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# NONPROFIT WORLD

The National Nonprofit Leadership and Management Journal

Volume 22, Number 5 | July/August, 2004

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## NONPROFIT WORLD

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The Society for Nonprofit Organizations


*Purpose*

The Society for Nonprofit Organizations is a 501 (c) (3) nonprofit organization. Through *Nonprofit World* and other communications with its members, the Society is dedicated to bringing together those who serve the nonprofit world in order to build a strong network of professionals throughout the country.

This logo symbolizes the goal of the Society, which is to unify diverse segments of the nonprofit world, to draw them together, and to create a dynamic whole without losing their individuality.

## on the cover

The location of a board retreat sets the stage for everything else. Here, Sequoia Fund's board holds its retreat at the top of the park among the giant trees. See page 17 for secrets of successful board retreats.

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# Connection, Not Perfection

Perfection is often viewed as a noble attainment. But trying to attain perfection can cause you to be critical of yourself and others—and a pain to be around! In addition, perfectionism can create stress, counteract efficiency, and sink morale for everyone who deals with you. Perfectionism, as Robert Hillyer once noted, is a dangerous state of mind in an imperfect world.

*"If at first you don't succeed, you're running about average."*

Be a connectionist, not a perfectionist. Aim not for flawlessness but for connectivity and continuous improvement. Focus on building relationships that last (see "Key to Raising More Money Revealed" on page 30 and "Seven Steps to a Successful Gift" on page 7).

Set reasonable expectations, based on standards agreed upon for your organization and the nonprofit sector. A good starting point is "10+ Self-Audit Tips for Nonprofit Accountability" (page 24). Charles Maclean's quiz will help you zero in on areas that need attention. Ask your board members and other stakeholders to take the test, too. Such feedback is the core of continuous improvement, as Maclean points out.

A good way to glean valuable feedback and forge connections is to hold a retreat. (See "Board Retreats: The Wave of the Future" on page 17.) Talking openly, then narrowing to key points and agreements, lets group members measure their performance and outcomes using the same gauge. Retreats counter the problems of perfectionism because they build team spirit and spotlight connections rather than seeking one perfect answer.

The Ivy Sea Web site (www.ivysea.com) offers the following tips for avoiding perfectionism:

**Get real.** When you feel yourself becoming frantic about meeting a goal, stop and ask, "Is the frustration level equal to the problem?" Perfectionists are stressed-out, anxious, and rarely enjoy their accomplishments. Connectionists relish the journey, the relationships, the growth and satisfaction that come along the way.

**Delegate.** Many perfectionists think that they—and only they—can complete the task at hand. Allow others to be responsible, which will strengthen the team and increase the odds of steady progress toward your goals.

**Know what's crucial.** Ask yourself and the group, "What's most important about this project? How does it fit into the big picture?"

Because no one's infallible, it's vital to have a back-up plan and to balance the shortcomings of your organization's leader—especially the charismatic leader, whose weaknesses and strengths are larger than life (see "Planning for Leadership Succession: Are You Ready?" on page 21 and "Secrets of the Charismatic Leader" on page 19). Rather than depending too much on one person, put your faith in the team.

The root of the word "perfect" means "finished," not "without flaws." Fight the urge to be perfect in the sense of flawless. Heed the words of M. H. Alderson: "If at first you don't succeed, you're running about average." Remember that connection, not perfection, is the heart and soul of successful nonprofit leadership. ■

Jill Muehrcke
Editor, *Nonprofit World*

# LETTERS *to the editor*

## Another Viewpoint on Volunteers

I found your article "What's Wrong with Thank-You? Plenty" (Vol. 22, No. 2) very interesting and thought-provoking. While I agree with many of the points in the article, I also disagree with a few.

We use over 400 volunteers at our organization in almost every capacity, and we have only six paid staff (not all are full-time). What I disagree with mostly is the idea that volunteers and paid staff can do the same things.

While most work *can* be done by volunteers, you have to be careful not to assign duties that you couldn't make up for with a temporary staff replacement. Volunteers can leave at a moment's notice. (While staff can leave, too, they do so less frequently.) Recently we had a volunteer who was vital to us quit suddenly, due to personal issues. Most staff, who need the pay, won't do that.

*—Ellen, Director of Operations at a small nonprofit*

## Clean Sweep Urged for Donated Computers

Recycling computers is a smart way to save money, especially, as noted in your article ("Donated Computers—Burden or Blessing?", *Nonprofit World*, Vol. 21, No. 3), if you do it through a reliable source who can make it all work properly and guarantee it saves a lot of money.

Legally, however, the operating system generally does *not* have to be supplied unless a vendor specifically offers it. If you're donating a computer, the operating system is usually a separate issue.

It depends on the license governing the operating system. Microsoft Windows has different licenses for different versions, and Macintosh, OS/2 Warp, Linux, Solaris, and others too obscure to name all have different licenses. You may be able to bring the license terms up on screen. Or check boxes or Web sites.

Typically, you're free to donate the computer to one party and sell the software to another, if you wish. Usually, the license tells you what you have to include in any transfer of the software. That'll likely be all copies of the software and probably any official manuals that came with it. For Linux, you must include the source code. You can't sell Linux, although you can charge nominally for the disks it's on.

But you don't have to provide the hard drive with the operating system. You may erase it. You may also erase any copies you made, such as on floppies or CDs, and keep the media, if you like. The only software items you have to transfer to someone else are the originals and any copies that you didn't erase.

Privacy, in fact, impels erasing the hard drive. Merely deleting files isn't much help, since someone else can undelete those same files. Technical people often advise running FDISK, but that's not good enough, either. The best method is to delete everything, overwrite the entire drive with meaningless gobbledygook (seven times is suggested), and then run FDISK. The result will be to fill spaces with random characters so that undeleting files creates only gobbledygook.

Such a clean sweep is highly recommended for anyone donating a hard drive. Once you've gone through the above process, you can rest easy, knowing it'll take very unusual and expensive engineering to expose your private stuff. No software will get it back now.

*—Nick Levinson New York, N.Y.*

## PLEASE GET IN TOUCH

We would love to hear your response to anything in *Nonprofit World*, your comments about any aspect of the nonprofit sector, and your concerns about your daily work. Please get in touch in any of the following ways:

**Drop us a note at:**
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Please include your name, address, and phone number. If you'd like your comments to appear anonymously, please let us know. We look forward to hearing from you!

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# Should You Use Your Full Name or an Acronym?

*The answer may be more critical than you think.*

**Q:** Organizations with long names often refer to themselves with an acronym rather than the full name. Although an acronym is shorter, it sometimes causes confusion about what the organization actually does. An example is the organization where I work, the Christian Appalachian Project. We have the same acronym (CAP) as the Civil Air Patrol and the Community Action Programs. Our management now has advised us to use the entire name of our organization to cut down the confusion. Do you agree? When should an organization switch from its full name to an acronym–and vice versa?

**A:** The way people refer to an organization is a vital matter. Any change should be undertaken only after a great deal of reflection.

In the case of your organization, which has a long history and is well known, I concur with the advice to use your entire name when communicating with those outside your organization. But my reasons for this advice go beyond the importance of distinguishing yours from other organizations with the same acronym.

An organization's name is its "brand name." Commercial companies build brand awareness through promotion, good products, and time. Their brand names have commercial value and reflect the reputation of the company. For these reasons, firms protect their legal right to these names and have attorneys who take action when the firm thinks their brand name is being misused or infringed upon.

Your organization's full name, the Christian Appalachian Project, communicates a lot about the scope of the organization's mission—its religious inspiration and its service to the people of Appalachia. This information would be lost if you relied on the acronym.

I notice that on your organization's Web site (www.chrisapp.org), the full name is used on the "front page," and the acronym CAP is used almost everywhere else "inside" the site. That makes sense, since many "outsiders" are likely to visit the front page, while the rest of the site is more geared to "insiders." Comments in your Web site guestbook suggest many people have a long-term association with your organization, making the acronym more appropriate.

While it makes sense for you to switch from an acronym to your organization's full name with outsiders, the opposite is sometimes true. Some nonprofits should consider switching to acronyms, especially when their names reflect past historical circumstances and long-superceded missions. Such an organization may also consider shortening its name or creating a completely new name to clarify its current mission. For example, the XYZ Orphanage changed its name to the XYZ Children's Home and later to XYZ of Jonesville. The name change was necessary to reflect the organization's new mission—providing short-term therapeutic treatment. Note that the name no longer gives specifics so that children living there won't feel stigmatized.

Another option is to add a "tag line" to a name or acronym to communicate what the organization does. For example, one slogan at OICW, a job-skills training program, is "OICW Works!"

If a nonprofit decides, after reflection, that a name change is needed, the communications people should plan a multistage process of introducing the new name. Such publicity should explain the reasons for the name change in light of the organization's mission and new initiatives.

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*Note: For steps to changing a name and communicating that change to the public, see these* Nonprofit World *articles: "Just the Right Name" (Vol. 11, No. 1), "Achieving an Admired Organization" (Vol. 11, No. 1), and "Success Starts with Your Name" (Vol. 22, No. 2). You'll find these articles at www.snpo.org or on the* Nonprofit World CD-ROM *(to order, call 734-451-3582).*

# FIRST *alert*

## *Nonprofits Must Work to Assure LGBT Equity*

Although the gay rights movement has made extraordinary gains in the last few years, much still must be done to ensure equality, according to a report by the National Committee for Responsive Philanthropy (NCRP). National laws provide no protection against discrimination based on sexual orientation and gender identity; it is up to individual states, municipalities, and workplaces to create their own laws and guidelines. The movement to secure equal rights for lesbian, gay, bisexual, and transgender (LGBT) Americans is severely underfunded. The combined funding of the top 10 LGBT organizations in the country is only a fraction of the funding of one organization working to oppose equal rights for LGBT people.

The report urges nonprofits to consider collaborating with LGBT groups to assure basic rights for all people. All nonprofits should have an employee policy that bars discrimination against any group, including LGBT people. Nonprofits can also play a large role in raising awareness of the need to advance civil rights and social justice issues by supporting gay causes.

See "Equality's Frontier: Funding an End to Discrimination Based on Sexual Orientation and Gender Identity," www.ncrp.org. Also see "Do You Have a Gay-Friendly Organization?", *Nonprofit World*, Vol. 21, No. 1 (www.snpo.org).

## *What You Need to Know about Counter-Terrorism Rules*

The landscape for nonprofits has been transformed since 9/11. It's up to nonprofits to take steps to ensure that their support doesn't end up assisting terrorists. Even if nonprofits have no knowledge of the link, the government can freeze their assets if they are associated in any way with terrorist activities. Internationally active nonprofits may be especially vulnerable to legal liability. *The Handbook on Counter-Terrorism Measures: What U.S. Nonprofits and Grantmakers Need to Know* discusses the laws, regulations, and enforcement measures that may affect their work. The publication is free through the following Web sites: www.independentsector.org, www.interaction.org, www.cof.org, and www.dbhfoundation.org.

## *Dot What?*

The Internet Corporation for Assigned Names and Numbers (ICANN), the official organization charged with creating, assigning, and regulating Web addresses, recently introduced a bundle of new domains and made changes in existing domains. Here's an explanation of what the official domain names denote:

- dot-com (designed for businesses but open to all)
- dot-org (designed for nonprofits but open to all)
- dot-net (designed for companies with big networks but open to all)
- dot-coop (restricted to cooperatives such as credit unions and utilities)
- dot-gov (restricted to government agencies)
- dot-biz (restricted to businesses)
- dot-info (designed for information sites but open to all)
- dot-name (restricted to individual names)
- dot-pro (restricted to professionals, initially physicians, lawyers, and accountants)
- dot-us (designed for any U.S. resident, business, or government agency)

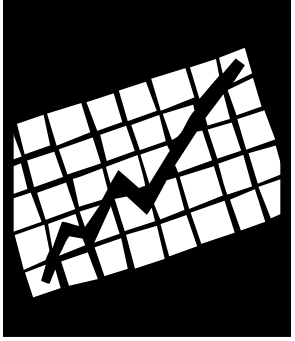
Till recently, ICANN was the only entity introducing names. But an Internet startup called New.net Inc. broke ranks and added unofficial domain names, including dot-inc, dot-llp, dot-med, dot-agent, dot-law, and dot-family.

## *International Trademarks Now Less Hassle*

Protecting an international trademark became much easier last fall when the U.S. joined the Madrid Protocol, a treaty that lets you register your trademark in any (or all) of 60 member countries by filing just one application with the U.S. Patent & Trademark Office (PTO). If your organization conducts international operations, consider registering your trademark internationally. Contact Kenneth Liu of Gammon & Grange, P.C., at 703-761-5000 (ext. 131) for a free consultation on developing an international trademark.

## *Check Your Employees' Product Reports*

If your employees ever write articles, announcements, or news briefs about your organization's products, be sure to review the drafts before publication. Check carefully for accuracy. A U.S. Court of Appeals has ruled that published writings that promote organizational products are "commercial speech," much like ads. This ruling means that people can sue your organization if an article contains any false or misleading information.





# Seven Steps to a Successful Gift

*Take the worry out of asking with this checklist.*

BY MARILYN BENUSKA

Asking for a gift needn't feel awkward or scary. Follow these simple steps:

## 1
## Begin with yourself

Know your organization. Be able to articulate its mission, history, services, programs, structure, leadership, financial condition, and vision. Know exactly why you want to call on the prospect and what you want to accomplish. Consider your own experiences and how you would like to be approached. Think about how you make your decisions about giving and investing. Be a giver. It makes asking easier!

## 2
## Research, research, research

Before meeting with a prospect to ask for money, be sure you have the answers to these questions:

- **Is the prospect financially qualified** to make a gift at the desired level?
- **Do the prospect's interests** match your organization's priorities?
- **Has the prospect given** to similar organizations?
- **What is the prospect's relationship** to your organization?
- **Who, within your organization,** knows the prospect best?
- **Is a cultivation strategy** in process?
- **Has the prospect advanced** through the "five I's" of fundraising: identified, informed, interested, involved, and invested?

Keep in mind the reasons people give money to nonprofits:

- **They give from emotion** and look for rational reasons to support that emotion.
- **They are more likely to contribute** to an organization that reflects their values and desires.
- **They give to organizations** that can solve problems they feel are important.
- **They give to people** they know, like, and trust.

## 3
## Prepare, prepare, prepare

It's difficult to over-prepare for a face-to-face call. Preparation could be the difference between success and failure.

Most often, the team approach yields the best results. First, it spreads the responsibility. More important, if you choose team members carefully, each will have a relationship with the prospect that the others don't. Brief the team and decide upon each member's role. Write a script, and rehearse.

Preparation isn't synonymous with rigidity. Remember that your prospect and your team are all people. People aren't totally predictable, no matter how much research has been done. Be flexible.

## 4
## Set up a meeting

Call the prospect, and arrange a time and place to meet. Choose a location that will keep distractions to a minimum. Offer some choices, but let the prospect make the final decision.

Honor and acknowledge the prospect's time constraints. Make your request clear—date, time, location, duration—and stick to it.

## 5
## Hold the meeting

Your meeting with the prospect should flow through the following phases:

- **The opening.** Engage in social conversation, perhaps addressing a special interest of the prospect. Introduce team members, and thank the prospect for

meeting with you. Emphasize that the meeting will be brief.

• **The presentation.** Tell your organization's story, with each team member playing a role. Make the story concise and enthusiastic. Reveal the case for your organization's request from the larger perspective to the more specific. Focus on the future and the benefits to recipients, not on the organization and its needs. Remember that giving decisions are driven by values and benefits.

• **Questions and comments.** This is a critical juncture in the meeting. Listen carefully. The prospect may question, comment, or raise objections—each indicates interest. The way you overcome objections, answer questions, and receive comments will shape the focus, format, and atmosphere of the rest of the meeting. Whatever you do, don't argue.

• **The specifics.** Explain how you would like to involve the prospect in your project. Address any questions you have about the prospect's giving priorities or other issues that might inform your decision about how much you ask for.

• **The ask.** This is what you came to do. Have the pre-determined team member ask for a commitment from the prospect. Perhaps the easiest way to begin this discussion is, "We hope you will consider…" Spell out everything you're requesting—for example, cash, technical support, volunteer support, or an in-kind gift. Define the terms of payment, and stress the importance of the prospect's participation and leadership.

• **Quiet time.** Following the ask, no member of the solicitation team should speak until the prospect has had a chance to think and react. This is a pivotal point in the meeting. Give the prospect time to process the information.

• **The prospect's reactions.** The prospect may ask questions or explore alternatives to your request. Let the prospect respond fully.

• **Negotiation.** If the amount is greater than the prospect is willing to consider at this time, ask whether the prospect would consider the same amount paid over a longer period. If the response is no, reiterate the importance of the prospect's leadership in the project and perhaps suggest a lesser amount. If the answer is still no, ask what amount would be acceptable. Chances are the prospect will name an amount. If the suggested amount is appropriate for the project, accept it and express your thanks on behalf of the organization. If the prospect wants to think about it further, take this opportunity to establish the next steps, thank the prospect, and understand that you and the other team members have some work to do before your next meeting.

• **Next steps.** Be sure the prospect and all team members understand what the next steps in the process will be. For example, would the prospect like you to send a formal proposal? Has a subsequent meeting date been set? If follow-up with a phone call is requested, when will that occur?

If you were successful, congratulations! If not, you're probably excited and want another chance. Reconvene your team and start planning for your return visit.

## 6
## Follow up

The rule of thumb is that every donor should be thanked at least seven times—not all through the same source, of course. But, at a minimum, promptly after a solicitation call, write a note thanking the prospect for meeting with you. If you promised to send information, do so.

# CREATIVE FUNDRAISING IDEAS

### A New Twist on the Non-Event

The North Central Texas Chapter of the Alzheimer's Association (Fort Worth, Texas) has held an annual stay-at-home fundraiser for 14 years. The invitation asks donors to make a gift but instead of getting dressed up to go to an event, they can stay home and watch a movie that's broadcast on a participating TV station. The station wraps various PSAs and inserts about the organization around the movie. Their most recent stay-at-home fundraiser featured the movie *The Snows of Kilimanjaro*.

### Cars-for-a-Weekend Make Great Prizes

Can't get a car dealer to donate a car for a hole-in-one or other special-event prize? Instead, ask the dealer to offer the use of one or two demonstration cars. Winners get to drive the cars for a weekend of their choice, the dealer gets some great advertising, and you get a coveted prize for your event at no cost to you or the dealer.

### Attract VIPS to Your Event

To encourage people to sponsor your special event, offer sponsors extra benefits, such as: a preview party for sponsors only, held before the event; valet parking; pre-bid opportunities on auction items; distinctive name tags; special seating; up-close contact with a celebrity; public introduction at the main event. For more special-event ideas, see "Special Events Galore!", published monthly for $79 per year by Stevenson, Inc., www.stevensoninc.com.

Be sure to complete an internal report about your meeting, including all the information you gathered about the prospect. These confidential notes may prove invaluable as you move forward.

## 7
## Continue the relationship

Remember that your goal isn't just one gift. You're aiming for a long-term relationship with your donor. To make this relationship work, you must be willing to do the following:

- **Understand your donor's needs** and the benefits you and your donor receive from your relationship.
- **Define what you're willing to give** or give up to sustain the relationship.
- **Understand the different motivations** you and your donor have for coming together.
- **Give the relationship** the time and energy it needs to succeed.
- **Keep in mind** that building a relationship takes understanding, appreciation, patience, and, sometimes, sacrifice. ■

**Resources**


*Alford, Jimmie, "Asking for Money," *Nonprofit World*, Vol. 17, No. 3.

*Edwards, Paul & Ernest Wood, "The Inner-Game Attitude of Major-Gift Solicitation," *Nonprofit World*, Vol. 10, No. 2.

Flanagan, Joan, *Successful Fundraising: A Complete Handbook for Volunteers and Professionals*, New York: McGraw Hill.

Klein, Kim, *Fundraising for the Long Haul*, San Francisco: Jossey-Bass.

*Remley, Dick, "Relationship Marketing: Guaranteeing the Future," *Nonprofit World*, Vol. 14, No. 5.


*Starred resources are available from the Society's Resource Center, www.snpo.org.

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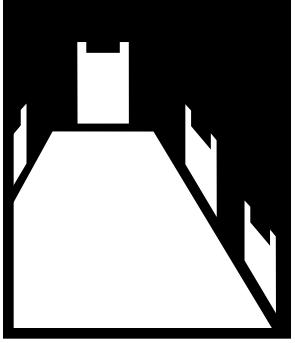



# Look Beyond Tradition to Diversify Your Board

*To be resilient, your board must be diverse. Here's what to do.*

BY KENNETH C. MCCRORY

We're becoming more diverse as a country, and many nonprofits recognize the need to achieve diversity. Most, however, focus largely on diversifying the racial, cultural, or religious composition of their staffs. Their boards often contain the "usual suspects." But board diversity is just as important as staff diversity for an organization's long-term survival.

Diversity among board members provides great benefits to a nonprofit organization that serves the broad community:

- **People with dissimilar backgrounds have had different life experiences** and can contribute new perspectives. Board diversity results in a variety of viewpoints and opinions, which is very healthy for a board.
- **Because the board often serves as the organization's public face,** a diverse board helps the community identify with the organization and get behind it.
- **A board needs a wide variety of skills and contacts,** and no one can foresee every need that will arise. If most board members come from similar backgrounds, the board has limited its ability to take advantage of broader political, social, and fundraising contacts.

*An important step is to expand the nominating committee's responsibilities.*

## Obstacles—and How to Eliminate Them

Even nonprofits that recognize the need to diversify their boards often fail to achieve genuine diversity. There are three major reasons for this failure:

**1. The "just like me" syndrome.** Too often, the business people and community volunteers who populate many nonprofit boards look for minority candidates much like themselves. They search for acquaintances and members of their own business or social circles, rather than trying to reach beyond those circles to the larger community. The result is either outright failure, if no suitable candidates can be found in the narrow social segments that are searched, or a superficial increase in diversity that neglects the variety of ideas and experiences that nonprofits must have.

Diversity means having people from all walks of life with a love for, and commitment to, the organization. Nonprofits shouldn't limit themselves to people who resemble current board members in terms of income, occupation, or social circle. For example, there's no reason not to have teachers, ministers, police officers, or carpenters on the board. Avoiding the "just like me" syndrome will increase the board's cultural diversity while at the same time making it easier to achieve greater ethnic, racial, or religious diversity.

**2. Ineffective recruiting.** Creating board diversity can sometimes be more difficult than creating diversity within an organization's staff. Paid staff can be lured from other parts of the country, helping nonprofits cope with a lack of local diversity that's beyond their control. National recruiting programs can overcome the limitation of a small local population of a particular ethnic group. Board members, however, typically are drawn from the local community. And local

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recruiting can be thwarted by the limited scope of contacts and life experiences of existing board members, who often act as primary recruiters for the board.

To successfully diversify itself, a nonprofit board must go beyond its own resources and seek recommendations from outside the organization. Community leaders or leadership training groups, charitable foundations, and other organizations can provide invaluable assistance.

An important step to improve recruiting is to expand the nominating committee's responsibilities. Many organizations have abandoned the title "nominating committee" and now refer to this key group as the "board development committee" or "board advancement committee" to reflect a role that includes much more than simply identifying and electing new board members.

The nominating committee must define the skills needed on the board—insurance expertise, construction expertise, legal knowledge, political contacts, fundraising ability, and so on—and seek out prospective members who can provide those skills. The same is true for diversity goals. The committee must determine the board's diversity needs and then lead the organization's effort to meet those needs. To achieve successful diversification, the nominating committee must also take on these tasks:

- Improve the orientation process and orientation manual.
- Provide more guidance on board members' responsibilities.
- Orient, mentor, and train board members.
- Help board members evaluate themselves and their contributions to the organization.
- Ensure that board members' duties and responsibilities, including financial commitments, are made clear.

These activities are crucial for a board that wants to attract and retain new members.

**3. Inflexible requirements.** Overly strict criteria for board membership can be counterproductive. On most nonprofit boards, for example, it shouldn't be necessary for all members to make a major financial contribution to the organization. It's desirable for all board members to contribute something, but making a large financial contribution shouldn't be a *sine qua non* of membership. Achieving board diversity will be impossible if every member must be wealthy. Having a minimum contribution or even a "suggested" contribution will limit membership and participation, and make those who do achieve board membership feel like second-class board members if they aren't contributing at the level of others.

A "customized commitment" for each board member is an alternative to a suggested contribution level. The customized commitment can address giving as well as time commitment and committee assignments.

It's important for the organization to be flexible in other ways as well. Board meeting times should be varied so those with fixed time commitments can attend at least some meetings. A perfect or nearly perfect board meeting attendance record shouldn't be a mandatory requirement for membership. Some people who can't attend most board meetings may be able to attend committee meetings at other times or help in different ways, such as with special events.

## The Benefits Are Worth the Effort

Through diversification, a board can increase its fundraising capacity, obtain broader community and political contacts, and enrich its perspectives on community needs. Board members will have a greater awareness of the impact of government institutions and political leaders on the organization. By adding new members, the board can enhance its skills in finance, risk assessment, human resources, marketing, public relations, and political advocacy. A diverse board today can be better than it was.

Nonprofits that want to diversify their boards must first make the commitment at the board level and then put in place the policies and procedures that will result in successful diversification. Endless discussion and half-hearted attempts won't get the job done. The board must commit to diversifying itself and then take action as if the organization's future depended on the outcome—because it does. ■

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## Diversity Kit for Your Board

For more on creating a strong and diverse board, see these *Nonprofit World* resources at www.snpo.org:

**Beyond Diversity** (Vol. 18, No. 2)

**Encouraging Visionary Board Leadership** (Vol. 16, No. 4)

**Who Should Be on Your Board?** (Vol. 8, No. 1)

**Board Self-Assessment** (Vol. 7, No. 4)

**Eliminating Resistance to Change: The Magic Formula** (Vol. 10, No. 5)

**10 Action Steps for Vital Boards** (Vol. 10, No. 1)

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**Board Governance Videotape**



# Prelude to Change: How the DMCA Affects Fundraising

*A new copyright law will have a dramatic impact on fundraising.*

BY RICHARD L. AUSTIN

It's hard to imagine that giving a grant to a nonprofit organization, sponsoring a charitable event, or awarding a scholarship can put the donor at risk for a lawsuit. But it can.

The U.S. Copyright Act has always provided strong protection for owners of original works of copy. Recourse procedures against infringers of creative works and written forms of expression have almost always been upheld by federal courts. The Digital Millennium Copyright Act (DMCA) of 1998, however, dramatically changed the landscape for liability. And, as more legal actions unfold around its secondary and tertiary liabilities, the impacts on fundraising will be significant. Everyone in the fundraising loop is impacted.[1]

We need only turn to the Napster fallout to grasp the repercussions for those who ask for money via a written request. A&M Records, the owners of copyrighted property, sued Napster for making software that facilitated infringement of the property. Claims were filed against the venture capital firm of Hummer Winblad for its role in funding the infringement. Napster filed a malpractice suit against the law firm of Cooley Godward for advising mp3.com that the software provider could assert defenses to copyright infringement. Everyone who facilitated the infringement was seriously affected, and the costs were staggering.[2]

For fundraisers, the problem stems from using a written grant application, sponsorship proposal, scholarship application, or charitable request. These written requests for funding—if original—are protected by copyright and are valuable property to someone, especially if the request for funds is successful. If the owner of the property uses the same information again for financial gain—such as in other requests—no problem exists. However, if someone other than that owner uses the protected information—without written permission—and receives an award of funds, there is a significant problem. This action is deemed "copyright infringement" and is poised to create havoc throughout the fundraising community.

Fundraising depends largely on a request in written form. No matter how noble the cause, raising money is still for financial gain, and this is the net that will snare the wrongdoer.

In the digital environment, grant writers are at risk, as they are the "infringers" of copyright. They are the employees or consultants who use other people's copy to get money, via the grant, sponsorship, or donation request. Until the DMCA came along, they were the primary targets of any misconduct actions by copyright owners. Few lawsuits were ever filed against them because it was difficult and expensive to track them down and they had little money to attach as a penalty. The Recording Industry Association of America, however, is now targeting active infringers of their copyrights, establishing many of the new legal rules by which grant writers must play when raising money.

Under the DMCA, a facilitator is at higher risk than the infringer. A "facilitator" of a copyright infringement can be held liable for the infringer's actions. A facilitator, in addition to the recipient of funds, can be any organization or individual that awards money to another organization or individual based on a written request containing infringed property. This now places at risk the universities, school districts, and organizations that gain financially from fundraising, as well as the foundations, corporate sponsors, scholarship agencies, executive directors, and charitable trusts that award the funds. And, if ongoing legal actions based on the DMCA play out in the wrong direction, a private contributor, a grant panel member, or a wealthy board member could be in the liability loop.

Who can be considered a facilitator of copyright infringement for either giving or gaining funds? Any of the following:

- public and private institutes of higher learning as well as public and private school districts through their numerous written requests for funding, scholarships, and sponsored projects
- public and private foundations that issue funds through written requests for project, organization, and personal support
- private corporations or local businesses, their management, and their boards of directors for giving monies in support of an event, project, sponsorship, or scholarship
- nonprofit organizations, their management, and their boards of directors (in some states) for obtaining funding through written requests
- individual members of a review board or committee that approves an award of funds.

The DMCA now provides a large net that can be cast widely by anyone who feels their copy has been misused for someone else's financial gain.

## Managing Misconduct

Secondary and tertiary liabilities under the new act usually position a facilitator as having a "right and ability" to supervise infringing activity, as most employers do over their employees. They have a "direct financial interest" in the results of the activity, as most funding recipients do if funds are awarded from the action.

With this level of responsibility, managing a claim of infringement shouldn't be taken lightly, and turning a blind eye to the behavior isn't a defense. Any claim is serious and should never be regarded as frivolous. Organizational arrogance against a claimant or an obstinate reviewer will only complicate the process and will be more costly to the facilitator in the long run.

What should a facilitator do to manage the review of misconduct actions by its employees in a request for funds? Within the DMCA there is a process that a claimant of infringement must use against a facilitator. The claim must be in writing and include all the following:

- physical or electronic signature of the copyright owner
- a description of the copyrighted work claimed to have been infringed
- a description of the infringing material and enough information to permit the facilitator to locate the material
- contact information, including address, telephone number, and e-mail address
- a statement by the copyright owner that use of the material is not authorized
- a statement that the information in the notification is accurate. (Any person who misrepresents allegations of copyright infringement is liable for damages, including attorney's fees.)

With this information, a reviewer can usually validate any infringement claim quickly. An employee or service provider, without needing legal involvement in most cases, can complete the review. Serious infringements, however, should always have the oversight of legal counsel.

## Measuring Misconduct

If an unauthorized reuse is found after the DMCA process is followed, the next step is determining the financial loss. Most infringement claims will be minimal and can be settled without litigation by paying a small fee to the copyright owner.

If your grant request isn't funded, there's no financial gain, and a small rights fee of $25 to the copyright owner will probably halt any further actions. You can also purchase rights to use the information in the future for a small fee, just as you can purchase the rights to using book illustrations or small amounts of data from publishers.

If your request is funded, on the other hand, the amount of loss is determined by using another model from commercial publishing. It is called the "percent of use model" and is respected by the courts as a guide for settlement. To use this model, simply create a percentage by dividing the total volume of the funding request by the amount of infringed material. Then take the resulting percentage and divide it into the amount of financial gain. For example, if your grant award is $2,000, and 10% of the written request contains infringed property, you owe the copyright owner $200. Few copyright owners would pursue this amount through the courts. However, if the grant award is $4,000,000, and 50% of the written application contains misused property, the damages would be great and probably worth the avenue of a legal action.

*(Note: Most word processing programs have a word count feature for identifying the total number of words used in a document. By comparing the number of words for the infringed property to the total words in the request, a percent of use can be determined with simple math.)*

This model could probably work for large grants or funding requests, but corporate sponsors face yet another problem. In addition to the dollar value of the sponsorship that is funded, corporations receive an identifiable value in return for their support. The industry uses a technique called "sponsorship impressions" to calibrate the "return on sponsorship" value for the support. This evaluation model could be used by a claimant against the sponsorship recipient as well as the sponsor to determine the amount of financial gain on both sides.

## Chilling Effect or Business as Usual?

Will the DMCA cast a chilling effect over the fundraising and sponsorship process? Probably not. Will your organization face litigation costs if you ignore the growing problem of copyright infringement in funding proposals? Probably. Will everyone need to implement procedures to safeguard those who

provide resources for fundraising and sponsorship? Absolutely!

This is a new age for raising funds and finding sponsors. It can be a low-cost management process or—for those who want to do business as usual—an expensive nightmare. ■

**Footnotes**

[1] See "Copyright Basics," U.S. Copyright Office (http://www.copyright.gov/) and "The Digital Millennium Copyright Act of 1998" (http://www.copyright.gov/legislation/dmca.pdf).

[2] Lemley, Mark A. and R. Anthony Reese, *Stopping Digital Copyright Infringement Without Stopping Innovation*, University of Michigan, School of Information, 2003 (http://intel.si.umich.edu/tprc/papers/2003/210/Stopping_Copyright_Infringement_Without_Stopping_Innovation.htm).

**Suggested Readings**

*Law* and *Taxation*, *Nonprofit World CD-ROM* (www.snpo.org).

Templeton, Brad, "Ten Big Myths about Copyright Explained" (http://www.templetons.com/brad/copymyths.html).

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## Questions & Answers about Copyright Law

***1. What is a copyright?***

Copyright refers to original works of authorship fixed in any tangible medium of expression. Copyright law protects the following: literary works (including computer programs); musical works; dramatic works; pictorial, graphic, and sculptural works; motion pictures and other audiovisual works; and sound recordings.

Included in the category of "literary works" are grant, sponsorship, scholarship, and endowment proposals, and the written reports associated with these works.

***2. What is copyright infringement?***

Copyright infringement is the unauthorized use of a copyrighted item.

***3. What is intellectual property?***

Intellectual property is any unique product of human intellect with some value in the marketplace. Intellectual property laws cover ideas, inventions, literary creations, unique names, business models, industrial processes, and computer program code.

***4. What is public domain?***

A public domain work is one that isn't protected by copyright. The reasons the work isn't protected include:

- The term of copyright for the work has expired.
- The author failed to satisfy statutory formalities to perfect the copyright.
- The work is produced by the U.S. government.

***5. If I'm in education and write grants, isn't that always fair use?***

No. Fair use provisions don't apply when the "intent" of the information is for financial gain. A funding request is always for financial gain.

***6. Who is actually covered by the Copyright Acts?***

Anyone who violates any of the exclusive rights of a copyright owner is covered and can be sued in federal court. The term "anyone" includes any state and any state officers or employees acting in their official capacity.

***7. What are the penalties for copyright infringement?***

Remedies for infringement can include:

- impounding and disposition of infringing articles
- damages and profits
- the copyright owner's actual damages
- any additional profits of the infringer
- statutory damages
- costs and attorney's fees.

***8. Can a person be punished for claiming that a portion of a funding proposal is copyrighted when it isn't?***

Yes. Any person who knowingly makes a false representation of a material fact in any written statement filed in connection with the application can be fined up to $2,500.

***9. If copyright infringement is discovered in a funding request, do I have to return the grant?***

Probably! The funding organization, which is also in the liability loop from the infringement action, may require you to return the award, even if some funds have already been expended. The financial impact, however, could multiply even further. Gone could be funds for research, teaching assistants, equipment, and any matching funds or sponsorships. You (or your organization) could also be excluded from applying for any grants in the future.

***10. What if copyright infringement is discovered in my proposal, but I don't get the grant? Is there still a copyright violation?***

Yes! The fact that there is no financial gain may only relieve you from serious damages.

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# Board Retreats: **The Wave of the Future**

**They're not just smart, they're essential.**

BY CAROL WEISMAN

If professional football teams played under the conditions of many nonprofit leadership teams, the sport would be in big trouble. Imagine a team trying to present a unified game plan, execute last-minute strategy changes, and pass the ball to score—all with virtually no practice.

Fortunately, a growing number of nonprofit boards have discovered a secret weapon—the board retreat. They've found that a group of individual players can become an effective team by gathering for an intense one-day strategy session. The one-day board retreat is leading many charitable organizations to winning seasons.

It doesn't matter how large your board or how elegant the retreat setting. You can hold your retreat on a mountain or in your office. What does matter is that you follow these six all-important steps to a productive retreat:

## 1. Make the Consultant Decision.

First, decide whether to hire someone to lead your retreat. There are many advantages to employing a professional. Doing so removes the stress of leading the group yourself, and it lets you and everyone else participate fully in the retreat. A skilled facilitator knows how to keep everyone engaged and on track. If you can't afford to hire a consultant, however, it's better to put together your own retreat than not to hold one at all.

If you do retain a facilitator, make sure it's someone with nonprofit experience. Some facilitators tout their expertise based on corporate consulting, but the nonprofit sector requires a different approach.


THE GOAL OF AN ICE BREAKER IS TO BRING THE GROUP CLOSER TOGETHER, NOT CAUSE A RIOT!

*Plan your retreat around a few specific goals.*

## 2. Pinpoint Your Goals.

Be sure to plan your retreat around a few specific goals. Create an agenda and a list of desired outcomes. Here are examples of goals you might choose for your retreat:

- **Help the board understand** or clarify the organization's mission.
- **Delineate the roles** of paid staff and board members.
- **Help the board take responsibility** for a particular project, such as a capital campaign.
- **Build team spirit,** and help board members become more familiar with each other and the organization's work.
- **Make a difficult decision,** such as whether to merge or affiliate with another organization.

## 3. Schedule a Time.

The next step is to find a full day in which as many board members as possible can participate. Because they're busy people, give your board members at least two to three months' notice or even longer if they need to make travel plans. Offer two or three dates, and choose the one that fits most people's schedules. Don't forget to consider the needs of the group—child care for boards with many young parents, accessible facilities for boards with disabled members.

## 4. Get Ready.

Once everyone has gathered for the retreat, the real work begins. Every retreat should begin with a review of your organization's mission. Even if the retreat's goals don't involve clarifying the mission, all board members must have a strong grasp of the mission to guide their work.

An ice-breaking session is also helpful. It's amazing how a few get-acquainted exercises can increase people's comfort level.

## 5. Tackle Your Goals.

Next, address the goals you set. An experienced facilitator can guide participants through a series of creative activities that focus on each important issue. Keep in mind that goals change so that your original goals may be superseded by more immediate concerns at the time of the retreat. A good facilitator will help the board prioritize its most pressing concerns and then address them as time permits.

## 6. Make a Plan.

Perhaps the most important (and most overlooked) step is developing an action plan. It's so easy for a board to come up with wonderful ideas and then never take action to turn those ideas into reality. Create a timeline and a list of tasks for each individual. When the board meets again, all members should be prepared to report their progress.

These six steps will turn board members into a tightly-knit action team. And that makes everyone a winner! ■

**Resources**


Brinckerhoff, Peter, "How to Choose and Work with a Consultant," *Nonprofit World*, Vol. 10, No. 2.

Eadie, Douglas C., "Putting Vision to Powerful Use in Your Organization," *Nonprofit World*, Vol. 13, No. 4.

Hughes, Sandra, "A New Take on a Good Idea: Board Retreats," *Nonprofit World*, Vol. 17, No. 6.

"The Logic of Consultants' Fees," *Nonprofit World*, Vol. 8, No. 5.

Vogt, Jean, "Demystifying the Mission Statement," *Nonprofit World*, Vol. 12, No. 1

Weisman, Carol, *Board Governance Videotape.*


These resources are available from the Society's Resource Center, www.snpo.org.

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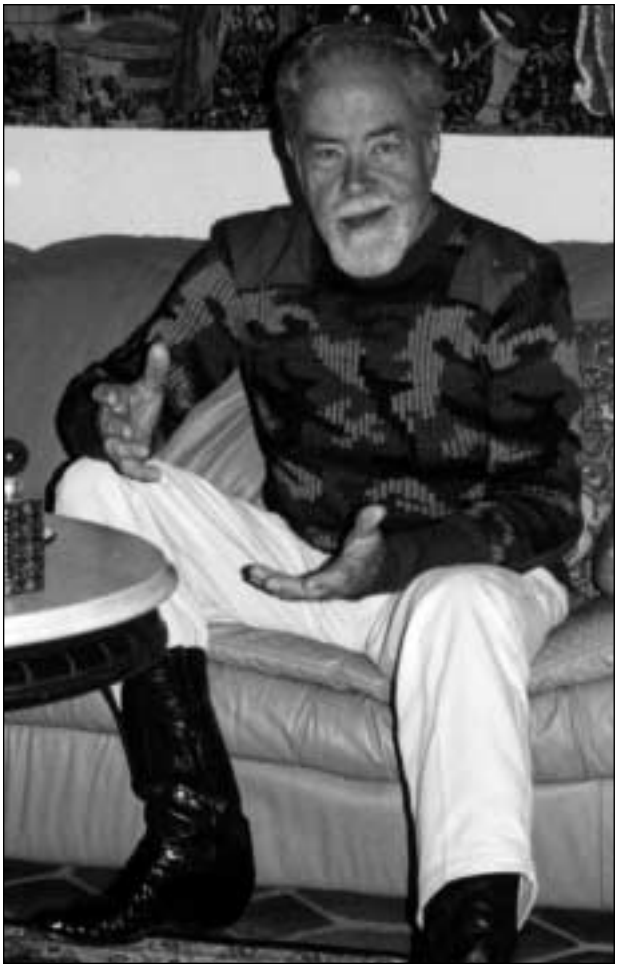

DAVID E. MASON

# Secrets of the Charismatic Leader

Here's how to develop this crucial ingredient in your organization's leaders.

BY DAVID E. MASON

Charismatic leaders are plentiful and effective in the nonprofit sector. A study of 142 successful nonprofits in 11 states shows that 88% of these organizations' founders are perceived as being charismatic leaders.[1]

The nonprofit's need for donations makes charisma essential. Charismatics elicit energy in the form of time, talent, and money. They heighten motivation. And they infuse and mold values.

The voluntary sector needs these powerful personalities, especially when an organization is just starting, when it needs revitalization, or when it faces distress, change, or rapid growth. Faith in a charismatic leader's vision generates tremendous energy that becomes available for change.

## Four Essential Steps in Charismatic Leadership

Writers have used the term *charismatic* for two millennia to denote qualities considered so mysterious that they must be gifts from God. The charismatic's power is not a total mystery, however. Charismatics do four things that, together, lead to effective leadership:

**1. Formulate a vision.** Having a vision means conceptualizing a future that others can see in their mind's eye. As the charismatic leader Napoleon noted, "Imagination rules the world." Charismatics have the imagination to see beyond current realities, to picture the desired future as if it already exists. An ideal vision has the following characteristics:

- It is a ***clear overall strategy***.
- It is ***involving, relevant, and memorable***.
- It is linked to ***people's needs***.
- It is ***meaningful*** beyond work.
- People see it as ***a challenge*** to move toward something better than the present situation.

**2. Articulate the vision.** How can visionaries help others share their vision? The Points of Light Foundation found that the answer is twofold. First, leaders need to frame the vision in terms of a problem the organization is facing. Next, they must make sure the vision is widely discussed and understood throughout the organization. When leaders do those two things, people feel as if they've freely chosen the vision. The result is a level of performance far beyond expectations.

**3. Build and maintain trust.** Nonprofit undertakings require sustained effort. People's trust in their leader gives them the energy needed to forge on. This trust is based on their perception of the charismatic leader as a unique individual. That sense of uniqueness, or style, may involve a whole gamut of human qualities, including, as Daniel McGregor notes, "clarity of mind and expression, sustained enthusiasm, sympathy, courage, wisdom, originality, humor, sensitivity, and cultural refinement."[2]

In studies that compared charismatic to noncharismatic leaders, Jay Alden Conger found charismatics to be more powerful speakers, thus generating great trust.[3] Warren Bennis, too, writes of "leading from voice," in which trust is the underlying element.[4] Leading from voice is necessary whenever the leader deals with volunteers. Bennis lists four characteristics of leaders who generate and sustain trust:

- ***Constancy.*** They stay the course.
- ***Congruity.*** There is no gap between the theories they espouse and the life they lead.
- ***Reliability.*** They're there when it counts; they support their co-workers in the moments that matter.
- ***Integrity.*** They honor their commitments and promises.

**4. Symbolize.** Evangelist Jimmy Swaggart's fall had nothing to do with his singing, speaking, or managing skills. It had everything to do with his behavior contradicting the values he espoused.

Effective leaders embody their organization's values. The leader becomes the ego-ideal, the model for followers, who internalize the beliefs that the leader symbolizes.

## Four Ways to Cultivate Charisma

**1. Help your organization's leader focus on the four essential steps** described above. Leaders who do these four things—formulate a vision, articulate the vision, build trust, and symbolize the organization's values—create the aura of charisma.

**2. Provide the leader with training in psychological approaches** such as the neurolinguistic strategies identified by John Grinder and Richard Bandler. For example, *mirroring* builds rapport as you match your posture, movements, voice tone, tempo, and breathing with that of the person with whom you're communicating. Applied with skill, mirroring builds instant rapport, breaking down barriers and facilitating cooperation.

**3. Educate the leader in communication methods** that develop charisma. For instance, some experts in nonverbal communication believe that people perceived as charismatic are simply more animated than others. Therefore, a leader might simulate or create charisma by exaggerating head and body movements, touching others more, smiling more often, and talking faster and with greater clarity. As another example, an experiment by Harvard University psychologist Ellen Langer shows that people can get their way by using the word "because" to preface even nonsensical reasons for compliance. She says it's a response of the human brain to obey after hearing this potent B-word.

**4. Teach speaking techniques.** Since spellbinding speaking ability can be equated with "presence," some believe that courses in public speaking can develop charisma. Dale Carnegie and the organization that bears his name have conducted a successful business on this foundation.

## Take Care of Your Charismatic Leader

While you can train a person to develop charisma, you can't ever pin down the elusive quality that gives charismatic leaders their awesome power. To take full advantage of that power, you must learn ways to compensate for the negative qualities of charismatic leaders.[5] Develop an understanding of their blind spots. Tolerate their weaknesses, and cherish their strengths. While it takes extra energy to keep charismatic leaders on track, it's worth the trouble, for such leaders are precious, and you're not likely to find one by placing an ad under "Savior Wanted." ■

**Footnotes**

[1] The organizations in this survey range from tiny volunteer groups to 10 United Ways. Their fields include health, education, welfare, trade associations, and foundations. Churches and other religious groups were omitted because it is assumed that they would tend more than other organizations to gravitate to the charismatic leader. In addition to the survey, this article draws on a list of 54 charismatic leaders and 54 noncharismatic leaders personally known or observed as well as on research in sociology, political science, business management, and the rare research dealing specifically with the voluntary sector.

[2] McGregor, Daniel, *The Human Side of Enterprise*, New York: McGraw-Hill.

[3] Conger, Jay Alden, *The Charismatic Leader: Behind the Mystique of Exceptional Leadership*, San Francisco: Jossey-Bass.

[4] Bennis, Warren, "Leading Through Inspiration," *Executive Excellence*, 1989, 6(3).

[5] The next article in this series will detail ways to counteract the flaws of a charismatic leader.

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# PLANNING FOR LEADERSHIP SUCCESSION:

# Are You Ready?

## HERE ARE RULES EVERY CEO SHOULD KEEP IN MIND.

BY JOSEPH C. SANTORA

Surveys show that less than 50% of nonprofits plan for leadership succession. These organizations are taking a big risk, especially during times of economic uncertainty and turbulence.

It's up to the CEO and board to work together to create a succession plan. Every organization needs one. The following five guidelines will help:

### – 1 –
### Choose a Successor at an Early Stage.

It's never too early for the CEO, in consultation with the board, to identify a successor. This person will lead the organization if the CEO retires, resigns, is forced from office by the board, becomes incapacitated, or dies. The successor should have the following characteristics:

- **Embody** the same organizational philosophy as the incumbent.
- **Be devoted** to the organization's mission.
- **Possess** leadership traits, such as loyalty, tenacity, and perseverance.
- **Be willing to wait** in the CEO's shadow as heir apparent, ensuring that the CEO and board can sustain the organization's policies and practices after the incumbent leaves.

### – 2 –
### Name the Successor.

Once the CEO and board have settled on a successor, they should communicate their selection to the entire organization so that a smooth and seamless transition can take place.

### – 3 –
### Give the Successor Leadership Experience.

The best way an understudy can learn to lead is by leading. The successor should be given leadership opportunities on a gradual basis. Job rotation, working in key administrative areas, will give the understudy a holistic view of the organization. The reigning CEO should serve as role model, mentor, and coach.

### – 4 –
### Share Vital Information.

The CEO, board, and successor should understand the need to communicate and share vital information. Communication and information-sharing reduce interpersonal and organizational barriers which can lead to poor personal and organizational performance.

### – 5 –
### Exit & Don't Look Back.

Unless unplanned activities such as death or incapacity occur, the CEO should set a realistic deadline for departure. Often CEOs remain as consultants after they have been succeeded. Such action may cause mixed loyalties and be more harmful than beneficial to the organization. By now the new CEO should be sufficiently mentored to lead the organization, and the departing CEO should realize that retiring doesn't signal a death knell. ■

**Resources**


Burnham, Katie, "What Skills Will Nonprofit Leaders Need in the Future?", *Nonprofit World*, Vol. 20, No. 3.

Temkin, Terrie, "Nonprofit Leadership: New Skills Are Needed," *Nonprofit World*, Vol. 12, No. 5.

Muehrcke, Jill, "Are You a Collaborative Leader?", *Nonprofit World*, Vol. 15, No. 2.

Vanden Berk, Kathryn Collins, "Is Your Organization an Opportunist?", *Nonprofit World*, Vol. 17, No. 3.


These resources are available from the Society's Resource Center, www.snpo.org.

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# When You're Forced to Say "No Comment"

## Should you ever refuse to comment? Will you ruin your organization's reputation if you do?

BY MARC JAMPOLE

Most of us have read, seen, or heard news stories in which a nonprofit organization refuses to say anything. Our first reaction is usually some version of "What do they have to hide?" or "Why are they keeping important information from the public?"

Often, however, legal, ethical, or business constraints prevent an organization from making a comment. Here are some examples of situations in which answering simple questions may get an organization into trouble:

- Giving details or mentioning the name of a rogue employee who committed a crime may violate an organization's confidentiality policy and, in certain circumstances, may be against the law as well.
- In any healthcare or social service setting, giving details or even mentioning the names of patients or clients breaches confidentiality and other laws.
- If an organization is negotiating to buy a piece of property for a new facility, publicly acknowledging those negotiations usually puts the organization in a weaker negotiating position because of the suddenly raised expectations of customers and employees.

These examples represent a small number of ever-growing legal and ethical constraints that can restrict what your organization says in public. Yet you want your organization to be perceived as candid and truthful. What can you do?

*Just because you can't say everything doesn't mean you can't say anything.*

### What to Do in the Short Term

Even when giving a "no comment," you can show that you're open and honest while following the law and upholding your ethical policies. Here are some simple tactics that can save your organization's reputation for honesty and openness even when you must refuse to answer questions:

- **Select a spokesperson** who is friendly and personable, understands the organization, and has been trained in giving organizational messages simply and accurately. The spokesperson can be your organization's leader, a well-respected board member, the top communications professional, or an outside communications consultant. It should never be your organization's general counsel or an outside attorney. It's not that attorneys can't be articulate and friendly. But the very fact that an organization has selected an attorney to serve as spokesperson will send a message to many that the organization has something to hide.
- **Always explain why** you can't comment. When an organization tells the news media or other important constituencies why it can't answer the question, instead of people thinking, "The organization has something to hide," they think, "The organization is between a rock and a hard place on this one."
- **Share information** that can be disclosed. Just because you can't say everything doesn't mean you can't say anything. On the other hand, no organization is obligated to reveal information that is harmful, proprietary, or confidential. Deter-

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mining what information to share, and when, is perhaps the key question in any communications decision.

- **Call people back** as soon as the organization can say something. Contact anyone who asked a question, and provide the answer as soon as you can.

### What to Do in the Long Term

- **Engage in a continual program** to communicate to your markets, employees, and the communities in which your organization operates. This program should communicate your mission and the fact that your organization is open and caring. The current jargon for such a program is reputation management.
- **Share important news,** such as new grants, products, and employees, with all your important constituencies. Highlight your accomplishments on a regular basis. A key message in all public communications should be the benefits your organization provides to its key constituencies.

Establishing that your organization is honest and that it benefits the community and the economy creates good will that will help you through a crisis or other period in which you can't communicate. It will also enhance employee satisfaction, attract donations, and help you achieve other important goals. ■

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## Do You Want to Learn More?

For more on building your organization's reputation in bad times and good, see these *Nonprofit World* resources in the Society's Resource Center, www.snpo.org:

**In the Hot Seat: How to Respond to Pressure Groups,** Vol. 12, No. 4.

**How to Handle a Crisis,** Vol. 12, No. 1.

**Achieving an Admired Organization,** Vol. 11, No. 5.

**Nonprofit Communications on a Shoestring: Thriving in the Midst of Crisis,** Vol. 8, No. 2.

**Public Relations** and **Communications, *Nonprofit World* CD-ROM.**

# 10+ Self-Audit Tips for Nonprofit Accountability

## Take this quick quiz to see if you deserve a laurel wreath or an "End-Ron" burial.

BY CHARLES MACLEAN

Provisions of the Sarbanes-Oxley Act for business accountability could be applied to nonprofit organizations. In fact, some states, including New York, have already moved to impose such requirements on nonprofits. Such legislation will subject nonprofit organizations to audit committee standards, internal control procedures, and certification requirements related to financial statements. (See these *Nonprofit World* articles at www.snpo.org: "Keep Your Board Above Board: What You Need to Know about Sarbones-Oxley," Vol. 21, No. 1, "Nonprofits without Audit Committees Risk Disaster," Vol. 22, No. 2, and "How to Find the Perfect Auditor," Vol. 22, No. 3.)

Even if you aren't required to comply with Sarbones-Oxley rules, it's important to follow a set of best practices and ethical behaviors to build transparency and trust. Public expectations of nonprofits are higher than for businesses—and most nonprofits meet that higher standard. Now, more than ever, there's an opportunity to exceed public expectations and rebuild any trust that may have been lost. When nonprofits are perceived as acting in unprofessional, irresponsible, or ethically questionable ways, public reaction can quickly rise to feelings of betrayal and violation of trust. Distrust in one nonprofit can cause a halt to giving to other nonprofits.

Prevention is so much easier than recovery. For that reason we might heed poet Robert Burns' wisdom about the power "to see ourselves as others see us." This self-audit will help you do so.

Be sure to ask your stakeholders to take this test, too. Their answers will be invaluable in helping you pinpoint your areas of vulnerability. It's vital to enlist your "customers" to make them partners in change, not just critics. Continuous improvement thrives on candid feedback from self-audits that engage those with something at stake. ■

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*Charles Maclean, Ph.D. (advocate@philanthropynow.com, www.philanthropynow.com, 503-297-1490) is the author of the "360 Degree Nonprofit Self-Audit for Excellence & Accountability." The advice in this article was drawn from the Sarbanes-Oxley Act, Patrick O'Hare in* The Grantsmanship Center Magazine, *National Public Radio discussions, best business practices offered by Wendy Weissman, Bobbi Bilnoski-Concinnity Network, and from the PhilanthropyNow "Report Card For Rating Giving Opportunities"™.*

## Answer "Yes" or "No" to Each Question & Then Ask Your Stakeholders

1. **Audible Whistle Blowing:** If someone discovered an integrity lapse or accounting error and reported it to your nonprofit's designated complaint recipient, would that person investigate those concerns thoroughly and promptly?

   ___Yes ___No

2. **Self-Scrutiny:** Does your nonprofit conduct an operations and ethics self-audit involving staff, donors, board, and recipients to identify strengths and areas for continuous improvement? Do you then implement those improvements?

   ___Yes ___No

3. **Financial Audit:** Does your nonprofit have an independent audit committee and CPA firm that signs its name to the audit report, as does your executive director and CFO?

   ___Yes ___No

4. **Exec's Performance Review with Teeth:** Does your board reserve part of one meeting every year to review the executive director's performance (with the director absent) and the organization's performance in accomplishing its mission?

   ___Yes ___No

5. **Board Rigor, Not Rigor Mortis:** Do your board members from the business sector guide your nonprofit as rigorously as they guide their own companies? Are you receptive to their coaching? Are there procedures in place to remove unfit directors?

   ___Yes ___No

6. **Hard-Edged Monitoring:** Do you monitor the impact of your projects, both successes and failures, noting what you learned? Do you then communicate those findings to donors and other stakeholders?

   ___Yes ___No

7. **Uncommon Transparency:** Do your donors know where their money is going and how dollar allocation decisions are made?

   ___Yes ___No

8. **Open-Book Use of Funds:** Does your organization have a clear policy about whether a portion of donations can be used to cover overhead, fundraising expenses, or future projects?

   ___Yes ___No

9. **Diligent Donor Protection:** Does your organization protect your donors from unwanted solicitations by allowing them to "opt in" or "opt out" of e-mail, U.S. mail, and telephone calls?

   ___Yes ___No

10. **IRS Compliance+:** Has your organization filed a current and complete IRS Form 990? Are you responsive to requests from donors for additional information?

    ___Yes ___No

11. **Gold-Standard Code of Ethics:** Do you a have a code of ethics for staff and board that includes a conflict of interest provision?

    ___Yes ___No

12. **Your Money Follows Your Mouth:** Have you included your nonprofit in your own annual giving plan?

    ___Yes ___No

**<u>Self-Scoring</u> (Count the Number of Yeses)**

10-12 Wear a laurel wreath but don't rest on it

7-9 Get sunscreen SPF 35 and prepare for front-page exposure

4-6 Buy a supply of tar and feather remover

0-3 Prepare for an "End-Ron" burial

**"Congratulations on your willingness to explore cherished mistaken certainties."**

# NEW SOCIETY MEMBER BENEFIT!

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or see the back cover of this issue.

**www.nonprofitcareers.org**

# Use Employee Ownership to Motivate People and Gain Revenue

How can you give your workers a stake in your organization's success?

BY COREY ROSEN AND SAM SHAH

Are ownership concepts applicable in nonprofit settings? Is there a way for you to share ownership of your organization, in one form or another, with your workers? Does tax law, which says that "no part of a nonprofit's net earnings can inure to the benefit of any private shareholder or individual" mean you can't compensate your employees with incentive pay based on net earnings?

The answers: Yes, yes, and not at all. According to a survey of nonprofit organizations, 53% of respondents provide variable cash compensation to employees; among this group, half make all employees eligible for incentive pay.[1] As a growing number of nonprofits are forced to generate revenue from their own work rather than from donations and grants, it's increasingly important and legitimate to encourage employees to find ways to generate these revenues. In some cases, the organization's survival may be at stake; in others, finding self-generating revenues could help fund other organizational activities. Tying compensation to financial goals, at least in part, thus becomes entirely justifiable.

You can also link pay to organizational achievement, making incentive compensation a key part of attracting, retaining, and motivating good workers. Every nonprofit has objectives that can be quantified with a little imagination.[2] You could set up a point system for several objectives, such as cost savings, new revenues, and goals achieved. Meeting these objectives could then trigger incentive pay for employees.

## Who Should Get Incentives?

Traditionally, incentives are focused on "key" people, usually top management. This practice draws from the model in which a few people make decisions while others carry out orders. This model, however, is no longer the norm. Current research shows that organizations with flatter, more participative management perform better than rigidly hierarchical organizations.

If everyone is eligible, however, should incentive pay go to all employees? Or should it be reserved for exceptional performance (and, if so, how would you define "exceptional performance"?) Or should you make all workers eligible but dole out awards based only on the achievement of certain goals?

These concerns can often be clarified by asking teams of workers to set standards or at least help management determine the criteria. If everyone has input in defining goals, there's less likely to be resentment when individual rewards are given. Each culture is different, however, and no one approach is better than another.

## How Should Awards Be Allocated?

People's awards can be assigned according to five types of formulas, each of which creates a different type of ownership culture:

**1. Awards may be given in proportion to relative pay.** Such formulas signal that incentives are simply part of overall compensation. (Example: An employee with 1% of pay will get 1% of the total award.) If employees regard salary, benefit, and bonus formulas as fair, they'll most likely perceive equity award allocation formulas that way, too. (Organizations can also combine the relative pay approach with another formula, such as number of years worked or number of hours worked, or they can cap the eligible pay amount.)

**2. Awards may be based on hours worked.** Such allocations indicate that "ownership" of the nonprofit is considered a basic right and that everyone's contributions are equally valued. This strategy can help create a culture of common ownership but may also cause resentment—and perhaps recruitment and retention problems—among higher-paid employees.

**3. A formula may be based on promotion or a merit assessment.** This type of formula rewards meritocracy. It will work well if employees are confident in the judging system; it won't work if they see it as a way to enrich the undeserving. This approach also, indirectly, sends the message that the organization believes not all employees deserve ownership, creating an atmosphere not conducive to building a true ownership culture. To address this issue, some organizations expect all workers to earn ownership at some point or to leave the organization.

**4. Formulas may reward seniority.** Seniority-based awards encourage employees to stay with the organization, though it's possible that only those with many years of service will realize much of the benefit. Hard-working employees who are younger could be discouraged by this practice, viewing the years required to earn these rewards as daunting.

*It's increasingly important and legitimate to encourage employees to find ways to generate revenues.*

**5. A reward may be based on positions held.** This sort of allotment is the least likely to help create an ownership culture because it reinforces hierarchical notions.

You can combine these five formulas in various ways to produce the desired effect. A point system may allot points for pay, merit, and so on. A multi-system approach may award some shares based on merit, some on tenure, and some on position.

## How Much Should People Get?

It's not easy to say how much the award should be. The only study of incentive practices that has examined the size of awards in a variety of nonprofits was conducted in 1990 by Applied Research and Development International. In this study, average award payouts ran from 2% to 5% of pay. (This would be a low percentage in the private sector. The median percentage contributed to profit-sharing plans is around 8% of pay, and the value of stock option awards for non-management employees is on a similar level.)

You must determine the payout needed, at minimum, to encourage employees and not upset boards and supporters. You can seek your employees' input to help calculate these payouts, perhaps even letting them set target levels (subject to board approval). Employees typically set higher goals and lower awards when they pick these variables themselves, yet feel better about what they receive than if management imposes the award levels.

Another approach calls for payout levels based on attainment of escalating targets. For example, you might state that if income exceeds expenses by $50,000 on a project, employees will receive 20% of this amount through incentive compensation. And, if this number is $100,000, employees get 20% of the first $50,000 and 40% of the next $50,000.[3]

## Which Approach Should You Use?

You can provide employees with a "stake in the outcome" in five basic ways:

**Approach 1: Share Revenues.** The simplest approach is to share revenues, a strategy with endless variations:

- Share a percentage of total revenues.
- Share a percentage of total revenues over costs.
- Share a percentage of only certain revenues, such as those from the sale of goods or services (rather than income from grants or contributions).
- Share a percentage of revenues in excess of what's needed to pay for current programs plus a designated addition to reserves.
- Share revenues in excess of pre-set annual or other periodic goals.
- Share revenues only for particular projects or in certain units of the organization.

With this approach, you set the percentage after you determine the pool (the amount of money to be shared.) The percentage might be fixed or graded (15% of the first $50,000 over target, 25% for the next $50,000, and 35% for anything over that, for example). You could cap the amount to protect against unreasonable compensation in the event of a windfall.

**Approach 2: Share Short-Term Goal Achievements.** Another strategy, creating a pool based on short-term goals, also has endless iterations. Your organization could, for example, state that when net assets or total revenues reach a certain level, a pool of X dollars will be shared, and that each time revenues or assets increase another Y%, another X dollars will be shared. This "bucket" approach (the bucket is emptied and refilled) gives employees meaningful targets to shoot for, and reassures board members and stakeholders that incentive compensation is provided only if the organization attains a basic level of financial security.

An alternative is to set achievement benchmarks. For instance, a hospital might base awards on number of beds occupied, number of staff retained, or amount of income received. Such a strategy assures that employees don't overemphasize financial goals or neglect the organization's mission.

**Approach 3: Share Long-Term Goal Achievements.** This is similar to the approach above, except that the time frame is extended to a number of years. The trick with these structures is to keep employees interested until the rewards pay out. You can do so in several ways. One method is to make annual payments on long-term goal achievements; for instance, you might set a three-year goal every three years, but after the first three-year period goal is met, employees would receive one-third of the total award over the next three years. Or the system could assess goal achievement over the prior three-year period, paying out each year based on previous performance.

**Approach 4: Offer Vesting Awards.** Another tactic, which can be used with the one above, is to vest people in the award. "Vesting" describes the amount of time someone must work at the organization to earn an equity award. Vesting can occur all at once, called "cliff vesting"; here, an employee earns the right to 100% of the award after five years, for example. Or, vesting can be "graded," meaning an employee could earn a right to, say, 20%

of the award per year over five years. Some organizations might give partial or full credit for years worked prior to plan adoption, while others may elect to start everyone from the date of plan adoption.

Vesting encourages employees to stay with the organization, but the trick is to find a schedule that retains good people without creating the perception that vesting is a remote possibility. Also, if your organization suffers from high (or unavoidable) turnover rates in the average employee's first three years, you might opt to start vesting at the third year. If, however, turnover is low, faster vesting schedules can be an attractive benefit with few negative consequences. If you include service provided before plan adoption, employees will be appreciative. But such a move can increase plan costs and raise the risk that employees will wait to collect their benefit and then promptly leave. However, not giving credit for prior service may cause serious resentment among senior employees. In any event, an analysis of these issues, combined with an assessment of employees whom your organization wants to reward, will make for a fairer incentive compensation system.

Vesting can work if the award is a type of equity equivalent plan designed to give the employee a share of the achievement of a long-term objective or participation in an annual bonus. In the first case, an employee would vest over time before earning a right to the equity equivalent award. In the second, employees' share of the bonus would be multiplied by their percentage vesting; for instance, a worker who is 40% vested would get 40% as much as someone who is 100% vested, all other things being equal.

A nonprofit might set a goal to have 2,000 members and $500,000 in reserve within four years, and set aside a $50,000 pool to cover the award. When these goals are met, each eligible employee might get 25% vesting credit for each of the four years worked. An employee with one year of service, therefore, would get 25% of what a fully vested employee would get.

**Approach 5: Provide Unit Awards.** Unit awards are the nonprofit equivalent of phantom stock and stock appreciation rights (SARs) in the for-profit world. These instruments give employees the equivalent of share value or the increase in share value. Usually, neither approach gives employees actual stock. With phantom stock, an employee gets the right to the value of X number of shares to be paid out in cash at some time in the future. An SAR is the right to the monetary equivalent of the increase in value of a specified number of shares over a specified time period. As with phantom stock, SARs typically pay out in cash. SARs and phantom stock are usually subject to a vesting schedule based either on seniority or performance.

In a nonprofit organization, employees would receive phantom units or unit appreciation rights. The organization could create a performance measure either with purely financial goals or a mix of financial and other goals. An employee would either get the right to a certain number of units or to the increase in the units' value.

For example, assume an organization created a performance measure that consists of the following:

- increase in reserves (20 points)
- new grants awarded (20 points)
- projects completed on time (10 points)
- number of additional clients served (30 points)
- increase in self-generating revenues from products or services sales (20 points).

The index would be at 100 in the first year. An employee might get 10 units per year in phantom units. If the index grows to 150 after five years, the employee would have 50 units allocated at $150 each. Some of these units might not yet be fully vested, however, so only some could be cashed in. In this plan (and SAR-type plans), the organization must provide the employee with a way to receive cash for the award. In an SAR plan, the employee would have the right only to the increase of $50 per unit, not to the original $100 per unit basis.

When an employee receives a nonforfeitable right to a phantom unit, whether cashed out or not, that unit is taxable to the employee. SARs are not taxed until the cash is actually paid out.

The unit system works best to induce employees to focus on long-term goals. In some cases, this pertains only to certain people in the organization. In some nonprofits, keeping employees for five years is considered an eternity. One of the trickiest aspects of unit plans is to determine the most appropriate measures for performance, and how and when to change them.

Whichever approach you use, equity equivalent plans put a creative arsenal at your disposal. They're a great way to attract workers, accomplish goals, and share ownership with the people who make your organization a success. ■

**Footnotes**

[1] "Management Compensation Report for Nonprofits," Towers Perrin.

[2] For more on quantifying objectives, see these *Nonprofit World* articles, "Five Steps to Start Measuring Your Outcomes," Vol. 17, No. 5, "Developing Your Outcome Measures," Vol. 17, No. 6, and "Using Your Outcome Measurement System," Vol. 18, No. 1, and the videotape "Outcome Measurement." For more on incentive plans and employee motivation, see "Making Incentive Plans Work for Nonprofits," Vol. 9, No. 4, "Bonus: Not a Dirty Word," Vol. 13, No. 2, and "Building Morale: The Key to Successful Change," Vol. 13, No. 3. These and many other resources for nonprofits are available at www.snpo.org.

[3] If the money comes from grants, you should discuss these incentive pay schemes with funders, because they may prefer that any excess money be returned or used for other projects.

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# Key to Raising More Money Revealed

*Is this tactic right for your organization?*

BY TERRENCE FERNSLER

***The Point of Entry Handbook***

By Terry Axelrod. 263 pages. Hardcover. Seattle: Raising More Money Publications.
Phone: 206-709-9400, e-mail: info@raisingmoremoney.com, Web site: www.raisingmoremoney.com

A growing number of nonprofits are adopting Terry Axelrod's "Raising More Money model," a four-step system for building lifelong donors. The model honors the organization's mission, respects people's desire to make a difference, and gives donors time to become educated, inspired, and involved.

The first step, the point of entry, is the key component. It plants the seeds for a lifelong relationship with a donor. During this step, it's crucial to introduce your organization in a way that informs and motivates potential donors.

Axelrod gives you all the tools to do so. She shows how to provide facts about your organization and convey the emotional aspects of your organization's work. She explains how to find people to invite to points of entry and how to capture their names so that you have permission to follow up with them.

*It's crucial to introduce your organization in a way that informs and motivates potential donors.*

An essential in marketing is to spend most of your resources where you will get the greatest return. In fundraising, that means targeting those who will make the largest contributions. These people aren't necessarily the wealthiest; they're the ones who are most committed to your issue. Points of entry are perhaps the most efficient way to identify these people.

Through this model, you can also adapt events your organization is already doing. Building lifelong relationships requires a two-way dialogue with supporters, not the one-way dialogue of traditional events. Axelrod shows how to convert existing one-way events into a reciprocal process that will build support and raise more funds.

The Raising More Money approach is important because it includes a wider range of supporters than fundraising strategies of the past. It appeals to people of diverse cultures and giving stages. *The Point of Entry Handbook* can help you decide whether this model is right for your organization. If you decide it is, this book explains all you need to know to get off on the right foot with successful points of entry. ■

*Terrence Fernsler is development director for Columbia-Pacific Resource Conservation and Economic Development District in Montesano, Washington.*

## *Funder's Checklist: Advice from a Grantmaker*

These guidelines from Dynell Garron, grantmaker and author of *The Funder's Checklist: An Inside Look at How Funders Evaluate Proposals and Nonprofit Organizations*, can help you work with funders even when grantmakers are reducing their giving programs:

- **Keep making your presence known** to prospective funders. Don't be "out of sight, out of mind."
- **Narrow your focus.** Send requests only to funders whose interests match your organization's mission.
- **Be able to articulate** how your program will help funders accomplish their goals.
- **Be ready to take advantage** of unforeseen opportunities. Have a compelling 30-second introduction prepared and well-rehearsed. Be ready to quickly turn around an effective Letter of Inquiry (LOI). The LOI is to grant seeking what the resume is to a job search—a critical first step. It must compel a funder to request a full proposal. Download Dynell Garron's analysis of an LOI at www.funderschecklist.com.

## *Tool to Build Your Organization's Capacity*

*Strengthening Nonprofit Performance: A Funder's Guide to Capacity Building* (Wilder Foundation, www.wilder.org) defines capacity building as focusing on core activities that help an organization function well. Six components affect an organization's capacity: mission, vision, and strategy; strategic relationships; program delivery and impact; internal operations and management; resource development; and governance and leadership.

Although written for funders, this 164-page paperback is a good tool for any nonprofit organization. With dozens of helpful examples and worksheets, it highlights the importance of capacity building and helps grant seekers develop programs that will appeal to funders.

—reviewed by Terrence Fernsler




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## Drop in Foundation Giving Reported

After holding the line for two years, foundation giving declined last year, according to *Foundation Growth and Giving Estimates*, a report from the Foundation Center (www.fdncenter.org). Giving by grantmaking foundations decreased 2.5%, to $29.7 billion, down from just over $30 billion in 2002 and 2001.

Prospects are good for a modest increase in giving this year, the report adds. Close to half of the foundations responding to the Foundation Center's survey say they expect to increase their giving this year, most from 1% to 10%.

## Effective Volunteer Management Lacking, Says Study

Over 80% of nonprofits rely on volunteers, but few manage those volunteers effectively, according to a study by the Urban Institute. The survey of 1,800 nonprofits found that half of volunteer coordinators spend less than 30% of their time managing volunteers. Only one in eight organizations has someone whose full-time job is volunteer management. The report, "Volunteer Management Capacity in America's Charities and Congregations," concludes that more resources devoted to managing volunteers would make organizations more productive, thus justifying the additional cost. Learn more at www.fdncenter.org and www.urban.org.

## Measuring Nonprofit Effectiveness

How well do nonprofits and religious congregations evaluate their own effectiveness? A new survey reveals the following:

- 58% of nonprofits track the quality of their services, compared to 21% of religious congregations
- 68% of nonprofits track client satisfaction with their services, compared to 21% of religious congregations
- 61% of nonprofits use outside parties to evaluate their activities, compared to 38% of congregations.

For more information, see "Balancing the Scales: Measuring the Roles and Contributions of Nonprofit and Religious Congregations" (www.independentsector.org).

## Foundations Not Following Their Own Standards

Many foundations operate in ways that are counter to their own standards of effectiveness, concludes a study by the Urban Institute (www.urban.org). Here are examples of standards and the percentage of foundations holding these standards that actually follow them:

- **It's very important to solicit outside advice:** 62% of those holding this standard hadn't solicited grantee feedback.
- **It's very important to strengthen the foundation's local community:** Only 30% with this standard had conducted a needs assessment of their community.
- **It's very important to evaluate work funded by the foundation:** 33% of foundations with this standard don't conduct such evaluations.

The study, "Attitudes and Practices Concerning Effective Philanthropy," also discovered that community foundations and private foundations have quite different ideas of what constitutes effectiveness. For example, 63% of community foundations believe it is very important to maintain a broad grants program, but just 12% of private foundations share that view.

## Nonprofits Are Finding Success with Business Ventures

A recent study analyzes over 100 entrepreneurial ventures and partnerships operated by 72 nonprofits. The survey finds that 60% of the ventures are profitable or breaking even, taking an average of two years to move into the black, and 90% of the respondents started businesses in line with their missions. The most popular enterprises among nonprofits are retail and thrift stores, the study reports. See "Community Wealth Ventures: Powering Social Change," www.communitywealth.com.

## More Grants for Operating Expenses Urged

Only 11% of dollars granted by the nation's top 100 foundations support operating expenses. "The Case of the Matter," a report by the National Committee on Responsive Philanthropy (NCRP) recommends increasing that percentage to 50%. See www.ncrp.org.

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