# Transforming Ourselves: Building Effective Leaders, Organizations, and Communities

## Charity Effectiveness Symposium IV
## Presented by the
## Education and Research Foundation of the
## Better Business Bureau of Metropolitan New York
## at Baruch College

## February 23, 2010

About 279 executives from nonprofits and foundations, as well as consultants, academics, and other practitioners from the philanthropy field, registered to attend the BBB Education and Research Foundation's third Charity Effectiveness Symposium; on the rain-soaked event day, about 232 total attendees were logged as present. The program was held at Baruch College on February 23, 2010.

"Transforming Ourselves" was presented by the BBB Foundation with generous principal support from American Express, BNY Mellon, EmblemHealth, and The New York Community Trust; generous workshop sponsorship was provided by Venable LLP. The program was hosted by The Center for Nonprofit Strategy and Management at the Baruch College School of Public Affairs, and prepared with active program committee input from our event sponsors and host, as well as from Philanthropy New York and United Way of New York City. Additional event collaborators included: Association of Development Officers; the Association of Fundraising Professionals-Greater New York Chapter; The Foundation Center; Long Island Center for Nonprofit Leadership at Adelphi University; New York Council of Nonprofits; New York Society of Association Executives; Nonprofit Coordinating Committee of New York; NYCharities.org; Staten Island Not-for-Profit Association; Women in Development, New York; and Young Nonprofit Professionals Network – NYC.

## Program Agenda:

***Welcoming Remarks:*** Claire Rosenzweig, President of the Education and Research Foundation of the Better Business Bureau of Metropolitan New York, Inc. and David S. Birdsell, Dean of the Baruch College School of Public Affairs

***Opening Remarks:*** Jason R. Lilien, Bureau Chief, Charities Bureau, State of New York Office of the Attorney General

***Keynote:*** ***"Leading the Transformation Process":*** Victor De Luca, President, The Jessie Smith Noyes Foundation; Mayor, Maplewood, New Jersey

***Panel 1: "Developing Ourselves as Leaders for Tough Times":*** Moderated by Iris Chen, President & CEO, "I Have a Dream" Foundation. Panelists: Richard R. Buery, Jr., President & CEO, The Children's Aid Society; Scott E. Millstein, Executive Director, Coro New York Leadership Center; and Janice M. Nittoli, Associate Vice President, Managing Director, Rockefeller Foundation.

***Panel 2: "Leading The Arts Organization":*** Moderated by Cheryl Green Rosario, Director of Philanthropy, American Express. Panelists: Helene Blieberg, Principal, Helene Blieberg Associates LLC; Cheryl Ikemiya, Senior Program Officer for the Arts, Doris Duke Charitable Foundation; and Dr. Louise Mirrer, President & CEO, The New-York Historical Society.

## *Workshops:*

- ***"Evaluation Milestones – How We Choose and Assess Measurement Points That Add Up to Impact"*** Led by Dr. Kim Sabo Flores**,** Director, Studio for Participatory Evaluation and Development.
- "***Protecting Your Nonprofit's Money in the Post-Madoff Era"*** Led by Jeffrey S. Tenenbaum, Partner, Venable LLP; Rory M. Cohen, Partner, Venable LLP; and Doreen S. Martin, Associate, Venable LLP.

## Summary of the Program:

Claire Rosenzweig, CAE, President and CEO of the Better Business Bureau Serving Metropolitan New York and its Education and Research Foundation, opened the proceedings. She thanked the event sponsors: American Express, BNY Mellon, EmblemHealth, and The New York Community Trust, as well as workshop sponsor Venable LLP and event host Baruch College. She also thanked program committee members who helped to develop the fourth BBB Charity Effectiveness Symposium, as well as collaborating organizations that helped make attendees aware of the event.

Dean David Birdsell from the event Host, Baruch College School of Public Affairs, welcomed attendees to their conference space. He observed that charities realize they must pursue different approaches while simultaneously confronting significant economic difficulties. Nonprofits cannot step back and make essential changes in a vacuum removed from the financial climate. Transformative change has to be implemented while our organizations are still "under fire."

Dean Birdsell remarked that the literature on transformative leadership suggests three major themes for nonprofit managers to consider. First, it is important to look at challenges faced by the nonprofit sector in the context of the community, instead of focusing narrowly on the goals and trajectories of individual organizations. Secondly, charities should look for opportunities to partner or collaborate with one another; there are ways to do this that produce shared value and that stop short of mergers. Third, while it's always necessary to develop management plans and strategies, charities still need to be sure that they "get out there and do something" that will have a positive impact.

Claire Rosenzweig observed that a strong culture of charity impact evaluation is emerging, while at the same time, nonprofits are being challenged by increased demands for services in the difficult economy. Strong charity leadership can help organizations meet these demands with creativity. Individuals at all levels of a nonprofit, from board member to junior staff, have a leadership role to play and an important part in creating impact in the community.

Ms. Rosenzweig introduced Jason R. Lilien, Bureau Chief, Charities Bureau, State of New York Office of the Attorney General.

## <u>Opening Remarks</u>
## Jason R. Lilien, Bureau Chief, Charities Bureau, State of New York Office of the Attorney General

Mr. Lilien began by commending the important work that charities and nonprofits do for the community. He went on to acknowledge the difficult position charities are in at this time. Giving to charities is down and government budgets are tight. This year, groups that had so far avoided the fallout from the financial downturn will probably start to see its effects. Therefore, it is essential to have a dialogue like this on how charities can improve their effectiveness.

The New York Attorney General's Charities Bureau registers nonprofits in New York State, and receives their annual reports. It enforces the laws that apply to charities and fundraisers in New York State, and has the authority to seek dissolution of organizations that operate illegally. The Charities Bureau also reviews applications from nonprofits that want to merge with another organization; use the principal of endowment funds; or sell significant assets. These are traditional "regulator" roles.

However, in response to the current economic environment, the Charities Bureau has transformed itself so it can do more to help nonprofits. The Bureau has also implemented an extensive outreach program for charities.

The Bureau also conducts workshops and trainings for nonprofits around the state, and engages in collaborative efforts with the nonprofit sector. They have created a "fast track" program for financially troubled organizations to expedite required Charities Bureau reviews of transactions such as asset sales and endowment fund withdrawals. The Bureau's website has been updated to be more user-friendly. The site now contains online tutorials about compliance issues for charities, as well as detailed information about the results of fundraising campaigns conducted by professional telemarketers.

For nonprofits, evaluating their missions may be difficult since the issues they encounter differ from those facing for-profits. Nonprofits do not have stock prices or other clear, widely shared criteria to use in making assessments. But nonprofit boards need to develop ways to effectively monitor progress against their mission. The evaluation doesn't necessarily have to be complicated. But board members should be asking "how are we doing?" and getting basic reports that answer this question. Nonprofit leaders need to decide what measures are appropriate to determine success for their individual organizations, and keep track of their performance.

Mr. Lilien pointed out three governance factors that are essential to ensuring charity effectiveness:

- An engaged and active board

- Prudent financial planning at the board level
- Board knowledge of the charity's mission

First, the nonprofit needs to have an engaged board of directors. Transformation starts at the board level. What information is the board getting and discussing? Board members need to be well-informed about what is happening inside the charity in order to carry out their responsibilities; this process doesn't have to be complex but it does require good communication.

Secondly, financial planning is critical to survival in a tough economy. Boards should think about where their nonprofit will be a year from now, and be willing to make tough decisions about the future.

And third, board members need to understand and be able to articulate their own charity's mission. Is the mission still right for the organization, moving forward? Board members need to be assessing the organization's mission and achievements against it.

In conclusion, Mr. Lilien noted that partnering is an important strategy for nonprofits to use. Organizations can learn from each other about what does and does not work well. The Charities Bureau wants to be viewed as a partner to help charities succeed, and welcomes inquiries.

## Keynote: Leading the Transformation Process
## Victor De Luca, President, The Jessie Smith Noyes Foundation; Mayor, Maplewood, New Jersey

Ronna Brown, President of Philanthropy New York, introduced the keynote speaker Victor De Luca.

Mr. De Luca began by noting that the current financial crisis is unprecedented in his experience. Back in the 1970's, when he started his career as a VISTA community organizer, the nonprofit sector was vibrant and growing. Money came into his organization from government, donors, contracts, and service fees. He believed then, and still believes, that an organized community is necessary to ensure that the public and private sectors respond to our needs.

After 16 years of community work in Newark, Mr. De Luca came to The Jessie Smith Noyes Foundation as a program officer. He sees this career change as a shift from "doing" to "enabling." The Noyes Foundation started in 1947 and gave scholarships and fellowships for its first 40 years. Founder Charles Noyes decided that half the scholarships would go to non-white students. Even though scholarships are no longer their focus, all their work is still influenced by considerations about race and equality. The Foundation's funding now goes to sustainable agriculture, environmental justice, reproductive rights, and community organizing, among other causes. He said that while Noyes does this type of grant-making, it is important to learn about each foundation because they are very different, reminding us of the old saying: "When you meet one foundation, you've met one foundation."

There are about 1.4 million nonprofits registered with the IRS. That number represents a really diverse group. It includes everything from arts organizations to hospitals, from veterans groups to foundations. The Urban Institute estimates that the nonprofit sector accounts for 5% of GDP and 10% of employment in America. According to the World Bank, in 2006 the nonprofit sector could have been the 16th largest economy in the world. These figures may have changed a bit since 2006, but they are still very powerful.

Mr. De Luca said that the economic upheaval today is no less devastating than the Great Depression was in the past. In the last two years, over 8 million jobs have been lost. Almost 15 million Americans are unemployed; 40% have been unemployed for more than six months. To get back to full employment we would need to create 400,000 jobs every month for the next three years. It's been reported that 37 million people, about 1 in 8 Americans, sought emergency food assistance last year – an increase of 46% over three years earlier. It's estimated that 1.5 million additional Americans will experience homelessness in the next two years. One out of every 6 homeowners is "underwater" – owing more than the home is worth. American families lost 18% of their wealth in 2008 – more than ten trillion dollars. Many state governments have become dysfunctional and seem unable to cope with the financial crisis. These are game-changing times. Just like in the 1930's, we cannot expect things to go back to how they were before. We are looking at a world that has changed forever. But the vision of tomorrow is still murky.

Where is the nonprofit sector in all this? Nonprofits are struggling to cope with the changing conditions, just as average families are. The Bridgespan Group found that 93% of nonprofits have experienced the effects of the economic downturn. Over 80% experienced funding cuts. In response, nonprofits have cut back services, tapped reserve funds, implemented furloughs, and made layoffs. Sadly, the demand for services has been rising at the same time that organizations have had to cut back. Foundations are in no better shape. Roughly 150 billion dollars in foundation assets disappeared in 2008; that's an amount equal to foundation giving for the prior four years. On average, foundation assets fell by more than 25% in 2008. Due to multi-year asset averaging practices, which determine annual amounts that are available for grant-making in the foundation field, the impact of those 2008 losses will be felt going forward for some time to come – in 2010, 2011, and possibly in 2012.

At Mr. De Luca's foundation, Noyes, the asset drop was closer to 30%. Like most nonprofits, in response to this loss, they made the easiest cuts first. They cut back on travel, trimmed insurance expenses, brought in sub-tenants, used cleaning services less often, and shared some short-term labor costs with another foundation. As an experiment, they will have their July board meeting by phone and Internet, to save money. So far, he has not reduced staff, believing that they constitute the "intellectual capacity" of The Noyes Foundation. Still, Noyes had to cut its grant making by 19% this year. This meant that they could not add any new grants for 2010. Noyes will continue to try to do new things than can make its operations more effective.

Cost-cutting efforts are good in normal times, but insufficient for nonprofits now. The conditions we face will force many nonprofits to make even more difficult and painful choices that will transform our organizations, and the sector as a whole.

In the town where he is mayor, Maplewood, the government has also struggled with financial challenges. Their city budget has had imbalances between revenue and expenses for a number of years. In most of these prior years they could find ways to make the budget work, including raising taxes. But in 2009, everything was different. They could not raise taxes on citizens who did not have money, so they were compelled to make serious changes in government expenditures. They laid off some municipal employees, cut back hours for others, and furloughed a larger group of employees for nearly two weeks. Municipal offices were closed on certain days, and changes were made in service delivery. This was very hard to do. Even Mr. De Luca's brother "had a lot to say" about the actions taken. But because of the significant changes made in 2009, the 2010 Maplewood budget now appears to be sustainable. Maplewood is looking for new ways of conducting government. They have pursued partnerships with other municipalities, to explore sharing costs such as court and fire-fighting services. The goal now is to continue re-inventing government, even when economic times do get better.

Mr. De Luca believes that layoffs should be the last resort. But this is a time when the survival of nonprofit organizations may well depend on their strength of leadership. It doesn't matter what your role is in an organization: you are a leader who has a part to play in ensuring your nonprofit's survival and preparing it for future impact. He recommends a "top to bottom scrub to make sure your priorities are correct." Charities should evaluate what they do best, assess what impact they make, and ask whether there are other, better ways of doing what they do.

Grant-makers will now be demanding that nonprofits show how they are prepared to change in the face of current difficulties and how they will continue to evolve in the future. However, according to Mr. De Luca, grantees need to ask the same questions of foundations and keep in active contact with funders. Nonprofits need to take the initiative and learn about funders' future plans. Grant-makers should make their future intentions transparent. At Noyes, they held a series of group conference calls to update grantees about decisions they were making that would have a big impact on them.

What impact is your organization making? Funders are going to drill down and look at this. Especially since dollars are so scarce, nonprofits need to be absolutely clear about their mission goals, and how they plan to achieve them. Organizations need to be upfront about their achievements, show them in measurable terms, and make a case showing how your organization makes a difference.

Mr. De Luca spoke briefly about nonprofit mergers. He believes that funders have no business forcing nonprofits to merge. However, he does think that foundations can help nonprofits think through these options and implement mergers when they make sense.

Whether or not you are contemplating a merger situation, nonprofit leaders should do a reality check and make sure that your organization is the best provider of a service, and that you have sufficient capacity to work on a given issue. If you need to reinvent your nonprofit to achieve your goals, this is the time to do that. He has made similar reality-check recommendations to foundation leaders as well. Although foundation leaders like to think of themselves as risk-takers, they can frequently take rather traditional management approaches.

Mr. De Luca concluded his keynote remarks by making three key points.

First: In these times, nonprofits should get involved in the public policy arena. This goes beyond annual trips to appropriations committees to ensure funding streams will continue. It involves coalescing with other nonprofits to promote the making of public policies. The Alliance for Justice provides a lot of information about what you can and cannot do in this area, if you are a tax-exempt nonprofit. There's a lot you can do before you tip the balance. Nonprofits need to create a narrative about the importance of our sector, describing who we are, what we do, how we do it, and why that makes a difference. We need to speak up about issues that are important to the people we serve, such as health care, social security, immigration, and education, to mention only a few.

Collectively, the nonprofit sector is a powerful force. Our sector needs to participate actively in public discussions about how the social contract will be redefined – and those discussions are happening right now. "There are people out there who want to do away with the kinds of things that we are doing," Mr. De Luca said. At the same time, many people in power think that government should shrink and the nonprofit sector should be asked "to pick up the pieces."

In Mr. De Luca's opinion, government's role is to provide for the common good; government responsibilities cannot be shifted to the nonprofit sector. Nonprofits will never have sufficient resources or power to take over the important functions provided by government. In addition, we need to state that the nonprofit sector is "an ideal candidate" to help sustain and create jobs through future stimulus dollars. People talk about small business development as the "engine" of our economy: but what about the nonprofit sector? Nonprofits have a vital part in the economy too. We need to go out, make the case, and win that argument.

Second: Even in the best of times, there is a need to nurture the public's trust in and understanding of the nonprofit sector. We need to explain our nonprofit "value proposition" better. This becomes more difficult any time there is a major scandal involving a charity or foundation. A Harris poll in 2006 found that only 10% of respondents strongly believed that charities were honest and ethical; 30% felt that nonprofits were going in the wrong direction.

Reputable nonprofits need to shine the spotlight on themselves and hold themselves to the highest ethical and professional standards. Nonprofit leaders must renew the ethical core of their organizations, stressing a focus on the greater good over private interests. If we are too timid to police ourselves, then shame on us – we will deserve the kind of heavy regulation that is being discussed in Congress and state legislatures.

Third: Nonprofits and foundations are correctly being questioned about their will and ability to adapt to America's changing demographics. According to the Census Bureau, by 2040 the majority of our population will be people of color – ten years sooner than anticipated. Philanthropy New York's 2009 study *Benchmarking Diversity* found that 70% of nonprofit CEOs and 67% of nonprofit boards are white. For foundations, whites make up 84% of CEOS and 83% of boards. If the nonprofit sector is to survive, it needs to reflect the richness and diversity of the population. From a business standpoint, it makes complete sense for the nonprofit sector to cultivate strong relationships with diverse individuals who are the leaders of the future. To make this change possible, nonprofit board and staff members need to take "clear and deliberate" steps to value and encourage diversity.

Mr. De Luca concluded by saying that nonprofits can take advantage of the tough times by becoming stronger, more nimble, and more effective. Our sector is resilient, and its leadership is sound. We can and must reinvent what our nonprofits do because so many people count on our efforts.

Mr. De Luca took questions from the audience moderated by James A. Krauskopf, Director of The Center for Nonprofit Strategy and Management, Baruch College School of Public Affairs.

Question: *There seems to be a trend towards creating public/private partnerships between government and foundations. Since the government has the ability to tax citizens, why should government be turning to philanthropy for financial assistance?*

Mr. De Luca replied that even the smallest governments are full of bureaucracy and nothing gets done quickly. Often it is an outside influence with money resources and people that can really push government to get things done. Philanthropic resources should not be used to replace public dollars. However, the nonprofit sector can be much more of a risk-taker and an experimenter in a way that is not possible for government. Philanthropic money can be a "push from the outside" that can compel government to pay attention to fresh approaches.

Question: *How can we campaign to get more assistance from the Federal Government?*

Mr. De Luca noted that the current Administration has deep experience drawn from the nonprofit world, but this hasn't yet been translated into benefits for the nonprofit sector. Perhaps this will eventually be seen coming from the new Office of Social Innovation. We may need to go directly to Obama and his people to challenge them to live up to their nonprofit credentials.

Question: *What should organizations do to grow their funding base? Should they wait to apply to foundations or start to build new relationships for the future? Are foundations open to that?*

Mr. De Luca responded that you have to size up each foundation. Noyes is not making any grants in 2010, but they are not telling people not to talk to them. At some point, they will be making new grants again. The foundation's business is to give away money. Sometimes grant-makers get overly concerned about how their assets are doing: foundations need to remember that their job is to make grants – to make investments in the nonprofit community – even in this difficult time. Communication is essential. Nonprofits need to see how foundation leaders are thinking, so that when the time comes for decisions to be made, they will be well positioned to receive grant money. Mr. De Luca does not think that one should rely on foundation grants. His foundation tells grantees to diversify funding. Nonprofits may be surprised at the funding opportunities in their own communities. A good mixture of outside resources and community-based resources is the way to move forward. Don't give up on foundations. They will still be there in the future, making grants, and the current economic troubles will eventually pass by. But be prepared to answer tougher questions.

Question: *Many nonprofits have already taken suggested steps such as layoffs and furloughs, and might have to continue doing that. In this climate, how can nonprofits maintain morale? Also - how can nonprofits get a better image in the press?*

Mr. De Luca commented that it's valuable to get press coverage in major news media like The New York Times because this helps to attract other press opportunities. When charities go to the media, they need to bring a good narrative about their place in the nonprofit sector and the community. Individual stories need to be tied into insights about the bigger picture. Nonprofits need to learn from small business groups, which present themselves to the public as the backbone of the economy.

To keep up morale, communication is key. Workers at nonprofits are afraid that they are going to lose their jobs. If the worst happens and layoffs are needed, it is especially important to communicate well with everyone - your board, your staff, and your stakeholders. Fairness is essential. Try to be accessible and sensitive; when possible, try to help people. Give clear, consistent messages about what is happening right now, as well as the vision for the future. Help everyone to understand that while the organization may have to go through tough times now, it will emerge at the end of the process as a nonprofit that can do an even better job of serving the people that you care about.

## <u>Panel: Developing Ourselves as Leaders for Tough Times</u>
**Moderator: Iris Chen, President & CEO, "I Have a Dream" Foundation**
**Panelists: Richard R. Buery, Jr., President & CEO, The Children's Aid Society; Scott E. Millstein, Executive Director, Coro New York Leadership Center; Janice M. Nittoli, Associate Vice President, Managing Director, Rockefeller Foundation**

Luana Lewis, Senior Vice President-Programs and Services at the Metro New York BBB, introduced the panel and kicked off the discussion, since the moderator was temporarily delayed in traffic. She asked each of the panelists to describe their personal paths to leadership.

Janice Nittoli said that it took her a long time to realize that career paths can be an expression of self-knowledge. Even though many of us worry about an employer choosing us, in many ways we choose the job. We learn what situations bring out the best performance in us, and then recognize growth potential in different career opportunities. As a young professional, Ms. Nittoli began by trying to follow a career plan. But she soon saw that accidents along the career path could sometimes be more telling than plans.

Her philosophy major helped her develop strong writing skills, which in turn led Ms. Nittoli to get a job at a think tank. She was astonished to find that people in think tanks were getting paid to read books on the job. Looking for an opportunity to make a positive impact, she then worked in local government during the 1980s, and "fell in love with the immediacy of it." She worked in social services and was relatively unsupervised because others around her were so busy. It was the beginning of the crack epidemic in New York. Your "sandbox" was as big as you wanted it to be. If you worked with due diligence, and had enough initiative to figure out and address a problem, you were allowed to do that. It was "an amazing, incredible ride."

She started to learn that she wanted to make a difference for groups of people, particularly disadvantaged kids and families, who had the odds stacked against them.  Government is an important lever for doing this but it is not the only one. After 10 years in government, she went into a nonprofit position.  After a few years, she tried hard to get off the "grant treadmill."  She moved on to another nonprofit where she published copyrighted material, took orders for her products on a hotline, and ran a fulfillment operation.  This became a successful educational publishing division at her nonprofit.  She soon realized that this field was not a good fit for her interests.

Looking for the next step, Ms. Nittoli agreed to help manage the transition for a new President at the nonprofit where she was working.  This new role included tasks such as approaching foundations and asking them for money.  She talked to one of these foundations and developed a good relationship with them, for about a year and a half.  Eventually the foundation offered her a job and she entered the field of philanthropy.

Ms. Nittoli said that it's important to remember "why you put your socks on in the morning."  It's not just about having a job – it's about "roles that you get to do." She feels lucky to have a rich and active civic life which enables her to have experiences that inform her work.

Scott Millstein started his career as an eager and ambitious staff analyst.  There, he got noticed by a senior executive who provided Mr. Millstein with a special opportunity.  This was valuable because he was given a leadership role that allowed him the chance to work on his own and leeway to fail.  The confidence that came from having the support of a seasoned veteran was critical to his development. He became a chief of staff, which is a position with a lot of responsibility but no direct authority.  He had to learn how to lead change without having supervisory authority. This was a key experience for Mr. Millstein.  He still carries this learning with him in his work, and believes that the ability to lead without having direct authority over someone is an essential part of a leader's skill set.

Richard Buery remarked that he has been lucky his career, and that having luck is certainly helpful.  He was "lucky" because he figured out what he wanted to do in college.  Two other important themes from his career are "maintaining good relationships" and "taking chances."

Mr. Buery grew up in East New York, Brooklyn and went to Stuyvesant for high school.  It was jarring to see how different life was for kids from wealthy and low-income parts of the city.  When this type of thing happens one can respond by feeling angry or disaffected.  But instead, during his college years, luck and relationships came into play:  a high school friend got Mr. Buery to volunteer at an after school program at a housing project in Boston.  He volunteered for one day a week, then several days a week; soon, he was going to his volunteer work more often than to school.  He and the other program workers read books with the kids and helped them with homework.

There was no summer program there, so the staff had the idea to start one.  Mr. Buery had the great experience of creating something early before he realized how crazy it was to try to start new programs.  Their plan was very successful.  His group raised money, hired staff, built ties with the community, and started a summer camp for kids in a Roxbury housing project that continues today.  Through this experience, he learned that you can do something to solve a problem when you are equipped with a lot of energy and a strong desire to overcome an injustice.  Most of Mr.

Buery's early career emerged from his interest in helping others and advancing social justice causes, as well as from relationships he developed along the way.

Unsure about what direction he should take, Mr. Buery went to law school. Upon graduation, Mr. Buery worked as a civil rights lawyer. This was a great thing to do, but it was not the right match for him. When he was working on behalf of community organizations in Louisiana, he realized that their work seemed more creative and interesting than his own.

Once again, relationships affected his career path. Through a series of connections from law school, he heard about a guy who wanted to start a nonprofit that would connect kids to mentors through the Internet. This was another chance to start something. The guy heard about how Mr. Buery started a nonprofit before and the two were introduced. Together with another law school friend they started iMentor, which has become a successful nonprofit organization.

Next, Mr. Buery had another idea that flowed from his work with youth development and his experiences of going back home. He wanted to do something that would have a direct impact on the East New York neighborhood where he grew up. Along with some friends, he started a nonprofit called Groundwork there, to help children and families in that community, with the help of relationships made at iMentor - such as a hedge fund manager who provided start-up funds for Groundwork. Mr. Buery ran this new organization for seven years, before recently joining the Children's Aid Society as its President and CEO.

To Mr. Buery, the theme underlying all these experiences was a willingness to try new things even when they seem like risky choices. Groundwork was started after 9/11 when there was a recession and many people thought any new nonprofit should focus on victims of the attack. Going to Children's Aid Society has also been a leap, because it is a large, long-established organization, unlike the new organizations he had worked on previously. His strongly positive track-record of taking chances and making them pay off has helped him have the confidence to take on the challenge.

Mr. Buery summed up by saying once again that his career path has benefited through three important factors:

- Luck – being in the right place at the right time
- Relationships – networking, talking about goals, recruiting mentors
- Taking big chances

Ms. Lewis asked the panelists what leadership challenges they are facing in the current tough climate. What are they learning? How can it help those in the audience? Moderator Iris Chen arrived, took her seat, and continued the discussion.

Mr. Buery responded to the question by saying that the nonprofit leadership challenges right now are tied to the economy. His organization has seen declining revenue, and a decline in their endowment. Generally it's a volatile funding environment. It creates anxiety for staff and forces nonprofit leaders to make a lot of changes quickly. His leadership challenge is leading an established organization during turbulent times, especially since he is a new leader for them. He is trying to make decisions and chart a course with limited information, and without the history of relationships that a long-term leader might have had. His organization's staff and stakeholders will get to know him through how he handles this situation.

Mr. Buery asserted that it essential to have clarity of mission, clarity of purpose and to communicate clearly about the challenges you face. He has been able to put together strong teams at the organizations he has managed. A key element of his approach as a new leader at the Children's Aid Society is to have trust and faith in the skilled people around him. For new leaders, it can be tempting to show off and push a new way of doing everything. However, Mr. Buery believes it is important to listen first to the recommendations of those who have been around the organization longer. Another potential pitfall of coming into a very large organization as a new CEO is that you may also be inclined to manage far more actively in areas that are familiar and comfortable to you, and devote less attention to areas where you have less knowledge, and where you may not be able to display mastery. As a manager, he thinks it is critical to strike a balance and engage all areas of his organization. His job is to listen to everyone and bring his people together to advance shared goals.

Mr. Millstein added two points to the discussion of leadership challenges. First, leaders must balance the long-term strategic vision and the short-term, day-to-day practical concerns. To him, maintaining this balance is one of the critical skills for a leader. He emphasized how important it is to stay connected with your nonprofit's long-term vision. His organization just completed a long-term strategic plan. Some people asked him how his nonprofit could focus on the next six years, rather than the next six months. But Mr. Millstein believes that the "mindfulness" used in developing a nonprofit's long-term strategic plan, beyond sustainability questions, is essential for good leadership. A coherent vision is a very powerful tool that can help your organization's stakeholders come together around goals. He personally keeps a copy of the strategic plan right on his desk for reference.

Secondly, Mr. Millstein thinks that leaders need to remain aware of the difference between managing and leading through tough times. Managing responsibilities and leading people require different skill sets. Cutting expenses, making decisions about programs, and balancing budgets are management tasks. Leadership tasks involve communicating well with others about what has to be done, helping people move to new ways of doing things, and making sure there is still a focus on what is core. Be aware of the implications of decisions you are making; that could be a far more important barometer of success down the road than just finding ways to cut the budget right now.

Ms. Nittoli agreed with Mr. Buery and Mr. Millstein about the importance of knowing who you are. She suggests that nonprofit leaders "hold tightly" to their organizations' identities, but allow themselves to be "more loose" about how they get there. For example, she worked with a youth organization that ran an after school program. The program's staff were heart-broken about how the kids were treated during school hours. So, they finally investigated the idea of opening a school. They knew a lot about fostering healthy youth development but not much about running a school. However, they were smart, knew how to talk to people and learn what they needed to learn, and pursued this idea as a new way of solving a problem for their clients.

Another example: Ms. Nittoli works with a dance group. They were looking for a space where they could try out works in progress in front of an audience. In New York City, this is not necessarily easy to find. They collaborated with a settlement house. The dance company got to use the settlement house's auditorium, which helped it gain access to community development funding; in return, the settlement house could raise its profile with arts events and apply for arts funding.  This has worked out well.

A further example:  the Juvenile Justice agency and the Child Welfare agency of New York are merging.  In the past, Juvenile Justice strategies haven't worked well.  The populations are basically the same.  This suggests a reallocation of funds and an investment in youth services that hasn't been made in the past.

We have heard a lot of debate about stimulus spending and whether or not it has staved off worse economic consequences.  Only one-third of the money has been spent.  Two-thirds of the dollars have yet to be paid out.  According to Ms. Nittoli, in the next wave of stimulus spending there should be some money targeted towards nonprofits.  These stimulus dollars might open up new opportunities and help leaders chart new ways of reaching goals.

Ms. Nittoli then emphasized a second point about leadership challenges, one that Victor De Luca made earlier:  you cannot underestimate the importance of having data to back up your assertions of impact.

Moderator Iris Chen, President & CEO of "I Have a Dream" Foundation, said that this is an exciting time for leadership.  There are numerous opportunities to drive change across all the different areas that we care about.  She asked the panelists:  how can we determine what impact an organization can have in the future, versus what impact we are currently having, and how do we grow that impact?

Mr. Buery responded that Children's Aid Society is a complex organization working in many sectors.  They have over 100 programs at 45 sites, running the gamut from early childhood care to juvenile justice services.  Different sections have different ways of measuring their impact and there are differing levels of clarity in the ways they measure their impact.

An initiative that he wants to move forward at Children's Aid is an organization-wide process of defining what their overall goals are.  This means understanding more clearly what they want to have happen for particular clients – like 12 year old boys or 6 year old girls – regardless of where they are interacting with his organization.  As a result, the different divisions will need to align themselves better with those shared goals and get systems in place for measuring their effectiveness against those goals.  The benefits of this process are numerous.  It helps with fundraising, marketing and getting the word out about impact.  It also helps to bring the organization together, to ensure that it is one nonprofit – and not many – moving towards the same goal.

The challenge is that this process takes time and resources.  Staff and board members, as well as constituents, may ask why scanty resources are being invested in impact assessment systems instead of in direct services.  These questions will come forward especially when budgets and services are being cut.  Good communication is particularly needed at such times.  Stakeholders need to understand that these kinds of critical investments in infrastructure will ultimately help the organization serve more children, more effectively, even if that means services have to be cut back in the short-term.  Major opportunities to serve people in innovative ways will emerge in the next year or two:  investments in impact assessment systems now will help position the organization to take advantage of these opportunities.

Ms. Chen commented that during these tough times nonprofits may need to follow the lead of the private sector and find ways of "baking" agility and innovation into their business models.  She asked the panelists, how do they see this happening in the nonprofit world? Have they seen any best practices? Are some organizations better than others at responding to new opportunities without losing sight of the core mission?

Mr. Millstein observed that we need to look at different impact models now. Historically, the measure of impact was "more": more programs, more clients, more services. Even when resources were not as constrained, that may not always have been the best way to achieve impact.

At his organization, the current environment has forced them to be much more critical. That's not a bad thing, because they have to be sure about what's core. Being clear about your expertise and impact, and staying focused on what is core to your mission, are important pre-requisites for innovation and growth.

At Coro, they have a strong alumni community that includes thousands of people serving in government, nonprofits and the business sector. So they look for ways to sustain and expand their impact in the alumni community that they already have.

Ms. Nittoli said that nonprofits want to own the impact, but don't necessarily need to own the program. Just because you have an idea about how to "build a better mousetrap", it doesn't mean you have to live with it forever. For example, at Coro they don't control what their alumni do, but view their alumni community as an extension of their impact. Vera Institute comes to mind as an organization that routinely spins off programs. They get an idea about how to produce better results for people and may get it started but then see how the program can live on its own.

To her, the other piece is walking away from things that don't work. Just because you did something and did it well for a long time doesn't mean you need to continue it. Again – the goal is to make an impact rather than to own a program. At times, there may need to be a reinvestment of assets from one area to another. This kind of change can be difficult and is a serious step. In her civic life, Ms. Nittoli is involved with an organization that recently went through the process of letting go of a camp that it owned upstate. There were many factors to manage, including emotional attachment issues.

Mr. Millstein made one more point about innovation. He thinks there's a tremendous amount of innovation that exists within our own organizations and it is not always recognized. A Coro alum runs an organization in the city called Echoing Green that gives 14 fellowships a year for social entrepreneurs. This past year they got over 1,000 applications. How can these applicants who are interested in social entrepreneurism be encouraged to feel like they are able to innovate within their own nonprofits? That's real potential. He thinks that if nonprofits look within themselves and provide opportunities that would be a rich source of innovation.

Ms. Chen asked the panelists to bring it to a technical level. A lot of organizations have not figured out yet how to enable innovation and strategic shifts within themselves. She asked: how do you tangibly and practically build in that capacity? Do you have a chief innovation officer? Do you have a regular evaluation as part of planning?

Mr. Buery wishes his organization had a chief innovation officer. He is lucky that he is at an organization with a rich history of innovation. Creating new solutions to old problems and building on past successes is part of their DNA. They celebrate innovation as part of their history, and at a leadership level, they show they are open to new ideas and encourage people to move forward.

The challenge right now is where to find the resources to innovate. Part of being disciplined is to say that the resources for new programs can come from projects that were successful in the past but that no longer work. If they prioritize and say this program is more important than that program, what does it really mean in practice? What kinds of hard choices must be made? It's important to show that doing this is not "retreating." Resources get shifted around so that the organization can continue to try to be the best it can be.

Ms. Chen then asked the panelists: what can nonprofits do as a sector to capitalize on the current opportunities to create change on a large scale? What would their "call to action" be for everyone who is a part of this work?

Ms. Nittoli noted that nonprofits don't have a clear image of their own identity as a sector – what it does and doesn't include, for example. If nonprofits don't have a clear view of themselves as a group, then it is hard to imagine that other people do. There are many associations of nonprofits in the city. She suggested that nonprofit associations could get together, figure out how to "brand" the nonprofit world, and help nonprofits talk about themselves more effectively to other people.

In this time of financial hardship, it can be difficult for people that want to develop in their careers. One goal might be to keep talented people in the sector instead of losing them to business. Nonprofits could consider facilitating lateral job exchanges within their organizations, so that staff members might gain other types of experiences, either through permanent job transfers or "visitations" during projects.

Mr. Millstein remarked that within the last year, the economic downturn generated a lot of talk about the idea of nonprofit mergers, to increase efficiency and winnow out the sector. He is skeptical about this idea, because so many entrenched stakeholders are involved. In practice, effective mergers can be difficult to implement. He believes that networking and partnerships between organizations have far more potential to be effective. In his organization they have embraced the idea that the leadership skill that is most important is networking and building community. Through those relationships they get access to people, ideas and resources. That's how they solve problems.

By thinking critically, you can figure out what you are good at – and what you need help with. Then you can build partnerships that can help improve your impact in areas where your organization needs additional strength. An example from Coro is a training program they ran. You need staff, intellectual capital, and resources to conduct the training; but you also need resources that can help you to market the program and get people to sign up for it. Coro has most of their resources invested in the training itself, so for growth purposes, they have tried to identify and work with groups - such as Young Nonprofit Professionals Network - that might be interested in finding joint ways to create impact.

Mr. Buery agreed and added that he focuses on the "value of people". He has been very "intentional" about recruiting mentors throughout his career, and has been fortunate to find supportive mentors that encouraged him to believe he could achieve his goals. He tries to be there for other people who reach out to him with new ideas. Nonprofit impact depends on our ability to attract and develop future leaders for our sector who will contribute their skills and ideas to the field in fresh ways. We have an obligation to mentor others, to keep them excited and engaged, and to show them all that the nonprofit sector has to offer.

Ms. Chen then invited the panelists to answer questions from the audience.

Question: *What makes a stand-out leader? How do I prepare for leadership and grow as a leader?*

Mr. Millstein said that at Coro, one of their principles is that leadership is not just for CEOs and Executive Directors. Leadership is an action and it is something that we are all capable of doing. If you embrace this concept, it can be very powerful for your organization. There are lots of opportunities wherever you are in an organization to exercise leadership.

He would advise everyone who has budget control over professional development money not to cut it. It is a great investment to make: for a relatively small cost you can build your staff's skills and make an expression of value to them as people.

At Coro, they have gotten great leadership from younger people because their boss's position was eliminated. There was work not being done and they stepped up and seized that opportunity, delivered great results, and built their own leadership capacity.

Question: *How can nonprofit leaders engage and inspire staff in tough times?*

Ms. Nittoli responded that you can send a message that innovation is everybody's business. One possibility is to create a forum where younger staff can pitch new ideas and have them vetted. People who come up with new things that seem worth trying might be given a little extra time in their jobs to implement their ideas or research them a bit more. They have actually written innovative thinking into their job descriptions as a distinct skill that they look for and expect in staff. They actively encourage employees to think and talk about what's missing in their work, what caught them by surprise, what's next for the organization, etc.

Mr. Buery noted that you can't be a leader if you don't have any followers, so he emphasizes the importance of teams. He tries to create an atmosphere where it's okay to have honest disagreement and robust debate about planning issues. He doesn't want to have an environment where people are afraid to speak out and tries to avoid being defensive with his people. He frequently repeats his priorities, and pushes people to test their ideas against "what we say we're trying to accomplish." It's important to be open and self- confident; but once you make a choice, you need to be very clear about what is decided and what remains open for debate.

Question: *How do we approach funders in these tough economic times? Can we do more than just relationship-building?*

Ms. Nittoli suggested that grant-seekers try first to have a conversation with potential funder where they won't be making a pitch, to understand their interests. If you are working in an area covered by public systems of service delivery, see if the agency heads have advisory boards or comment sessions to figure out what's ahead. If you are in social services, you might check to see whether any new opportunities could be coming through new Stimulus funding. To some extent, the dust has settled in private foundations, and it's now more possible to talk to people about what they're planning ahead. She encourages relationship-building.

Mr. Millstein reiterated the importance of having a long-term vision. His conversations with funders have gone much better when he could talk about where his organization is going in the next six years instead just the next six months. Funders that are thinking critically about their resources want to make investments that pay off for the long haul. He finds that fundraising can be an energizing activity because you have to talk about your mission, your impact, and why your organization is unique. It's challenging to fundraise in this environment but it also connects you with the reasons why you are doing what you do.

Ms. Chen concluded the panel by relating a story of her own. She learned early in her career from a mentor that a true leader is focused more on how best to contribute than on achieving personal success. This is a very helpful framework to guide your efforts, especially in tough times.

## <u>Breakout Session Panel: Leading the Arts Organization</u>
## Moderator: Cheryl Green Rosario, Director of Philanthropy, American Express
## Panelists: Helene Blieberg, Principal, Helene Blieberg Associates LLC; Cheryl Ikemiya, Senior Program Officer for the Arts, Doris Duke Charitable Foundation; Dr. Louise Mirrer, President & CEO, The New-York Historical Society

Claire Rosenzweig introduced the moderator Cheryl Green Rosario, who is Director of Philanthropy for American Express.

Ms. Rosario said that she was grateful to the BBB for inviting her to lead the panel. She commented that leading an effective arts organization is more challenging than ever now. Arts leaders must be prepared to rethink old models, find new ways to fundraise, adjust to changing demographics, keep up with technology, be more externally focused, seek collaborations, and more. At American Express they are very focused on fostering emerging leadership in the nonprofit community, and also have their own leadership training program.

Helene Blieberg said that she has been working in the field for a long time and approaches the topic of leadership from two perspectives. One is from her time as a funder at CBS where she had a large arts portfolio. More recently, she has served as an interim CEO for arts organizations that are going through changes. She works in the world of transition and transformation all the time. As an interim CEO – a relatively new field - she has managed arts organizations of many sizes and at many stages.

There are a variety of reasons why openings occur at the top of an organization. Typically, it is because of the retirement of an Executive Director. Sometimes, due to health issues, the leader has to take a sabbatical or step back for a while. And sometimes, philosophical differences with the board arise when a new leader is hired, and then an interim CEO may be retained. She may be hired as an interim CEO when a Board wants to evaluate an organization's mission, plans, and priorities before recruiting a new permanent CEO, and often this will inform the parameters of the search. Sometimes organizations simply want to have some time with a more seasoned leader who can bring an outsider's perspective to guide their board and staff. As an interim manager you are beholden to no one and can move among board, staff and stakeholders in ways that permanent managers may not.

Being an interim CEO has given Ms. Blieberg some special insights into the challenges faced by arts groups. Often she sees organizations that have become comfortable with the operational status quo. This affects everything from staffing needs to program and service delivery. Much time is spent just processing *stuff*. She also sees boards that are unable to separate governance from operations. One result is that staffs are reluctant to propose ideas. Frequently, she also sees nonprofits with rigid "this is how it must be done" systems. This makes it hard to free up time that might be used for higher priority issues. It is often the smaller process matters that bog down the ability to change policies and hamper growth.

However, she also sees nonprofits with staff members who are completely devoted to their organization's success. She sees Board members who give their time very generously, and stakeholders who are open to new ways of doing things. And especially, she observes leadership happening at all levels of an organization.

For example: Ms. Blieberg worked with an organization where a long-time manager was hanging onto duties that really should have been delegated to two staff members who reported to that person. When the manager finally left, the two junior staff members were finally able to take on greater responsibilities and blossom. They were at last able to contribute many ideas and perspectives from their experience, and this had a positive impact on the organization as a whole.

Ms. Blieberg finds that whenever a leadership transition is occurring, people find ways to rise to the occasion and contribute. The "bumpiness" that can occur during a transition is essential to pave the way for a more stable future for the organization. Everyone is better able to understand their organization after going through the transition process.

Leadership can come about as a result of training – or as a result of opportunity. In her view, effective leaders listen and observe first; look at longer and broader time horizons than most; and they lead by inclusion and by example. That's a formula for leadership success whether or not your organization happens to be passing through a transition moment.

Cheryl Ikemiya said that her organization, the Doris Duke Charitable Foundation, was founded in 1996 and is relatively new. They fund performing arts organizations - contemporary dance, theatre, jazz and the organizations that present and produce these disciplines - on a national level. The foundation's current strategy is based on "national conversations" that they conducted in 2006 and 2007, in collaboration with partners, as a way of learning about the major challenges being faced at the community level. She believes it is very important for funders to listen, be open to new ideas and criticism, and to do something about challenges that they uncover.

Doris Duke Charitable Foundation has a three-pronged strategy. The first focus is on performing artists and helping them to do their work, distribute it, and grow as professionals. The second focus is on strengthening organizations. They have a portfolio of grants that facilitate organizational transformation and innovation. They try to help organizations to think differently about themselves and give them resources to move in new directions. This involves sharing information about many of the things Ms. Rosario mentioned previously: changing demographics, engaging audiences effectively, technology, and business models. Their third area of focus is on national service organizations and groups that work in the field. Doris Duke has a very small arts staff so most of the grant-making is done through intermediaries in collaboration with other organizations. The Foundation's grantees are mostly these intermediaries. The Foundation works with partner organizations to develop guidelines and criteria, and these intermediary organizations choose the peer review panels that will ultimately select the grantees. The Foundation staff members conduct site visits, and work on evaluations with grantees and independent consultants, to help shape their initiatives and learn how to serve the field better.

What leadership qualities are they looking for? Ms. Ikemiya said that of course, they are looking to find the best programs: the best infrastructure and the best people on staff and on the board. They want to see accountability for how resources are being utilized. Most especially, they look for organizations that rise to the top because they are focused on their core missions. The size or the location of the nonprofit doesn't matter as much to them: they have terrific grantees in rural communities. What Doris Duke looks at is how individual nonprofits act as leaders in their local communities - or national or even international arenas. Do people listen to these arts leaders? And in turn, are they open to listening and partnering with others?

The issue of evaluation and data collection came up previously. Ms. Ikemiya said that nonprofits need to do more to back up good stories about impact with clear data. The New York State Cultural Data Project is being implemented in our state and its reporting system is being required in the next few years by the Department of Cultural Affairs and New York State Council on the Arts. These reports are likely to be accepted by more and more funders. It is a lot of work, but it will be a great tool that can help your organization to present information in a better format.

Ms. Ikemiya's foundation considers whether an organization looks at itself and reflects on how to improve. Do the board, senior staff, and junior staff all work together to conduct self-evaluations? Do they bring people from the community they serve to engage in the conversation? They also look for organizations that demonstrate the ability to forecast. It is very important that an organization be aware of what is happening in its field, not just locally, but also on the national scale. That awareness, and the ability to move and change, is vital for success.

Doris Duke does fund organizational transformation. They fund specific innovation programs. There is a path to innovation: it requires planning, and you need to set aside time and resources to make it happen. Innovation emerges out of your organization's need to grapple with and solve particular problems. You can ask: how can we better address this? Is there a different way we can do this? At Doris Duke, they have found it effective to encourage nonprofits to engage with a larger population. Her foundation works with the intermediary EmcArts which organizes “innovation labs” for nonprofits in the performing arts. The labs are intensive five-day sessions where groups of ten staff, board members, constituents, and others bringing an outside perspective come together to work through issues and discuss how the organization can innovate.

Louise Mirrer said that it is great to run a cultural institution in New York, where elected officials and great companies really understand the value cultural organizations add to the community. Ms. Mirrer stated that no leader is an island. She has wonderful and talented colleagues. There are people at every level in her nonprofit who really want to see her organization succeed.

She inherited an institution whose original purpose was not to serve the public. The New York Historical Society was founded in 1804 by eleven men who had lived through the American Revolution and understood the importance of their historical moment. They were visionary in that they saw the need to preserve the effects of that history. There was only one other museum-like entity in the U.S. at that time, the Massachusetts Historical Society, so this was a major innovation: it was New York’s first museum. These founders had no sense whatsoever that they were preserving history for the broadest possible public. They were all members of the elite class and all were slave owners. About twenty percent of New York’s population was enslaved at that time.

The Historical Society building was designed like a vault - by architects who designed banks – as if intended to keep treasures away from the public. In fact, the New York Historical Society was known for a while as an organization that kept people out instead of reaching out. Of course, in recent times they decided to change all that. They underwent a transformation, with the aid of a very supportive board and the help of great corporate partners, as well as many others.

Louise Mirrer outlined some of the strategies that the Historical Society used to connect more with the public and to change the institution. They began to consider the people in the communities surrounding them when deciding on exhibition topics. They have about 10 million pieces of art in their collection, which they could display to tell virtually any story. They decided to tell stories that they thought their public wanted to know more about, such as histories that are less well-known.

For example, through one exhibit, they told the story of slavery in New York. Right now, they are presenting an exhibit that tells the story of the city’s long relationship with the Spanish-speaking world. Latinos have been in New York City since Nueva York was Nueva Amsterdam. Through research, they uncovered the first non-Native American resident of New York City: he was a man named Juan Rodriguez, who was Dominican. Ideally, these kinds of unknown stories will make visitors take a different view of how the history of the city resonates with their own life stories.

The Historical Society plans to tell the story of the Haitian Revolution in 1804. That first successful slave rebellion had a huge impact on the United States. Napoleon was so discouraged by losing tiny Haiti that he concluded it would be difficult for the French to retain the huge Louisiana territory. So he sold it to President Thomas Jefferson, and the United States acquired it. This in turn made Western expansion possible and it completely changed the course of history for America.

Ms. Mirrer said the Historical Society considered their surrounding community when developing public programming. They have invited Supreme Court judges to speak -

not only about the Constitution, but also about things that resonate with people's everyday lives, such as the Second Amendment and gun control. They also reached out to the New York City public schools with big, sweeping programs that involve as many students as possible in their work. Students must pass benchmark tests – Regents exams - that are very important to their futures. The Historical Society added free Regents and SAT preparation classes to their weekend enrichment courses. They thought about what teachers would like, and reached out to understand their needs. As a result, teachers can now get professional development credit for taking special Historical Society seminars, which in turn helps teachers get salary improvements.

The Historical Society uses the Internet for outreach. They have tried to push the limits of what they can do. Every time they have an exhibition now, they create an online component. This allows them to make a version of the exhibition available to the public even after the show has ended in their space. It also enables them to make the exhibition available in a way to communities around the world.

Finally, they are changing their building. The windows and doors are being made bigger, so that the treasures within will be more visible to the public from outside. They've added a few amenities, like a café, and more restrooms for the convenience of visitors.

Ms. Mirrer said that leadership in the arts is now about successfully engaging the public. She sees her own leadership role in two ways: she serves as a role model, because she demonstrates that she cares about the work; and she is a strategist. Strategy is vitally important to achieving arts organizations' goals.

Cheryl Green Rosario invited panelists to discuss characteristics of strong leaders and strong arts organizations. She recalled that Ms. Ikemiya said she thought strong leadership involved focusing on one's core mission and forecasting the future. She asked Ms. Blieberg: what characteristics do you see in strong arts organizations and leaders? How do you compare what you saw in 2009 to what will be needed by arts leaders in 2010?

Helene Blieberg noted that whenever you are dealing with arts organizations there is always a push-pull dynamic of the artistic and the business facets. When thinking about the kind of leaders that arts organizations need, she comes down on two sides of the same coin. One would be a creative COO and the other is a grounded CEO. If it's possible to find that in a single person or in a management team, then you are on the path to being very successful. The way that an organization functions is almost as critical as what it puts out to the public. Even though creativity is central for the arts, that creativity doesn't always flow to the operational side of things.

There are ways to manage the two. Clarity of purpose is important, and communication - both internal and external - is key. She looks at "what is going to work always, no matter what the circumstance" when considering management approaches. She starts from that "fundamental place" and tries to make sure that organizations are aware of their own solid infrastructure. It could be a physical infrastructure, an operational infrastructure, or an infrastructure of constituents. These are vital components of success that can stay stable, when other things are changing.

Ms. Rosario recalled that Ms. Mirrer discussed engaging the community as a sign of a strong leader. Ms. Rosario asked her: are there any other qualities she finds important for arts leaders, especially in 2010 after a hard 2009?

Ms. Mirrer replied that it is very important to hire the right people. She has been lucky to hire some fabulous people and also has inherited some great people that others hired. It's always true, but we need to remind ourselves: you really are only as good as your team.

Ms. Rosario asked Ms. Ikemiya: is there anything else she looks for in grantees besides focus on core mission and the ability to forecast?

Ms. Ikemiya noted that she didn't get into the examples of the kinds of things that arts forecasters are doing. A lot of the ones doing it are founder-driven organizations. What does an organization do when the founder is getting to a point where he or she can no longer continue, or he or she dies? She is working with numerous organizations in those situations. It's possible for an arts group to carry on the ideas and philosophy of the founder with different leaders. Alternately, some choose to close the organization in a way that is respectful to its history and constituents. For example, Doris Duke has worked with Merce Cunningham's dance company to help plan a transition following his death. The company is being closed in a graceful way that is responsible to the dancers and the Cunningham legacy.

Doris Duke is working with organizations that are thinking about engaging audiences in different ways. These groups are also trying to utilize technology and their programs in new ways. Ms. Ikemiya cited the example of Yerba Buena Center for the Arts, a multidisciplinary arts center in California. This group is applying some of the tactics of their work with visual artists in engaging the public, to their performing arts program.

Cheryl Green Rosario added that she has seen a lot of great collaborations in 2009. For example, American Express funded the LOMAL group (Lower Manhattan Art Leaders), an arts collective of eleven downtown arts organizations, which joined forces to do a festival and conduct joint marketing.

Ms. Rosario asked the panelists: what special governance issues and pitfalls do leaders of arts organizations need to face and solve effectively?

Ms. Blieberg said that the blurring of lines between governance and operations is well-intentioned for the most part but it often gets out of control. To prevent this problem, leaders can communicate with board members often. Board members should be given *meaningful* tasks and assignments to do that keep them engaged productively – so that the staff in turn can also have the freedom to do their jobs. The goal is to keep the board from flailing around and getting involved with operations in a destructive way, because they are not focused on more appropriate governance roles.

It's up to the Executive Director and the staff to know the board and engage with them. They must listen enough to know what the board's strengths and weaknesses are, so that they can tailor helpful tasks for the board. If there are not clear and valuable tasks for the board to do, then you should re-evaluate the board's functions and committee structure. How often do you meet as a board? Do you have enough committees – or the *right* committees? Are the board meetings endless or too short? Are your expectations about the board's work load realistic? Take a hard look at board management factors like these, and adjust them as needed. This can help to eliminate many, if not all, issues about blurring of the lines.

Ms. Mirrer added that it is critical to communicate all the time. Her organization has a very large board and she does a weekly update for them by e-mail. It is hard because generous people donate time and money to her organization – but it's the staff that gets to have most of the fun. She doesn't blame them if they want to get much more involved in decision-making. They really deserve to have some of the fun too – so in her group's case, they don't mind blurring the lines slightly.

Ms. Rosario noted that there have been a lot of mandates from the Mayor and others to involve volunteers. Though volunteers can be wonderful, they can be difficult to handle when organizations do not have resources to manage them. She asked Ms. Mirrer about her experience at the Historical Society with volunteers.

Ms. Mirrer responded that Ms. Rosario had hit on an issue that is clear and present for her nonprofit. The Historical Society does have many great volunteers. But as their volunteer program grew, they had to hire someone to oversee the program. It is a wonderful program, but not as economical as it might seem. Volunteer management is like board management in this way: you can't have all these people donate their time and not give them something meaningful to do. Also, her organization must be very careful about how volunteers are used. About a third of her staff belong to a union. You can't say, "Oh, I want to save money so I'm going to bring in volunteers to do the work that someone else used to be doing." That could cause a lot of trouble.

Ms. Rosario asked Ms. Ikemiya: thinking of nonprofit governance and evaluation - is there anything specific you look for, as a funder?

Ms. Ikemiya recalled that when Doris Duke staff engages in site visits, they often talk to board members during this process. Funders can impress boards in ways that staff cannot about the importance of the work that you are doing. A funder can give a broader perspective about where your organization stands in the larger community. She found it gratifying to be able to do this for grantees.

She has seen board members work very closely with staff members in struggling organizations that are restructuring under the auspices of Doris Duke grants. Board members get engaged in a different way when they are thinking about the long term and the future benefit for the organization. She thinks it is really helpful when nonprofits see board members as partners to help them through, especially with business management issues and structuring long-term budgets. Your board is ultimately responsible for assuring that budgets can be met, so getting them involved in that kind of planning is very motivating.

Through nonprofit evaluations, her foundation is seeking to paint a bigger picture of the arts field. They want to assess not only the successes but also the pitfalls and challenges, so they can then consider how to address those issues. If the needs of the organizations change during the grant period, Doris Duke tries to be as flexible as possible. They restructured some endowment grants in the last few years. They also give core operating support as a way of underscoring the importance of supporting the infrastructure of organizations. They wanted to make it possible for the grantees to execute the project support grants they had been given, and realized how much extra work is involved when you are doing something of that scale. Ms. Ikemiya says that it is important to give funders the evaluation information that they request, because it helps them to think more deeply about the programs they are supporting and what needs to be changed.

Ms. Blieberg said that it is necessary to debunk stereotypes about evaluations. If nonprofits wait until the end to collect information, evaluations are harder to do. It's more helpful to think about evaluations while going through projects, bearing in mind the reasons why your organization got the project grants. That way, you will always be thinking about meeting goals and measuring outcomes. You'll also be monitoring what kind of capacity you need to deliver results, such as staffing and infrastructure, and working to develop that capacity. Make evaluation part of the daily process. Then the actual writing up at the end won't be as onerous. If you engage as many people as possible in the evaluation process, this also makes it easier to complete the task.

One of things that Ms. Blieberg does as an interim CEO is be very open with the staff. She tells everyone what's going on all the time, and asks senior management to make regular reports. When it comes to development, the staff knows what money the organization is seeking, why grants were awarded to them, and what is expected. Then everyone is able to participate in thinking about how to measure results, when it comes to that time in the process.

Ms. Rosario commented that today audiences are busy: there is a lot of competition for their attention, from many forms of entertainment. Organizations are trying to compete with these influences while also reaching out to new ethnic and economic demographics. She asked the panelists if they could talk about what they have done to compete and if they have any tips for others.

Ms. Mirrer agreed that there is a lot of competition in a city like New York. The Historical Society has done huge outreach efforts. If they have a grant from an organization that works with a particular school or set of schools, they offer to engage with the schools supported by that grant-maker. They are able to allow free admissions on Friday nights, thanks to sponsorship from American Express. The price of their ticket is not as high as some cultural institutions but it can still be a barrier, especially if people come with the whole family. They also offer Friday night pay-what-you-wish admissions. That is a strategy that has worked.

The Historical Society wanted to be a place that would be fun for families and children - and they were not. History is often people's least favorite subject because they find it boring. Every Saturday her museum has troops come who are re-enactors, representing various periods such as the Revolutionary War, Civil War, etc. – whatever makes sense in the context of the current exhibitions. They have created a range of related programs that are designed to make history livelier.

As part of their renovation, they are planning a dedicated children's history museum and a children's history library. It will be a fun space, focused on protagonists like Alexander Hamilton. He became famous later in life but came to this city as a penniless orphan from the West Indies – just like tens of thousands of other kids in this city did.

Ms. Blieberg said that she feels the same way about seeking new audiences as she does about seeking media coverage. In either case, you have to be realistic about who you are and who you could reach. There's nothing wrong with going after new audiences - but are they the right ones for you? You can't be all things to all people. Targeting is very important. Organizations get in trouble when they lose their sense of who they are and who they serve. Do you still have the same audience now as in former years? Is that the audience you need now? If you are realistic when setting goals for developing a new audience, the rest follows naturally.

Ms. Ikemiya commented that often audiences want more participatory engagement. Some of the initiatives her foundation has funded have had participation through the web, with ideas flowing back and forth. Some artists have been willing to share their processes online and even aspects of decision making – such as voting on ideas generated online or on costume choices. The web has become a great tool for generating audience participation. For example: Jacob's Pillow in western Massachusetts is putting together a "Virtual Pillow" drawn from their substantial archives. Through this web-based service, people who cannot make it to the Jacob's Pillow performance site can still see their work online, and the organization can expand its audience.

Ms. Rosario then posed questions submitted by members of the audience.

Question: *How can arts organizations help younger staff grow into leaders – especially smaller groups? What tools can you provide?*

Ms. Blieberg said that while professional development is important, it's really about "getting out more." Because there are very limited human resources within arts organizations, staff members tend to stay chained to their computers and may develop a very myopic view of things. At the same time, arts groups need leaders who can think broadly. She thinks it is important to provide people with opportunities to engage with each other, not only at major events like the BBB Charity Effectiveness Symposium, but also on a smaller scale and at lower staff levels. It's very valuable for people to compare notes about what they are seeing and to learn from each other. Staff members need to be given chances to stretch themselves so they will know there is a leadership path for them.

Unfortunately, it often happens that people outside of an organization only want to interact with the group's Executive Director or a senior manager. This leads to a "dearth of delegation." Organizations can empower workers to engage with different stakeholders. Creating leaders starts from within. While leadership training programs are valuable, it's what nonprofit leaders do inside their own organizations on a day-to-day basis to develop younger staff members that will make a difference.

Ms. Rosario said that she just held a small downtown cultural event with about fifteen organizations and American Express employees. The organizations enjoyed sharing their materials and meeting the employees but the most important thing was that they enjoyed talking with each other. Even though they are all within walking distance with each other, they don't pick up the phone and call. Funders can help by creating more opportunities like that for nonprofits executives to exchange information and see each other as collaborators rather than competitors.

Ms. Ikemiya emphasized the value of networking opportunities at conferences and convenings. At some of the national conferences she attended this year, she noticed that some of the older organization leaders were sending their younger staff members. It gives the younger people on staff a chance to see what the broader picture is and what the networking opportunities are. That leads to collaboration and more creative thinking.

Ms. Mirrer agreed and commented that her organization got a small grant from the Mellon Foundation, which they are using to send younger colleagues to conferences around the country, where they are able to give papers and do presentations. If not for the grant, the Historical Society would not be able to afford this. Part of the grant is also being used to bring distinguished scholars to talk to staff at the Historical Society. They just had an event like that. It was very exciting for younger staff members to hear directly from top scholars in the field of history about what the staff could do to serve scholars' needs more effectively. In turn, this reinforced the message that the work of these young people is in fact very important to these distinguished scholars.

Ms. Rosario thanked the panelists, expressed her best wishes to the attendees for success, and concluded with a quote about leadership from Gandhi: "You must be the change you wish to see in the world."

## Workshop: Protecting Your Nonprofit's Money in the Post-Madoff Era

## Leaders: Jeffrey S. Tenenbaum, Partner, Venable LLP; Rory M. Cohen, Partner, Venable LLP; and Doreen S. Martin, Associate, Venable LLP.

Walter Brewster, Senior Vice President of Operations at the Metro New York BBB, introduced the workshop leaders from the law firm Venable LLP.

**Jeffrey S. Tenenbaum** began the workshop by explaining that it is really a two-part program. The first part provides tips about preventing embezzlement within nonprofit organizations. The second part deals with due diligence considerations for nonprofit investment fiduciaries. The two topics are very different, but there is a common theme.

**Doreen S. Martin** noted that there are stories in the news all the time about cases of embezzlement. She mentioned some recent cases. In September 2009, the bookkeeper and office manager of the House of Ruth was sentenced to a year in prison. She pled guilty to federal charges of misappropriating $138,370 in federal funds and embezzling $238,000 from the organization's bank account.

In another case, the CFO of the Association of Fish and Wildlife Agencies pled guilty to wire fraud. She was a ten-year employee who worked her way up to CFO. She used the organization's credit card to charge about $184,000 in personal expenses, including hair and make-up and casino charges.

In a case from the Oklahoma CASA Association, the Executive Director was sentenced to 15 years in prison after she pled guilty to embezzling almost $550,000. She too was a long-time employee and had used the organization's credit cards for personal expenses such as foreign vacations, cosmetic surgery and college tuition.

When does employee fraud occur? There are three main factors that criminologists have identified as often present when fraud occurs:

- Opportunity
- Motivation
- Rationalization

What is motivation? "Pressure" causes someone to commit a fraud. Pressure can include almost anything, for example: medical bills, expensive tastes, addiction problems, gambling debts, or drug debts. Most of the time, pressure comes from a specific source. The person often feels they need to fix the problem in secret. Sometimes, though, the motivation is pure greed.

Opportunity is the element that the organization can actually control. It refers to situations and circumstances that allow fraud to take place. If you eliminate or reduce a person's opportunity, you will decrease the chances of fraud.

Rationalization refers to the fact that a person committing fraud often tries to justify his or her actions in their own minds. It's common for the criminal to put the blame on another person. There are three common rationalizations:

- Entitlement
- Anger/Revenge
- Minimization

Frauds based on "entitlement" happen when the person believes that the employer doesn't pay enough compensation – or doesn't pay at all – so "I have this money coming to me." Rationalizations based on "anger/revenge" come about when the person feels the organization treated them poorly. Minimization is when the person thinks something like, "I'm not taking very much" or I'm taking but the company won't notice" or "I'm taking but I'm going to repay it." When investigators look into a fraud one of the first things they do is ask the suspect, "Where are your notes?" This is because embezzlers often take detailed notes of what they have stolen, telling themselves that they will pay back the amount and cover their tracks.

Why are nonprofits frequently the victims of embezzlement? Have you ever said, "Ms. X is the most dedicated/honest/trustworthy person I have ever met"? Or, "Everyone who works here is a good person and they're looking to do the right thing"? Or, "We don't have enough staff to have financial controls but our annual audit will catch any fraud that is happening"?

In nonprofit organizations, the management and board tend to be more trusting. There is an expectation that nonprofit staff and volunteers intend to do good. There are also looser financial controls in nonprofits, and a general belief that audits will detect frauds.

<u>What can you do to prevent embezzlement</u>? Venable has identified ten easy, common-sense steps that can reduce the chances for fraud to occur.

<u>1. Set the tone.</u> The ethical tone of an organization is set by the top executives in the office. It filters throughout the organization. One of the most powerful tools to fight fraud is a code of ethics. Your nonprofit should establish your own code of ethics. It should be delivered to all employees in writing and they should sign it. Nonprofit leaders should make the code of ethics part of trainings for new hires and refresher orientations for promoted employees. If your organization has a reputation

of aggressively pursuing fraud and sticking by your code of ethics, then there will be less chance of fraud occurring. The opposite is also true: ignoring your own code of ethics can seem like an open invitation for fraud to happen.

2. Conduct background checks. The Association of Certified Fraud Examiners reports that 7% of embezzlers have been convicted of a previous crime. The background checks will tell you if someone has been convicted of a crime before you hire them. Background checks will not detect if a person has been arrested but not convicted. However, you can search on Google and see whether there are police blotters that mention a person's arrest.

Ms. Martin said that the screening process should also include a credit check. This is especially true if you are hiring a person to handle your financial controls or do anything with the organization's money. You should know if a person is able to handle their own finances before you let them manage the organization's finances. Employment screening costs about $100. In one large nonprofit, its treasurer embezzled about $2.2 million; the organization never did a background check on this individual. When they received the treasurer's résumé, it indicated that she had graduated from a very prestigious university and earned a degree in economics. After the embezzlement was discovered, they looked at the résumé and had it verified. In fact, the person had never graduated from any university and did not have a degree in economics. Had they done a background check, they probably would not have hired that person and could have avoided losing the $2.2 million.

You need to know who you are hiring. Always verify the education and previous employment, and call references. Look for gaps in résumés; ask what the applicant was doing during a two- or three-year gap.

3. Double signatures and authorizations. Multiple layers of approval make it far more difficult for embezzlers to steal from your organization. It won't prevent forgery, but it makes it harder because they have to forge two signatures. For a pre-determined amount, such as $50 or $200, require that there are two signatures on every check and two signatures for every cash disbursement. If your staff is very small, consider having an officer or director be the second signatory on checks.

If you are using an organization credit card, employees should be required to get prior written approval for costs over a set amount, before any use of the card. Make sure that the person using the card is not the same person approving its use. Have a board member or other person review the credit card statements and expense reports of the Executive Director, CEO and CFO. This will create a system of checks and balances.

A lot of money can be embezzled through expense reports, in small amounts claimed over time. Mischaracterization of expenses is common. Employees might try to take their friends or family members out to a nice dinner and pass it off as a legitimate business expense. Check meal expenses carefully.

Employees may also try to overstate expenses. Individuals may get blank taxi receipts and put down a cost for the ride that is more than the actual cost. A way to prevent this is to compare recipients if two employees are traveling together. Even if they are traveling separately, you can compare them to see if they are consistent.

An employee might also try to alter receipts. Sometimes people will take a receipt that they used from a while ago, change the date, and submit it as an expense. Get the original receipts and check dates before you reimburse anyone.

4. Require back-up documentation. All check and cash disbursements should be accompanied by an invoice showing that the payment is justified. If possible, the invoices or disbursement requests should be signed by a manager who is not the same person signing the checks. Only pay from original invoices. With technology today it is very easy to produce fake invoices. Make sure you are seeing an original.

5. Never pre-sign checks. Many nonprofits do this. If someone is going on vacation or will be at a conference for a week or two, they pre-sign checks and leave them with someone. That is an open invitation to fraud. Keep blank checks and signature stamps locked up. In one case, an Executive Director gave his signature stamp to his assistant. The assistant stole millions of dollars because she used the signature stamp and wrote checks to herself. It went undetected for years. The signature stamp should always be kept in a secure place by the person whose signature it is.

6. Segregation of duties. The key to stopping embezzlement is having a dual control system: require the authorization of two individuals to complete a transaction. One individual should not be responsible for an entire financial transaction from the beginning to the end. Many small companies fall into this trap by having one bookkeeper handle all the accounts payable and accounts receivable. The bookkeeper then writes and signs all the checks. The dual control system puts another set of eyes on the transaction and greatly reduces the risk of embezzlement.

The former Vice President of a national nonprofit embezzled $11.9 million. She worked for the company for 20 years and was not a criminal mastermind. She simply wrote checks to herself, forged the signatures and then destroyed the checks when the bank sent them back. No one noticed this because she was the one who kept the organization's books. She was able to cover up the losses by inflating the reported amount of pledges that went unfulfilled. This was not an elaborate scheme. It was a case of an organization giving too much responsibility to one individual. Had another person reconciled the bank statements, she would not have been able to destroy the bank checks she had written to herself and they would have been able to catch her.

Another good idea is to require that individuals holding financial positions take uninterrupted two-week vacations. This will allow enough time for the transactions to clear the system. If something goes wrong, you might then be able to see that there is a problem. Be wary if someone doesn't want to take a vacation and wants to continue to control the financial system.

7. Fair bidding process. All contracts should be subject to at least three bids and approved by a manager not involved in the transaction. This will prevent employees from receiving kickbacks from the vendor for awarding the contract. Large contracts should be reviewed and voted on by the Board. There is a common fraud called a "ghost vendor." Sometimes an employee who has the authority to approve new contracts *and* make payments will set up a fake vendor account and embezzle money through that account. Segregation of duties will help to prevent this from happening.

8. Fixed asset inventories. Conduct fixed asset inventories at least once a year. Record serial numbers of the equipment, consider engraving serial numbers onto equipment, and keep track of these assets. It's also common for employees to misuse the organization's express mail or postage account to ship personal packages. These small-dollar frauds can add up over time and are not legitimate business expenses. Be watchful and try to prevent this from happening.

9. Audits and board oversight. Always have board level oversight of nonprofit finances and audits. External audits can be helpful in making sure that the fraud prevention measures are being followed and that they are effective. But be aware that you cannot rely on a typical audit to detect fraud.

10. Encourage whistleblowers. Provide an anonymous form of communication for whistleblowers. Employees will not report fraud if they think their jobs might be in danger. Employees need a way to contact a board officer in the event that something needs to be reported. Take such reports seriously and make sure that you investigate.

**Rory M. Cohen** then discussed how nonprofits can best carry out due diligence to meet fiduciary responsibilities when investing nonprofit funds. He said that the investment function of any nonprofit takes on a whole new meaning in today's world, since the markets have often been "trading sideways." The ability to raise assets in today's economy is becoming much more challenging. Attorney General review of nonprofit investing and the oversight role of boards in monitoring this function is becoming much greater. Your organization will increasingly need to pay more attention to the investment function, as well as the ability to document it and reflect a reasonable approach.

Mr. Cohen's practice has historically focused on asset management, private funds, and separate account management. In his prior work at Bear Stearns, he drafted many agreements and knows what they mean not only for the financial firm but also for the nonprofits. He also spent a great deal of time advising due diligence committees in their reviews of the work of managers and private investment funds such as hedge fund and private equity funds. When thinking about nonprofit investment practices, his considerations include both practical due diligence matters and legal issues about regulations applying to advisors. If a nonprofit is conducting due diligence with reference to its investments, it's important to understand what kinds of documents regulatory requirements say should be available and provided to you.

Statutory Guidance. Where does the obligation for due diligence come from? There are a number of uniform statues. Each of the various states can adopt all or a portion of some of the uniform statutes. The Uniform Prudent Management of Institutional Funds Act (UPMIFA) is the most current uniform statute related to the investments of nonprofit endowments and investment funds. This superseded the Uniform Management of Institutional Funds Act (UMIFA). Many states have adopted a substantial part of UPMIFA. Some states like New York currently follow UMIFA, although New York is currently proposing to revise their investment statute.

Mr. Cohen compared UPMIFA and UMIFA. UPMIFA provides very specific guidance about common due diligence factors used by investment fiduciaries. If you ever need to show that you have discharged your fiduciary responsibilities, UPMIFA will give you a number of factors to consider. UPMIFA modernized UMIFA and made it much clearer that the key standard is one of prudence.  UPMIFA tries to harmonize the standards for a nonprofit board of directors with those for trustees of a trust. Historically there has been far more guidance about what would constitute prudent action and reasonable behavior on the part of trustees who oversee investments; this statute applies many of those widely-accepted trustee standards to the boards that govern nonprofits.

Duties of Fiduciaries.  Investment fiduciaries have a duty of loyalty to the nonprofit corporation, to act in its best interests; and they have a duty of care.  Fiduciaries are not guarantors, but in good faith, must use reasonable prudence in relation to their own investment management knowledge and skill and the observable facts at hand. Their duties also require that they minimize costs; give primary consideration to donor intentions; and diversify investments as possible.  But what does this all mean in the context of the nonprofit corporation?   For example, can you direct investments towards entities that you might have an interest in?  While this might not be explicitly prohibited, there is clearly a disclosure issue.  You would need to disclose to the board or its investment committee that you have an interest in a potential investment.

Mr. Cohen cited the example of the Attorney General asserting allegations about a very well-recognized fiduciary.  The fiduciary owned a number of feeder funds in which they had a direct interest, but did not fully disclose the nature of that interest to the nonprofit's board.

One way to avoid that problem is to have a conflict of interest policy that prohibits this type of investment.  Another is to have a policy that requires disclosure of all potential conflicts of interest.  Then the board can evaluate the situation and make an independent, reasoned judgment about whether or not to make a particular investment.

To meet the duty of care requirement, the fiduciary has to be a prudent investor, use reasonable skill and caution, and have an approach that a fiduciary would appropriately use for *a nonprofit corporation* that is *similarly situated.*

Nonprofits have a mission.  Investments should be made within the context of the individual nonprofit's mission and situation.  Fiduciaries need to understand what kinds of allocations are needed and the sort of expenditures that a particular nonprofit can permit.  When thinking about an attainable rate of growth and acceptable amount of risk for the endowment or investment fund to assume, you need to factor in the spending policy and the goals of the organization.  If you have modest allocations and goals, you might take a more conservative investment approach.  If the nonprofit has an ambitious expenditure program, then it may need to build its endowment or investment fund more aggressively.  Nonprofits with aggressive investment plans need to be aware that their earnings objectives might not always be realized, and that this could potentially cause significant problems.

For example:  some educational institutions like Harvard and Yale have been constructing new buildings and paying large sums in salaries.  They took aggressive approaches to growing their endowments to help support these costs.  However, they didn't achieve the hoped-for rate of growth, and had to stop some of their expenditures.  To fund some capital expenditures when income expectations fell short, they were forced to go to market with some of their private equity investments – in a few cases, at severe discounts, since they did not have much liquidity.

As a fiduciary you have to review your situation versus that of a similarly situated nonprofit. What is the size of your nonprofit? What are its resources? How many employees does your nonprofit have? How does that compare to other nonprofit groups?

Very large nonprofits are more likely to have a lot of money to invest. They may be able to afford hiring outside consultants to conduct due diligence on projects and investments. But what if you're a smaller nonprofit, and you don't have the resources to hire professionals to advise your investment committee and do due diligence?

Mr. Cohen's firm had a question from a smaller organization that was investing in hedge funds. At the time, everyone was investing in hedge funds. Newspapers were reporting that you get better risk-adjusted returns with alternative investment vehicles, as well as the ability for asset managers to generate alpha - which means out-performing their index. This comes from being able to take short positions in a private investment vehicle, which means to borrow or lend securities to facilitate speculation on the price of some stocks. *Theoretically*, that should make these kinds of investment vehicles more nimble and able to outperform the index. A mutual fund faces limitations under the Investment Company Act as to the type of leverage it can have and the type of investments they can make. So, in the last ten years up until mid-2008 everyone was buying into hedge funds.

Venable advised the smaller nonprofit that they needed to understand better what they were investing in. Hedge funds are very complicated financial products that have lengthy offering documents and extensive risk disclosure. If you are signing those documents, you need to know what you're doing. The small nonprofit's officers said they didn't have time to figure it all out or enough money to hire consultants. Venable recommended that they avoid investing in hedge funds in that case. If you're a similarly situated nonprofit, without access to individuals who have sophisticated investment knowledge or enough time to conduct research and make informed judgments, then you shouldn't be investing in extremely complex financial products.

<u>Prudent Decision Making</u>. UPMIFA sets forth factors as guidance for the types of things that investment fiduciaries should think about when constructing their portfolio and determining whether an investment is reasonable. The New York statute has a very general standard; it talks about prudence, but doesn't give detailed guidance. It is helpful to review UPMIFA guidance factors:

1. General economic conditions
2. Possible effects of inflation and deflation
3. Tax consequences of investment decisions

If parts of your investments are going to be related to fixed assets or private assets like real estate or private equity, you need to think about the general economic condition. If you are going to be investing in private equity and possibly be locked up for seven to ten years, you need to see whether there is a public market where this private equity fund may be able to exit and bring some of the underlying companies to market.

4. Your institution's need to make cash distributions or preserve capital

What are your cash needs? What do you need to fund your programs right now? Can you afford to be illiquid for an extended period of time?

5. Role played by investment or course of action within the overall portfolio
6. An asset's special value to the institution's charitable purpose, if applicable

Mr. Cohen stressed that this point is very critical because it talks about modern portfolio theory. In the old days, people used to look at each investment by itself to see if it was suitable. However, because different investments are correlated in different ways, financial analysis has evolved over time to make it more acceptable to consider the role of an investment in the context of the entire portfolio. Investors currently think about hedging their exposure, gaining exposure to different asset classes, or adjusting the mix between fixed income assets and equity assets. It is now appropriate to think about each investment in the context of its impact upon the whole portfolio. The investment strategy should reflect the nature of the nonprofit; unsuitable assets should be shed; and the portfolio should be appropriately diversified, unless there are special reasons why that cannot be done.

7. Expected total return from income and appreciation of investments
8. Resources of the institution

Can you afford outside consultants? When making decisions do you have a team or investment committee? Again, the institution's need for liquidity, the timing of investments and the timing of capital expenditures all factor into whether an organization can take on illiquid investments.

<u>Fiduciary Responsibilities</u>. The duty of care includes the duty to investigate – meaning to make reasonable efforts to verify facts relating to investment management decisions. This is about basic underlying due diligence. In the widely-reported case of money manager Ezra Merkin, for example, the Attorney General alleged that the fiduciary did not conduct reasonable due diligence into investments transacted with the now-infamous firm of Bernard L. Madoff Investment Securities. There were some basic red flags that should have been apparent to Merkin when he was doing his underlying due diligence in connection with Madoff.

Mr. Cohen gave examples of these red flags, and recommended that investment committees consider these points when doing due diligence.

*Separation of duties*: Separation of duties is just as relevant to investment due diligence as it is to embezzlement prevention. Lack of separation of duties in the management of a private fund should raise a red flag. If the fund is closely held and there aren't a lot of employees, then there may not be much separation of duties or sufficient controls and checks. If family members are in all the senior positions of an organization, that should also raise a red flag.

*Small scale or unknown providers serving as watchdogs*. In the case of Madoff's firm, they were using a three-person accounting firm in a strip mall in New City, New York to audit their books. If you see a similar situation, it is not necessarily given that something is wrong, but it suggests that you should do further due diligence to find out the level of effort or integrity of these service providers.

Mr. Cohen urged participants to look at the factors that were identified by Attorney General Cuomo in the complaint against Merkin as some basic red flags for your investment committee to think about when reviewing investment managers.

<u>It's All About Process</u>. Mr. Cohen recommends that investment committees develop a good process that can help to facilitate and document reasonable financial decision-making.

*Educate Yourself*. Investment committee members must have enough knowledge of investment concepts and principles to carry out effective due diligence and supervision of outside consultants. You need to know about rates of return, the interplay between fixed income and equity assets, and alternative assets like real estate, private equity and hedge funds. You have to be able to speak the language to create effective controls.

*Develop Your Asset Allocation Strategy*. Nonprofits also need to document their process by creating an allocation strategy in such a way that there is something to monitor. Part of this is going back each year to review the effectiveness of the program. Given your nonprofit's tolerance for investment risk and its need to grow the assets of the organization, what is the right mix of investments such as fixed income assets, real estate, equity allocations, private equity funds, etc.? What are the assumptions for the rates of growth of each of these asset classes? Your nonprofit should document and monitor these assumptions and allocation decisions.

Given what's happened in the last four or five years, Mr. Cohen thinks it would be prudent for nonprofits to go back and re-evaluate assumptions. His firm gets the question all the time, given what's happened in the market with so many ups and downs: what is a reasonable rate of growth to expect for equity investments? Nonprofit leaders need to review their expectations actively. Nonprofits should talk to their consultant, if there is one, and check to see whether the operating assumption is still an eight percent return, based on historical analysis going back to 1930. Going forward, is eight percent still a reasonable number or should that figure change to five percent or three percent? For fixed income assets the rate of growth is significantly less. We are in a low interest rate return environment, so that rate will be even lower than what it has been.

The key thing is not that fiduciaries guess right about how to invest for the future; what's important is that they think about it carefully, and document the analysis. If the investment committee meets with an outside consultant to discuss the possible rate of investment growth, then document those conversations. It shows that the committee engaged in a level of supervision and evaluated its process to judge its reasonableness.

The consultant might come back and say, "You know it's been a bad period but historically it's been eight percent. In the 1970s we had stagflation and the market was a tough place, but we came out of it in the '80s, '90s and the first part of this decade and saw substantial growth. That's my reason for thinking that eight percent is still a reasonable rate of growth for equities and that is why I am not changing your overall allocation between fixed income and equity assets." And if that happens – you can assess this opinion, and then document any actions based on it.

*Prepare and Maintain Investment Policy Statement*. The Investment Policy Statement will include a nonprofit's asset allocation strategy and factors you have chosen to consider when selecting third party managers. In many cases, nonprofits select third party institutional managers to handle your underlying portfolio and enter into an investment management agreement with them. The manager will have discretion over the assets. Nonprofit fiduciaries select, authorize, and monitor specific investment management strategies for the third party manager to carry out.

The Investment Policy Statement will lay out the standards for hiring and reviewing third party managers, and should also establish reasonable performance expectations for that manager. When this policy is expressed in writing it gives the investment committee a report card to see each time they meet. All the factors that document your review of investment management performance and decision-making should be there: for example, information needed to support retaining or firing a third party manager, moving funds to another manager, or selecting a different investment strategy should be present in the statement.

*Monitor and Supervise Implementation of Investment Strategy*. Mr. Cohen discussed the obligations of the board. When you hire a third party manager or consultant, the first question is whether or not you decide to give him or her discretion. UPMIFA and even the New York statute permit a fiduciary to delegate the discretionary selection of investments to a third party. The question is whether or not you have effectively delegated that discretion. As long as your hiring of that manager was reasonable and you monitor the third party from time to time, the nonprofit fiduciary is not responsible for the third party's actions. However, you must make sure that the monitoring happens regularly and that the retention of the manager is reasonable.

If a nonprofit is using financial service firms, in many cases they are using non-discretionary programs, meaning the advisor will provide investment options to consider and your nonprofit will select the investment choices. In that case, the investment authority hasn't been delegated to the third party. The investment committee is still responsible for the reasons for making that decision. If your organization invests in a mutual fund, your investment committee should read the prospectus, know what the fund invests in, and understand the risk factors.

If your nonprofit is considering a hedge fund investment: with many hedge funds, the investor gets an offering document and a subscription document. Many times people use consultants who are going to assist them in selecting alternative investment vehicles. The consultant will walk in to the committee meeting, give the committee members the subscription document and say sign here. In most cases that is non-discretionary. Most people think they have hired that consultant to make the decision to invest in that alternative vehicle under these circumstances, but that is not true. If you sign that subscription document, you and your committee should be asking the consultant to explain his or her review of the underlying offering document and the reasons for making this particular investment. You should ask about and be aware of the risks, the investment strategies the consultant uses, and the instruments that the consultant chooses. If the fund suffers poor performance, you can then show that you were aware and understood the risk. Fiduciaries are not guarantors of performance, but you must have a reasonable process to support your decisions. Mr. Cohen urged everyone to go back and look at all their consulting and investment advisory agreements to see if they have given investment advisory discretion to the third party.

The second thing to consider when looking at those agreements is the standards for liability. Many agreements have a very high threshold for liability. The third party may not be liable for anything short of fraud or gross negligence. Nonprofits might or might not be in a position to negotiate a better agreement for themselves, depending on the size of the organization and its investment. For example, you might try to negotiate a negligence standard for the investor in the event that they make poor decisions.

*Evidence of Competence: Ability to Show Awareness of Fiduciary Responsibilities*. The investment committee should meet fairly frequently. It is a best practice if they meet at least quarterly. The committee should also be sensitive to certain occurrences that might trigger an ad-hoc review. If there's a manager that's "blowing-up" and creating urgent concerns, the committee should not wait for the quarter, but have a meeting immediately to figure out what to do with that manager.

This is particularly relevant in the case of a private fund with bad performance. It may require 45 days notice prior to withdrawals. If your investment committee has meetings only once every quarter end, there could be in a situation where you might have to wait a whole quarter to get out of a distressed fund. If you are in touch with you manager and you are getting reports every month, then you can see when things are in distress and can call a meeting immediately. Mr. Cohen recommended that nonprofits make it possible for ad-hoc meetings to happen when needed. Document any such meetings.

He also recommended that investment committees document questions that arise at their meetings. If a new manager is needed, it may not be feasible select one right away. You may need to do background checks of private fund managers and look at their performance. There may be a delay in making an investment because someone raised their hand and said, "I would like to follow this manager for another six months to see how they perform or correlate to the rest of the managers in their space." If that happens, someone should make a note of it because it is helpful to document that committee members understand their duties as fiduciaries.

The notes don't have to be verbatim, but should highlight some of the key questions that were asked, who asked them, how methodical the committee was, and what the outcome was. This is especially helpful if the committee decides to delay investment. The next time you have a committee meeting or if the consultant comes in, you can revisit those questions to see if the issues were fully addressed since the previous meeting. If something was not addressed, you can make sure that the issue will be followed for the next time.

*Have A Process To Review Your Process*. An investment committee will never get everything right all the time. However, when something goes wrong, it is helpful to evaluate what else could have been followed or what facts could have been uncovered that might have prompted a different decision or action regarding the investment. It's helpful if the investment committee looks back to evaluate what they could do better next time.

Mr. Cohen then invited questions from the audience.

Question: *I am in the process of re-investing an endowment fund. We just came up with an investment policy, and put out an RFP to banks to manage the small endowment that we do have. I was curious about what role the Investment Policy*

*Statement plays once we make a decision to implement a certain investment strategy. How would you go about keeping that Policy a living, breathing document?*

Mr. Cohen replied that, first of all, the Policy document should say how often the nonprofit needs to review the underlying managers and what factors should be assessed for review purposes. The organization should check results against the factors used to evaluate the investment manager, and at pre-determined points in time, compare the manager's actual performance with what is expected. That's one way your nonprofit can live up to your responsibility to adhere to the terms of the Policy Statement.

It is helpful to go back every year and review the Investment Policy Statement. Your organization should regularly review your criteria for allocation and for selecting or terminating managers. This will help you to see whether your criteria and underlying assumptions about performance are still effective and useful.

Question: *Do you have a template or document that shows the questions that should be asked? We are not investment experts and we are going to rely heavily on managers.*

Mr. Cohen responded that in the back of the workshop handout he included a number of operational due diligence questions to ask about investment managers.

Mr. Tenenbaum ended the workshop by noting that on Venable's website they have hundreds of different articles and PowerPoint presentations on nonprofit legal topics, and the resource is searchable by topic areas. They are constantly adding new articles and presentations. The URL is **www.venable.com/nonprofits/publications**. (The handouts for this workshop have been posted online at this address under the February 23, 2010 date.)

*This workshop was repeated on May 19, 2010. William H. Devaney, Partner, Venable LLP, also participated as a speaker in the second workshop and contributed content for both workshops.*

## <u>Workshop</u>: <u>Evaluation Milestones-How We Choose and Assess Measurement Points That Add Up to Impact</u>

### Leader: Dr. Kim Sabo Flores, Director, Studio for Participatory Evaluation and Development

*This summary includes content from a workshop presented at the Symposium on February 23, 2010 as well as a second workshop on this topic that Dr. Flores presented at the Metro New York BBB offices on July 14, 2010.*

Dr. Kim Sabo Flores has a background in psychology and youth development, and this led her into the evaluation field. She has worked on initiatives to get youth involved in contributing their viewpoints to the policy development process, as well as the program evaluation process, at the United Nations and elsewhere.

Dr. Flores explained that a participatory approach to evaluation engages nonprofit clients who are affected by the charity's work, to understand their perspectives and take them into account in assessments. The evaluation process is "political" as much as it is scientific, since politics frames how we approach decisions. It is not necessarily a simple process. It can take as long as a year to get a strong evaluation framework in place.

Evaluation needs to be a core part of a nonprofit organization's operations. Staff should be trained on how to run evaluations themselves. This enables the organization to better articulate what it does, tell its *story* and measure its impact. In terms of being able to better tell a group's story, over the years Dr. Flores has observed that when employees understand their contribution to the organization's mission they tend to stay there five times longer than when they do not have that understanding.

Dr. Flores described three real-life examples of organizations whose methods for evaluating programs produced poor or unhelpful results, requiring them to rethink their entire evaluation process.

The first lesson learned from these examples is that nonprofit leaders should make sure that the data points you draw upon for your reports are meaningful and help to shed light on the story you want to tell. Often, data is meaningless, does not adequately measure the right outcome, or does not say anything about the unique qualities of the program outputs being measured.

Second, avoid selecting outcomes for measurement that go beyond the scope of the probable impacts of the program. Identify and measure things that are genuinely close to what you do in your nonprofit's work. Organizations are sometimes pressured by funders to measure outcomes that fall outside the ambit of their programs. Instead, you can try to show links between your program outputs and available research related to your program, to illuminate evaluation outcomes. It is important for organizations to stand firm on their data and clearly be able to articulate how and why they measure what they do. Funders need to understand that you have a thoughtful process in place.

Third, participatory evaluation should include an array of stakeholders, such as staff, board members, clients, etc. Being inclusive when you are conducting an evaluation will help to foster good communication and cohesion throughout the organization.

Fourth, it is important for all organizations to be able to talk about what is special about their own nonprofit's distinct impact.

**Steps in a successful evaluation include:**

1. **Engage the stakeholders**
2. **Figure out the focus of the evaluation**
   - describe the program logic model
   - define evaluation purpose & make sure everyone is on same page
   - determine the use and the end users for the evaluation
   - determine key questions to ask
   - select indicators of success
   - determine design
3. **Choose a data collection strategy**
   - identify data sources
   - select data collection method(s)
   - pilot test your strategy

- set a collection schedule
   - decide what your sample(s) will be
4. **Analyze and interpret your data**
   - process the data
   - assess the data
   - what did you learn/not learn?
   - what are the limitations of the data?
5. **Use what you've learned**
   - share findings and lessons learned
   - use findings to shape decisions
   - choose your next steps

The data collection strategy should be one of the later parts of the process. Deciding on data collection issues too soon is one of the reasons why evaluations go wrong.

Additional questions leaders should ask themselves when conducting evaluations:

- Is it likely that the program will influence projected outcomes in a way that is meaningful?
- Will the activities be adequate in number, duration and intensity to produce the anticipated outcomes?
- Will the activities be doable in light of the planned project outcomes?
- Do program activities relate directly to desired outcomes or not?
- Could important program activities be missing?
- Are outcomes relevant to your nonprofit's mission and useful in your decision-making? Do they represent meaningful change? Are they the outcomes for which your program ought to be held accountable? Will the outcomes be viewed as valid and acceptable by your stakeholders?

Defining what is meant by evaluation is a very important issue, Dr. Flores commented. When an evaluation of an organization or a program is impending, people can get really scared. This is especially true if an outside consultant is being brought in.

Young people in particular are often the target of many kinds of evaluation. They are wary about what you are trying to do. Sometimes clients of an organization may have experienced evaluations as a negative thing. Because of these issues, it is helpful to communicate clearly about what type of evaluation you are doing and its purpose.

Dr. Flores suggested that evaluations should be dynamic and shape what the organizations do next. An evaluation might be something like a research study where you can pilot different options and see what works.

It is one thing to collect piles of data and create nice charts with it, but quite another thing to figure out how to use the data at the staff level. Dr. Flores pointed out that nonprofit leaders need to distinguish between data that is needed by the organization to improve itself and data that is required for reporting purposes by a government agency or other funder.

Participants in the second workshop conducted by Dr. Flores were surveyed before the program, and named a number of evaluation challenges that they wanted to explore during the program. During the actual session, the attendees divided up into breakout sessions to discuss these issues. Each group came up with additional points of concern related to each of the evaluation challenges that they discussed. Dr. Flores offered tips relating to each area after the breakout sessions.

Challenges:

1. The Cost of Evaluation

*Concerns*

- Getting adequate return on the evaluation investment – making evaluation worthwhile
- Putting a value on evaluation
- Convincing funders to pay for evaluation costs
- Persuading organizational leadership that evaluation should be a priority, and convincing them to cough up the needed funds

*Tips on Managing Evaluation Cost from Dr. Flores*

- Develop staff's knowledge and capacity to do evaluation across the organization – involve many, not just a few
- Build evaluation practices into daily work routines
- Get professional consultants to help you think through evaluation design and outcome measurement challenges that go beyond the level of staff expertise

2. Getting Staff and Stakeholder Buy-In for Evaluation

*Concerns*

- Getting program staff involved in writing grant proposals
- Knowing reporting requirements and streamlining the reporting process while the program is running
- Getting recognition for current efforts-building on what you are already doing
- Educating staff about the need for evaluation: doing reality checks, communicating well, connecting evaluation with mission and service delivery, overcoming jaded views of evaluations

*Tips on Getting Staff Buy-In from Dr. Flores*

Involve all your staff and stakeholders in the process:

- Choosing milestones and indicators
- Developing sensible evaluation processes that can actually be used in the context of daily work
- Analyzing data
- Making suggestions for improvement based on evaluation results

3. Assuring Quality of Evaluation

*Concerns*

- How do you know you're measuring the right thing?
- Distinguishing outcomes versus outputs
- How do you use anecdotal evidence in evaluations?
- How do you measure emotions or behavior shifts without hard outputs and evidence?
- How do you measure long-term change (beyond the life of the grant)?
- What are the motivations for change-external factors?
- We should ask - why are we evaluating? – and be aware of how our need to sell to funders differs from our need to measure success

*Tips on Quality Assurance from Dr. Flores*

- Work on improving your nonprofit's evaluation capacity

- When possible, hire a qualified consultant to help
- If you are able to get a consultant, select someone who will work with your staff throughout the evaluation process to help raise the level of their evaluation knowledge
- Analyze your data at the end of each year and adjust your practices based on what you learn from it
- Constantly check your assumptions and your logic model against your evaluation findings, to be sure you are on track

4. Competing Purposes

*Concerns*

- Players have different interests: staff, funders, stakeholders
- It's important to have two-way communication with funders on needs
- Numerical goals: do they capture the truth? Can be deceptive
- Example of poverty: more instances of service may not represent progress
- Pressure to show immediate results when task may be long-term in nature
- Outcomes – how often does learning get plugged back into operations?
- Overly ambitious goals set by nonprofits versus goals that aren't high enough or measurable
- Building data collection into daily routines to "automate" it versus staff losing sight of goals
- Evaluation challenge: overall evaluation of large, complex organizations with many services, points of contact versus program evaluation
- Some service populations are very difficult to evaluate
- Communication and coordination between fundraisers and program staff is sometimes lacking
- How do we define what we're trying to achieve in terms of impact that can be sustainable? (Why do you do what you do?)
- Is there a gap between a program's goal and ability of program to deliver against it?
- Value of stories versus hard metrics-the need for measurable data
- What is the nonprofit's role in target community - your piece of the impact – versus the role of others working in the same service area?
- Evaluation at old-line organizations: the evaluation task can be new to staff who are deeply experienced at the organization; new leadership goals can generate resistance, tension.

*Tips on Resolving Competing Purposes from Dr. Flores*

Talk to all your stakeholders about the purpose of doing evaluation. Ask yourself:

- Who are your nonprofit's stakeholders?
- What questions do those stakeholders want to have answered?
- What questions can your nonprofit address – or not address – right now?
- What is the target audience for this evaluation?
- Who will get to see the results of your evaluation?

Workshop participants gathered in a general session after the breakouts, and discussed these ideas further.

Dr. Flores described a tool that she uses in her evaluation work, the storyboard.

Storyboarding:

- Gets stakeholders to tell the story of their experience with the nonprofit organization and its impact. This can literally be done in storyboard form, with drawing of scenarios.

- This helps to draw out and highlight different points of view that various stakeholders may have about your nonprofit's impact – often these are views of which you may be unaware.
- Insights from storyboarding can help shape your choice of program outcomes and indicators.
- Storyboards can also help you recognize gaps or misalignments in your program offerings.
- It is sometimes difficult for nonprofits to do storyboarding well, because of the need for objectivity. It might be a good idea to have an independent, outside facilitator help with this process.

Dr. Flores commented that evaluations often present issues that revolve around language – how things are expressed. Often an evaluator needs to be able to translate staff observations about a certain situation into academic discourse. For example, the evaluator may need to take a staff member's comments about a young person's progress, and then phrase it in terms of developmental theory.

Resolving competing purposes is another of the biggest challenges of evaluation. An evaluation will be very difficult to do properly if the stakeholders have different objectives in mind or are unclear about the reason for doing an evaluation. Dr. Flores once worked on the evaluation of a community organizing program where she presented her findings at a meeting of the nonprofit staff and leaders. They told the program officer to leave the room, and then asked Dr. Flores if they should fire the officer. Dr. Flores was not able to provide a meaningful response to this question, because she had not been told before the evaluation took place that her task was to determine the merits of the particular employee.

In general, she makes a point of staying away from evaluations that are meant to lead to punitive consequences. One time, a funder had assured her that they did not want an evaluation for punitive means, but just to build internal capacity. The grantee trusted that this was the case and gave Dr. Flores the cooperation she needed to do the evaluation. When she was done, the funder asked her if they should de-fund the program. Again, she could not answer because she was not forewarned about the purpose of the evaluation. She had seen some positive indicators from the program and some lukewarm ones but they were out of the context of determining whether or not to continue the program's funding.

Question: *How can you design evaluations that measure long-term instead of short-term outcomes?*

Dr. Flores responded that first, it is important to examine and define what is long-term and short-term in the context of a particular program. Stakeholders should also have a logic model of how the program creates change and in what time frame. Sometimes the evaluation needs to stay in the short-term because of access constraints. Dr. Flores was working with a group that helped third graders and that wanted to study how many of them would graduate high school. She told them that the study was impractical as it would take many years and cost huge amounts of money. Instead of trying to measure very distant outcomes, Dr. Flores argued that organizations should create logic models that show that a positive outcome is *likely* to happen in the future based on the near-term data at hand.

To create a theory of change, you need to start with a desired long-term outcome. One organization's goal was to increase caring and respect for young people and young people's care and respect for the community. They had to identify indicators that could be used to measure progress towards these long-term goals. Dr. Flores helped them create a poster with different "fueling stations" that represented the amount of caring and respect in the community at different stages in the program. Everyone, staff, program participants and others helped contribute to the poster, hone the indicators, and measure the progress. The activity got everyone involved and helped increase the "buy-in" of program stakeholders.

Dr. Flores went on to examine the difference between anecdotal and qualitative data. Anecdotal data is when you hear from one person about how great a program was and the story of how it helped them. Qualitative data is obtained from *systematic* data collection, for example, through interviews with a significant number of participants. If an evaluator can quote stories from 75% of participants describing how a nonprofit program led to their child attending college, then they have a qualitative indicator of success.

In evaluating programs, there are many different indicators to choose from and differing relationships between indicators and outcomes. Dr. Flores recommended focusing on the small indicators that program staff are well acquainted with. These can be "added up" to show the program's impact.

The definition of evaluation itself shows the importance of different indicators. Evaluations are "systematic assessments at different points in time with multiple measures from multiple perspectives." Dr. Flores highlighted the example of young students to indicate the effects of multiple perspectives and points in time on indicators. If you give young people an evaluation form to fill out in June, at that time of year they may be suffering from "test fatigue", having just taken all kinds of standardized testing, school finals and possibly SATs. You are more likely to receive negative feedback at that point. A better strategy would be to get young people to fill out evaluations in April when they have just come back from spring break and are in a good mood.

Dr. Flores warned against confusing volume of input with the amount of impact a program can have. Just because the program interacted with a certain number of people or gave out a certain amount of advice or goods does not mean that it had its intended effect. A program that wants to end homelessness can record that it gives 250 meals to homeless people - but a funder can ask, so what? A good answer from program staff might be that after having these meals the clients were in a more sound state of mind and were effective in looking for jobs and stable housing.

Dr. Flores explained some statistical concepts for evaluating groups. "N" is the total number of people in a group of interest (such as participants in a program) and "n" is the number of people measured in the group (or "sample"). Mathematically, it is possible to find a sample "n" that can give you 95% confidence in predicting things about the "N" group as a whole. The data you gather on the "n" group doesn't give you absolute percentages (such as "25% of participants graduate college") but can allow you to make inferences based on probability.

She recounted a time when a grantor wanted an evaluation where n=2,000 but only wanted to pay $5,000 for this expense (not realistic). To create a statistically significant study, the evaluators only needed a few hundred responses, a far more affordable evaluation sample choice.

Question: *When planning evaluation surveys, how do you decide whether to use multiple-choice or open-ended questions?*

Dr. Flores replied that it really depends on how large the sample is and therefore how feasible it is to deal with longer feedback. For a large group, she recommended doing a little bit of qualitative research to help guide what types of questions should go on a multiple-choice survey. Evaluators need to make sure that the language of a survey will make sense to respondents. For example, there may be a question like, "what do you think of the hunger project?" Clients might not call the program a "hunger project" and not have any idea what the survey is talking about.

Ideally, the responses to your survey questions will help you uncover stories – and later, tell a story - about the impact of your program. For example, you can ask questions like these: What was the community like before the program? What happened when the participants were in the program? What will the participants and their community be like when the program has ended? The participants should tell their own stories about their involvement with the program. When Dr. Flores performs the storyboarding exercise (in the form of drawing pictures) with the adults and youth in school-based programs, she often gets two widely divergent and revealing narratives about the impact of the program.

Question: *How can evaluation be built into the program model when it is rarely factored into budgets and resources are diminishing in many nonprofits?*

Dr. Flores agreed that evaluations require increased funding and said that if funders want good program evaluations, they need to help pay for it. She also stated that nonprofits need to build their internal capacity for evaluation. Multiple staff members need to be trained. Feedback loops need to be created so that the evaluation results are really heard and used by the staff and stakeholders. People who work in nonprofits are in the business because they want to do good. Evaluations can show them that they are actually achieving positive outcomes, which in itself can be motivating and important for staff.

She then noted some of the limitations of evaluations. An organization that works in a difficult environment might be serving a high-risk population, and doing good things for them – but it could be very hard to show strong results. Evaluations need to be considered in the context of the nature of the work and the basic condition of the population served. It is also very possible for a nonprofit to demonstrate stellar results with a program evaluation – but that program could still be de-funded if the funder's priorities shift.

Sometimes thoughtful, well-conducted evaluations have the power to get government and foundation funders to change their way of thinking about evaluation strategies, progress reporting frameworks, and acceptable outcomes.

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