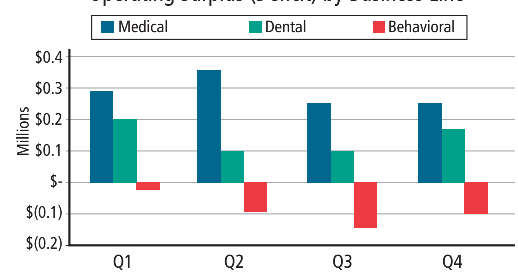
Cost per Medical Visit



Days in Accounts Receivable

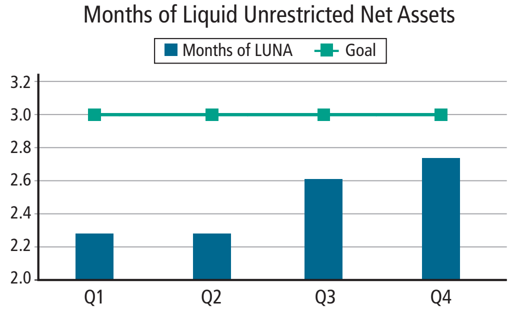


Operating Surplus (Deficit) by Business Line

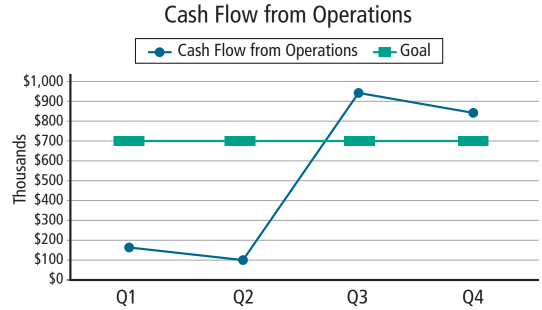


Capital

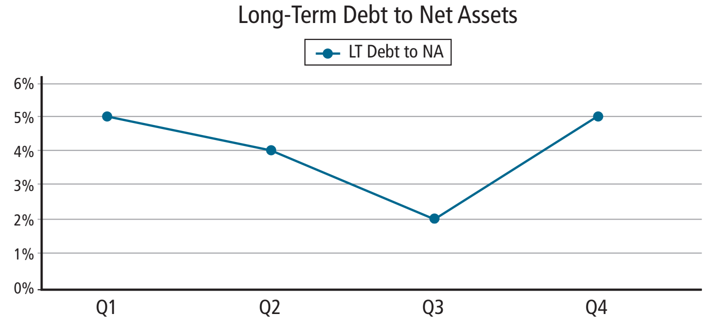
Months of Liquid Unrestricted Net Assets



Cash Flow from Operations



Long-Term Debt to Net Assets



With any organization where the business model relies on the ability to earn enough dollars to cover the cost associated with running programs, you will see a focus on costs and how to keep those costs as low as possible while still delivering a quality service.

driving that increase and what can be done to bring it closer to the goal. This is the beauty of KPIs and dashboard reporting: now leadership is talking in teams about data and discussing how they can use that data to inform the next steps in a cycle of continuous improvement.

Homeownership Organization: Key Driver - Reduced Funding Dependence

The next example focuses on a community development organization that runs a program to increase homeownership within its community. With this dashboard, the organization is addressing the question of self-sufficiency for each of the business lines related to its homeownership program. The reason for this particular focus is that the organization's leadership is aware that government funding—which currently supports these activities—will be slowly phasing out over the next few years. Therefore, if these programs are to survive, they must attain a certain level of revenue self-sufficiency. To understand how close they are to this goal, leadership needs the dashboard to help them answer the following questions: How much earned revenue is each business line generating? How much is it costing to serve each customer? Is the earned revenue sufficient to cover the costs? This organization needs a dashboard that focuses on a single priority: understanding profitability by business line.

DASHBOARD: HOMEOWNERSHIP ORGANIZATION

This community development organization increases homeownership rates by making low-interest loans, providing credit counseling, educating first-time home buyers, and rehabbing dilapidated properties. Revenue is a mix of earned income and government contracts.

Key Driver: Revenue Self-Sufficiency for Each Business Line

Key Performance Indicators

1. Track **Cost per Customer** for each business line
2. Track the **Profitability** (i.e., surplus/deficit) of each business line
3. Monitor **Earned Income** by business line

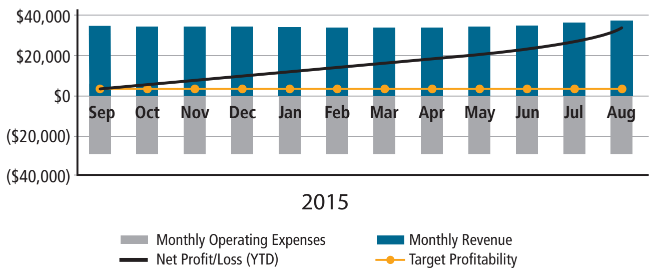
With any organization where the business model relies on the ability to earn enough dollars to cover the cost associated with running programs, you will see a focus on costs and how to keep those costs as low as possible while still delivering a quality service. In this example, the dashboard is tracking the cost associated with serving each customer, over time, broken down by business line (see the homeownership nonprofit chart, following page; note that we are only breaking out two of the business lines in the top two charts—the bottom two include all four lines). On the bottom-right side of the dashboard, there is a new element that hasn't been included in any of the previous dashboard examples: a table showing three-year trends in cost, by the subcategories that make up each business line. Sometimes the devil is in the details, and graphing out this much data on one chart would have been either overwhelming or illegible. So, if a board member or a program manager wants to drill down and see more detail, a chart like this might provide a deeper perspective on why a business line is doing better or worse, what the trend has been over time, and how its individual components are changing.

To further enhance the table in the bottom-right corner, the organization could consider adding the goals by category for 2016, so that leadership can start to shape what they will do to achieve those goals.

Looking at the lending profitability table (top left chart), you can see how this organization is tracking profitability for their lending business line. Monthly expenses for the program show up in gray in negative numbers, while the earned revenue that comes in each month is charted in positive territory in blue. The target profitability for this business line is just above break-even, as represented by the orange line, and marks the point at which this program is self-sustaining. Actual profit (or loss) is charted cumulatively, compounding on a monthly basis over time. The data shows this business line to be on track, but as program leaders or board members look at this data, they should consider the following questions: What defines success for this business line? What might the organization do to adjust profitability and effectiveness?

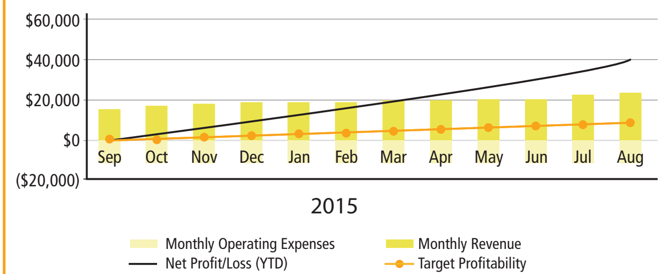
HOMEOWNERSHIP ORGANIZATION: FINANCIAL PERFORMANCE

Lending Profitability
Year-to-Date



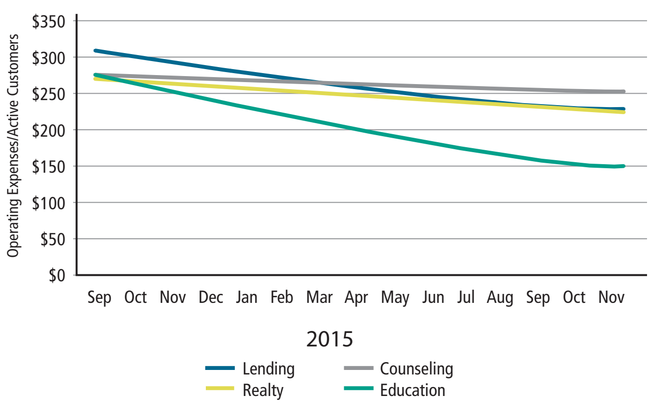
Key Strategic Question: How is the lending business line performing over time, from a profitability standpoint?

Realty Profitability
Year-to-Date



Key Strategic Question: How is the realty business line performing over time, from a profitability standpoint?

Cost per Customer
Cumulative, 12 months rolling



Key Strategic Question: What is the average cost to deliver services per business line? Are costs increasing or decreasing in each business line over time?

	PRODUCT	COST PER CUSTOMER		
		2013	2014	2015
LENDING	1st Mortgage	$362	$308	$215
	2nd Mortgage	$359	$305	$214
	Servicing	$419	$356	$249
	Loan Processing	$478	$406	$284
	Lending Total	$405	$344	$241
REALTY	Listing	$304	$274	$246
	Selling	$280	$252	$227
	Realty Total	$292	$263	$237
COUNSELING	Pre-Purchase Counseling	$268	$241	$239
	Credit/ Financial Capabilities	$356	$320	$317
	Other Counseling Services	$254	$228	$226
	Counseling Total	$293	$263	$261
EDUCATION	Pre-Purchase Education	$415	$270	$148
	Credit / Financial Capabilities	$425	$277	$152
	Education Total	$421	$274	$151

Performing Arts Organization: Key Driver - Retention

Performing arts organizations have some similarities to our first example; in fact, they are like child-care centers in a number of ways. There is a finite number of seats or slots and the organization wants to make sure it is maximizing the revenue potential of this seating, which turns into dollars for the organization.

FMA DASHBOARD: PERFORMING ARTS ORGANIZATION

With a mission of making dance more accessible to the public, this organization has both a dance company and a school. Its goal is to increase revenue so it can afford to hold more free performances for the community.

Drivers: Optimizing Pricing and Maximizing Attendance

Key Performance Indicators

1. Analyze the **Median Revenue for Performance**
2. Monitor **Enrollment** in the summer workshop series
3. Track the **Retention Rate** at the academy
4. Monitor the **Percentage of Performance Weeks**, when they are able to offer a free public show

As in the dashboard for the health clinic, here we are also looking at months of LUNA—but in this case for a different reason. Performing arts organizations are often faced with the reality of production costs that are front-loaded.

In the performing arts example we present here (below), in addition to the performance side (which is a dance company) there is also a school, and the school is intertwined with the dance company. Just as the performance side needs the same customers to come back as audience members for each new production, so does the school want to retain their students at the academy. So, on both sides there are some questions about retention.

You'll see that this dashboard is constructed differently from the other ones we've presented here. For one thing, this dashboard is less about history and trends and more about tracking progress toward goals. But, more to the point, in order to highlight the impact of a more simply constructed dashboard tool, we've included this as an example of a format that does not rely on charts, graphs, and pictorial representations of data, but rather is just a simple table that can be created and updated in the most basic of word-processing platforms or spreadsheets. This is the easiest type of dashboard to create and maintain over time, though it does take a bit of work to ensure the information is as meaningful as what we see in dashboards with a more complex presentation.

As in the dashboard for the health clinic, here we are also looking at months of LUNA—but in this case for a different reason. Performing arts organizations are often faced with the reality of production costs that are front-loaded: performers, directors, set designers, and the like must be paid during the preproduction phase, before any ticket-sales revenue is realized. For this reason, it is critical that a dance company have sufficient liquid resources to f oat these costs well before the box office receipts come in. Here, you can see that the organization has set a goal of three months of LUNA in reserve, but it is falling somewhat short of that target as of this reporting period.

Note that in this example, we are using stoplight color coding. How you define your targets (i.e., what will show up as red versus yellow versus green) is where performance management really becomes a philosophy for the organization. The question is: How will you determine that you're way off course or that you're within range but not there yet? Defining those categories is easier in some cases than in others. In the case of summer workshop enrollment, the organization needs to have at least 315 students enrolled or it is off target

PERFORMING ARTS ORGANIZATION

Recording Period: June — Fiscal Year End: December

Category	Key Performance Indicator (KPI)	Last Period	Current Period Actual	Target
Balance Sheet Strength	Months of Liquid Unrestricted Net Assets (LUNA)	2.2	2.5	> 3 mos Meets Target 1–3 mos Within Range < 1 mo Off Target
Operating Results	Fiscal YTD Operating Margin (Surplus/Deficit as % of Revenue)	2%	8%	> 5% Meets Target 2–5% Within Range < 2% Off Target
Program Financial Performance	Median Revenue per Performance	$10K	$13K	> $15K Meets Target $12–$15K Within Range < $12K Off Target
Program Financial Performance	Percentage of Performance Weeks with Free Public Show	12%	10%	> 20% Variance Meets Target 15% to 20% Within Range < 15% Off Target
Program Financial Performance	Summer Workshop Enrollment	325	310	>/= 315 Meets Target < 315 Off Target
Program Financial Performance	Academy Retention Rate	88%	96%	> 95% Meets Target 85% to 95% Within Range < 85% Off Target

Legend: Meets or Exceeds Target · Within Range of Target · Significantly Off Target (as is the case here). But retention rates for the academy are more nuanced: over 95 percent retention is the ultimate goal, but between 85 percent and 95 percent is still within range (i.e., yellow). So, defining what's close enough to avoid going on a red alert is where you engage your board and your management staff. It's wonderful when you ask the staff for input on what success looks like to them, to what they want to be held accountable, and what celebration will look like. This is a discussion that builds accountability through engagement. Whether a result is defined as red, yellow, or green is a very simple idea, but coming up with those targets is where a common understanding of success can really be forged.

If the organization's board were looking at this report, it would be immediately clear that the focus should be on enrollment in summer workshops and the number of free shows offered to the public. All of the other metrics are either on target or within the range of the desired goal. This is the benefit of setting and displaying clear, color-coded targets on a dashboard tool: they filter out the noise and focus your decision makers on the areas where action is needed.

Creating and Implementing Dashboards

START WITH THE BIG PICTURE

- Understand the **Target Audience** for the dashboard: Is it the board? Leadership? Program managers?
- Explore and understand your organization's **Business-Model Drivers**
- Determine KPIs in an **Inclusive, Team-Based Process**
- Begin to cultivate a **Culture of Data-Driven Decision Making** at your organization

How to Jump-Start the Dashboard Process

When creating a dashboard, start with the big picture: Identify the audience and understand how to engage it. Have the conversation to define business model drivers and key levers inherent in your program service-delivery model. Choose KPIs in a thoughtful, team-based process that is inclusive of the right staff and board members. Recognize that defining and reevaluating KPIs is an ongoing process: as your organization's strategies, goals, and operating environment change, your KPIs will need to shift as well. If it doesn't yet exist—which is the case for many organizations—begin to cultivate a culture of data-driven decision making among the staff and board. Ask whether your team is comfortable with interpreting and using data, and if not, what help they might need to get there.

When it comes time to put the dashboard-reporting framework into action, a new round of (potentially overwhelming) questions will emerge: Where is the data for the dashboard going to come from? Who will be accountable for collecting the data? How will the dashboard be updated, and how often? What platform should we use to create the dashboard? If building, populating, and maintaining a dashboard is a team effort, how do I ensure the team has the necessary skills to navigate different databases and spreadsheets and visualize data in the most effective way?

But in the end, in some cases, a simple one-page, table-based dashboard—such as the performing arts example—is all you need to jump-start the process of dashboard reporting. Rather than getting bogged down in questions of presentation, analytics, and software platforms, focus on the most important part of the process: defining those key drivers and metrics, and putting something in front of your board and staff that—with simple stoplight coding—will immediately shift attention to the most pressing issue at hand.

PUT YOUR DASHBOARD PLAN INTO ACTION

- Create a **Cross-Functional Team around Data** at your organization
- **Define Accountability** for each data point being measured
- Set parameters about who will **Maintain and Update** the dashboard and how often it will be updated
- Develop the **Data Analytics** skill set of staff
- Choose an **Appropriate Platform** for dashboard reporting

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Who "Owns" Your Nonprofit?

by Judith L. Millesen

What power have you got? Where did you get it from? In whose interests do you exercise it? To whom are you accountable? How do we get rid of you?

— Hon. Tony Benn, Labor MP

FEW WOULD ARGUE AGAINST THE NOTION THAT boards of directors are supposed to represent the interests of "owners." Yet, despite the intuitive importance of specifying ownership, over 70 percent of nonprofit board members interviewed regarding their perspective on ownership and accountability believed that they were accountable only to their board—or to no one at all.

This finding was particularly alarming because it raised fundamental questions about how decisions were made. I would argue that in order to discharge its basic legal and moral responsibilities, the nonprofit board of directors must focus on its mission and develop a clear understanding of how the concepts of ownership and accountability inf uence its decision making.

And, in light of recent media attention on administrative misconduct by nonprofits, nonprofit boards will likely become increasingly sensitive to issues of ownership and accountability.

This study of 12 nonprofit boards in New York and Connecticut was conducted over nine months (August 1999 to May 2000) and involved direct observation of some 40 board meetings and interviews of 58 board members. Participating boards governed a symphony orchestra, United Way, Girl Scout Council, and a range of human services providers. The sample included 10 local organizations, one statewide and one international.

Ownership and Decision Making

We all know that although a corporate board of directors may have multiple constituencies to whom it is answerable, its primary accountability is to the firm's ownership, which has been explicitly defined as the corporation's shareholders. What this means is that it is the board's responsibility to make sure that owner interests

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[O]ver 70 percent of nonprofit board members interviewed regarding their perspective on ownership and accountability believed that they were accountable only to their board—or to no one at all.

Nonprofit boards are accountable to both a legal ownership and an ethical, or moral, ownership.

are safeguarded whenever decisions are made.

Contrast this fairly straightforward definition of ownership to what I call the "dual ownership" in the nonprofit sector. Nonprofit boards have both a legal responsibility to discharge a public benefit purpose and an ethical obligation to meet the expectations of those on whose behalf the organization exists. This means that nonprofit boards are accountable to both a legal ownership and an ethical, or moral, ownership. By law nonprofit ownership is vested to the community, which has granted it certain exemptions and entrusted it with scarce resources to serve a particular social need.

In his Policy Governance Model, John Carver defines a nonprofit organization's ethical ownership more specifically with a concept he calls "moral ownership." Carver describes the moral ownership as "a special class of stakeholders on whose behalf the board is accountable to others." Similarly John Smith, in his book, *Entrusted: The Moral Responsibilities of Trusteeship*, draws attention to the fact that although boards may feel as though multiple stakeholders are pulling in competing directions, it is the role of the board to sort out these conf icts in a way that is faithful to its calling and to those the organization exists to serve.

When the board recognizes its public trust obligations and makes decisions that are mission-focused and responsive to constituent expectations, it makes clear the decision criteria by which it will sort and prioritize multiple, often competing operational expectations. As such, the resulting decisions are justifiable to a broad array of stakeholders. In short, by defining moral ownership, the board unequivocally specifies "who" is important and how the organization will meet its public benefit purpose, thus fulfilling its fiduciary obligation to the legal ownership.

Even though nonprofit boards may feel accountable to multiple stakeholder groups who place competing demands on organizational operations, moral ownership must be fundamentally linked to the basic purpose for which the organization exists. Without a doubt, all stakeholders have some ownership in the organization. However, as John Carver makes clear, a distinction must be made between those with whom the organization enters into exchange agreements and those on whose behalf the organization exists. Let me explain.

Nonprofit organizations and their governing boards often look to the external environment for resources needed to survive. What is important to remember, however, is that there is a voluntary element to resource exchange. Nonprofit organizations are not required to accept donations, grants, or contracts to provide specific services. In most instances, the organization is free to choose whether it will enter into an agreement with a particular resource provider or seek an alternative source of revenue.

Although it is true that these resource providers may have a stake in the organization—and the board may feel some obligation to these stakeholder groups—vendors, donors, and funders are not owners. Owners are those stakeholders with interests and concerns the board is legally and morally obligated to acknowledge. As Carver explains, "The test for ownership is not with whom the board makes a deal, but whom the board has no moral right not to recognize."

Governing with Accountability

"Accountability, wow, that's a really gray area," explained the board president of a small nonprofit human service organization. "I guess it's clearer in some places then in others—you know, like in churches, country clubs, or schools because you are accountable to the membership. But we don't have a membership; I guess I would have to say that we are accountable to ourselves." The president for another, even smaller social service organization board told me that because her organization had no membership, the board was accountable to "no one."

Even though over two-thirds of the board members I talked to could not articulate a common constituency to whom they were accountable, there were three boards that took a leadership role in specifying the ways in which responsiveness to "client" expectations helped them be accountable to both the legal and moral ownership (although they did not use these exact terms). These boards were able to establish criteria for and to justify important decisions.

Let me give you an example of what happened when one board that was challenged to decide between a course of action that was reflective of "client" expectations and a decision that made "good financial" sense. Because this board recognized its moral obligation to the constituency served they were able to justify a decision that was not financially sound in the short-term but that was consistent with client-based, long-range programmatic goals and objectives.

I heard the following comment at a meeting of the board of directors for a human service organization: "This is the fourth year in a row that this program has been losing money. It has taken a loss of $500,000 and I think it is time to throw in the sponge." The board member who made this statement put forth a motion to dissolve the program. A startled hush fell over the room. The first impassioned response came from the vice president of the board, "Sometimes nonprofit organizations run programs that are of great benefit to the clients even if they cost the organization money . . ."

Another board member added, "There is a need for this program. I remember there being a waiting list. I feel strongly that we need to meet the needs in the community. We are a nonprofit, we are not in this to make money . . ." And so it went for 45 minutes, one antagonist trying "to stop the bleeding" against the rest of the board arguing that the program should continue because "We are a not-for-profit, we serve a disadvantaged population, and as long as we are financially sound we are okay."

At the end of the discussion, the board voted to continue the program. Even though the decision may not have appeared to make financial sense, it was justifiable because it was responsive to the interests of the community (owner) and consistent with the organization's mission.

Recommendations and Concluding Comments

Given the fact that nonprofit boards are answerable to multiple stakeholders with differing, sometimes conflicting, expectations and demands, there is often ambiguity around the issues of ownership and accountability. However, determining moral ownership and governing your organization with integrity and accountability can be done. I believe it requires the board to engage in three key activities.

1. *Make explicit the moral ownership group to whom the board is accountable.*

Few board members have difficulty understanding their fiduciary responsibility to the community. However, the board must recognize that in addition to its public trust obligation it must go through the process of distinguishing the interests of its moral ownership from those of other claimants. Moreover, it is essential that everyone on the board and in the organization be in agreement with regard to the organization's moral ownership. In this way, board decision making is justifiable, mission-focused, and responsive to a common constituency. Although nonprofit organizations may receive significant funding from donors or other sources, it is important to remember that these stakeholders are not owners. The board must avoid the temptation to allow resource providers to influence mission and purpose. To that end, the moral ownership must be reflective of the basic purposes for which the organization exists.

The board must recognize that in addition to its public trust obligation it must go through the process of distinguishing the interests of its moral ownership from those of other claimants.

Remember, only when the board goes through the process of determining moral ownership can it truly be accountable to the legal ownership.

2. *Establish a clear mission that articulates a commitment to the moral ownership—the group for whom the organization exists.*

A clear mission that board members are committed to, helps keep decision making focused. Mission clarity also keeps the leadership loyal to a shared purpose and common constituency—helping them to resist resource-based pressure to compromise the interests of the moral ownership. Consequently, the temptation to make short-term, financially attractive decisions that might ultimately distract the organization from their long-range primary goals and objectives is avoided. Moreover, when the mission has a clearly articulated value dimension, board decisions are justifiable and board action is accountable to a broader constituency (the legal ownership).

3. *Establish a connection with the ownership.*

Only three of the twelve boards I studied had members who were able to articulate a common constituency to whom they were accountable. Notably, each of these boards maintained elaborate information systems linking the organization's leadership to those it served. All three participated in comprehensive client surveys designed to elicit feedback on needs and expectations from program participants. These boards also invited organizational representatives and other guests (direct-care providers, service recipients, and volunteers) to board meetings to discuss program offerings and current levels of service with members of the board. One board even held a meeting at a service delivery site so that board members could visit the facility and speak directly with beneficiaries.

What distinguishes these activities from "token" attempts to pacify the moral ownership is that these boards not only solicited input from their constituents, they made these comments and concerns a central part of their planning and budgeting processes.

Specifying moral ownership is an essential aspect of nonprofit board governance. Tragically, more than two-thirds of the board members I interviewed were unable to identify their moral ownership. Conversely, when moral ownership was explicit, boards were able to sort between competing expectations and maintain accountability while resolving issues. These board members seemed to understand that when the board acted in ways that were responsive to the expectations of its moral ownership, it produced decisions that were faithful to its legal obligations as well.