THE FORBES FUNDS

2003 Tropman Reports

Applied Research about the Pittsburgh Region's Nonprofit Sector

In 2001, The Forbes Funds launched an annual research series designed to generate practical information on strategic issues facing the nonprofit sector in the Pittsburgh region. The resulting publications — the Tropman Reports — have contributed significantly to community knowledge about trends in the nonprofit sector and about strategies employed by nonprofit organizations to respond to local needs.

On behalf of The Forbes Funds, I encourage you to read, to share, and to make use of the data and recommendations set forth in the 2003 Tropman Reports. Named in honor of The Forbes Funds' founding director, Elmer J. Tropman, the reports are abstracted versions of fuller research reports available on-line at www.forbesfunds.org.

The findings and ideas will enable nonprofit staff, trustees, and donors to build the capacity of nonprofit organizations to ensure that we, as a community, make available high-quality services and programs.

Gregg S. Behr, *President*

TABLE OF CONTENTS

THE FORBES FUNDS

TROPMAN REPORT

2003 SERIES

volume 2 : number 1

THE PRECARIOUS BILLION DOLLAR SECTOR: *Nonprofit Human Services in the Pittsburgh Metropolitan Area*

The thousands of nonprofit organizations in the Pittsburgh metropolitan area are a vital part of the region. They touch nearly everyone's life, providing essential services to local residents and fostering civic participation and social cohesion. Yet nonprofits today are facing serious challenges—an economic downturn, declines in philanthropic giving, state budget shortfalls, realignment of government priorities, and homeland security issues. In this climate of uncertainty, many people are turning to nonprofit organizations to address community needs and public policy issues. Some nonprofits are also wrestling with an increased demand for their services while their own financial resources are strained and uncertain. With more being asked of nonprofits, it is essential to understand the capacity, management, and performance of the sector.

The Forbes Funds commissioned Carol J. De Vita and Eric C. Twombly at the Center on Nonprofits and Philanthropy at the Urban Institute to examine the financial structure and fiscal health of nonprofit human service organizations in the Pittsburgh metro area, so that local leaders can better plan for the future and invest in their communities. The study addressed six questions:

1. How many human service organizations operate in the Pittsburgh metro area?
2. How concentrated or diversified are their sources of revenue?
3. How much do human service organizations spend on management and administrative expenses as a percentage of their total budgets?
4. What is their average operating margin—that is, do revenues exceed expenditures?
5. What percentage of human service groups end the year with positive net income?
6. What are the average end-of-year net assets—do assets exceed liabilities?

On a related note, Carol De Vita conducted a similar analysis of Pittsburgh's nonprofit sector in the mid-1980s, as part of the Urban Institute's Nonprofit Sector Project, directed by Lester Salamon. Among their key findings then: (1) Pittsburgh's nonprofit sector was a major social and economic force in the Pittsburgh region, but it was proportionately smaller than its counterparts in 11 other sites; (2) Government was, by far, the largest single source of nonprofit revenue (53%), followed by service fees (19%), and all private giving (17%); and (3) Pittsburgh's nonprofits were turning to fee-for-service income to replace a decline in government funding—a move that might hurt the poor and most vulnerable who cannot afford to pay for services.

This new study evidences the extent to which the sector has evolved—given government devolution—and the extent to which the sector remains important but fragile.

THE FORBES FUNDS

Envisioning Pittsburgh's nonprofit sector as innovative, informed, and engaged, The Forbes Funds advance capacity-building within and among the region's nonprofit organizations.

THE COPELAND FUND FOR NONPROFIT MANAGEMENT

The mission of The Copeland Fund for Nonprofit Management is to strengthen the management and policymaking capacity of nonprofit human service organizations to serve better the needs of their communities.

- Management Enhancement Grants
- Emergency Grants
- Cohort (Professional Development) Grants

THE TROPMAN FUND FOR NONPROFIT RESEARCH

The mission of The Tropman Fund for Nonprofit Research is to support applied research on strategic issues that are likely to have profound effects on nonprofit management and governance, especially among human service and community development organizations.

- Applied Research Projects
- Annual Research Conference

THE WISHART FUND FOR NONPROFIT LEADERSHIP

The mission of The Wishart Fund for Nonprofit Leadership is to encourage pioneering nonprofit leadership by promoting public learning and discussion about issues critical to ethical and effective management, as well as by celebrating exemplary practices.

- Leadership Roundtables
- The Frieda Shapira Medal
- Alfred W. Wishart, Jr., Award for Excellence in Nonprofit Management

DATA AND METHODS

The data for this study are from the National Center for Charitable Statistics at the Urban Institute and are based on the Form 990 that nonprofit organizations filed with the Internal Revenue Service (IRS) in 2000. Because there is a lag in processing data, the year 2000 provides the most complete set of records for analysis. Data from 2000 can be regarded as a high water mark for the fiscal health of nonprofits, that is, before the stock market declined and the economy softened.

Form 990 data provide a detailed array of measures on the revenues, expenses, assets, and liabilities of nonprofit organizations, which together outline the financial structure and describe the fiscal health of the nonprofit sector. This data file, however, does not contain records on many of the small organizations in the Pittsburgh area with gross receipts of less than $25,000 and most religious congregations. Organizations with revenues under $25,000 are not required to file a Form 990, although some do, and religious congregations are not required to register with the IRS nor file Forms 990, although, again, some do. Despite these limitations, the data set includes the types of groups that are most likely to receive government funding and captures the vast majority of the nonprofit sector's resources. Hospitals are excluded from the analysis of human service organizations because their average budget is 20 times larger than other community-based human service groups. Inclusion of the hospitals would have obscured the financial picture of the other human service organizations.

FINDINGS

- **Compared with other nearby metro areas, the size of the nonprofit sector in the Pittsburgh region is fairly typical.** There are nearly 2,700 nonprofit organizations in the Pittsburgh metro area, or about 11.1 organizations for every 10,000 residents. With revenues of $12.9 billion in 2000, the Pittsburgh nonprofit sector is roughly on a par with the nonprofit sectors in Cleveland and Baltimore — metro areas of similar population size.

- **Looking only at human service organizations, Pittsburgh area nonprofits rank last in terms of per capita spending for residents in poverty.** The 547 nonprofits that provide human services in the Pittsburgh metro area spent roughly $3,700 in 2000 for each resident in poverty. Compared with six other metro areas (Baltimore, Buffalo, Cleveland, Detroit, Indianapolis, and Philadelphia), Pittsburgh's nonprofit human service sector spent the least per capita on residents in poverty (see table 1). Cleveland, for example, spent $4,550 per capita, while Philadelphia spent the most ($5,855). Pittsburgh also had fewer human service providers per capita than most other metro areas in the study. This finding suggests that when Pittsburgh area residents need assistance, they have fewer options than residents in other cities, and less money is spent on their needs.

- **The nonprofit human service sector in the Pittsburgh area is relatively small, despite revenues and expenses of nearly $1 billion, each, in 2000.** Human services account for about 20 percent of all nonprofit organizations in the region, but these groups have roughly 8 percent of the region's revenues and expenses and 6 percent of its assets. The average operating budget for human service groups is about $1.7 million, although the "typical" (or median) budget is much smaller—about $463,000. Although several of the largest human service providers are located in the city of Pittsburgh, there are no significant differences in revenues, expenses, or assets between groups in the city and those in the surrounding suburbs or counties.

- **Client fees are the single most important source of revenue for nonprofit human service providers in the Pittsburgh area.** Government funding is second. Client fees accounted for 40 percent of revenue and government funds for 28 percent (table 2). Together, these sources of income represented more than two-thirds of human service revenue, compared with less than half for the sector as a whole. Human services received about one in five dollars from private donations, foundation support, and charitable giving.

TABLE 1. Number of Nonprofit Human Service Providers Relative to the Poverty Population in Pittsburgh and Six Other Metropolitan Areas in 2000

Metro Area	Number of Human Service Nonprofits	Human Services as a Percent of All Nonprofits	Number of People in Poverty	Human Service Nonprofits per 1,000 Residents in Poverty	Human Service Expenditures ($) per Resident in Poverty
Pittsburgh	547	21	248,600	2.2	3,712
Metros of similar population size to Pittsburgh					
Cleveland	634	22	238,700	2.7	4,550
Baltimore	605	21	243,800	2.5	5,221
Metros with smaller populations than Pittsburgh					
Buffalo	307	27	135,200	2.3	4,108
Indianapolis	368	21	134,600	2.7	4,350
Metros with larger populations than Pittsburgh					
Detroit	737	25	469,600	1.6	3,915
Philadelphia	1,202	22	552,200	2.2	5,855

Source: *National Center for Charitable Statistics/Guidestar National Nonprofit Database, and the U.S. Bureau of the Census, 2000 Decennial Census.*

Preschool and child care programs were especially reliant on fees with nearly three of every four dollars coming from clients. Of the 41 preschool providers that filed with the IRS in 2000, 24 received at least 90 percent of their revenue from clients. In contrast, emergency assistance groups are the least dependent on fee-for-service income. These groups include homeless and domestic violence shelters, food pantries, and services for abused and neglected children. Many of the clients who receive emergency assistance are able to pay only a small fee or nothing at all.

TABLE 2. Sources of Revenue in 2000 by Type of Nonprofit Human Service Provider in the Pittsburgh Metro Area

		Average Percentage			
Type of Human Service	N	Donations	Government	Client Fees	Other
Elder Services	59	17	21	4	19
Emergency Assistance	37	33	46	18	4
Family Services	21	25	25	36	14
Group Homes	20	11	39	44	6
Housing Assistance and CDOs[a]	115	20	33	39	8
Multipurpose Programs	92	25	31	33	12
Physical/Mental Health[b]	42	21	12	62	6
Preschools and Child Care	41	14	5	72	10
Work Readiness Programs	37	18	40	28	13
Youth and Teen Programs	28	30	22	31	16
All Human Service Nonprofits	**492**	**21**	**28**	**40**	**11**
All Nonprofits	**2,173**	**26**	**14**	**32**	**28**

Source: *National Center for Charitable Statistics/Guidestar National Nonprofit Database.*
Note: *The number of cases (N) is reduced because information on sources of revenue is not available for EZ filers.*
[a] *Community Development Organizations*
[b] *Excludes hospitals*

- **Reliance on client fees does not necessarily provide financial stability for nonprofit human service groups in the Pittsburgh region.** Although client fees represented the single most important source of income for human service providers, groups that relied heavily on client fees were no more able to stave off large financial losses nor to post large gains than other groups.

- **Private philanthropy and government funding help provide financial stability to Pittsburgh's human service sector.** Nonprofits that received the bulk of their revenues from charitable contributions were significantly more likely than others to operate in the black when controlling for other factors such as the size of the organization, type of service, and location. Government support also helps to mitigate financial losses. While private philanthropy and government funds tend to play lesser roles than fee income in supporting the human service sector in the Pittsburgh region, they provide an important underpinning for the financial health of the sector.

- **Human service organizations located in the city of Pittsburgh were significantly more likely to have experienced financial problems than groups in the suburbs.** Nonprofits located in the city of Pittsburgh were more likely to run operating deficits in 2000 than other groups, after controlling for the type of provider, size of the organization, net assets, and reliance on various sources of income. In fact, nonprofits in the city were twice as likely as groups in the remainder of Allegheny County and the outer suburbs to post losses of 10 percent or more.

- **Small and mid-sized human service groups were particularly vulnerable to budget swings.** The financial picture of human service providers tends to be mediated by the size of the organization. Small groups with revenues of less than $100,000 and mid-sized groups with revenues between $100,000 and $2 million were more likely than larger organizations to experience either large gains of 20 percent or more or large losses of 10 percent or more. The acquisition (or loss) of just one large contract or charitable gift can create volatile swings in the budget of smaller organizations. Smaller groups also have significantly fewer net assets than larger groups, suggesting that net assets may provide some financial stability to organizations.

- **By 2000—one year before the high-flying economy tumbled—nonprofit human services in the Pittsburgh area were facing precarious times.**
  - Nearly 40 percent of these nonprofits ended the year with a negative balance sheet. Revenues fell short of expenses.
  - Human service providers had a 3 percent cushion in their budgets, that is, the share of total income remaining after expenses have been paid. This was less than half of what all nonprofits in the region reported. Human services had little room for operating errors.
  - More than four of every five dollars went to program expenses. On average, there appears to be little "fat" in the budget to trim.

* The average net assets of human service groups were almost four times smaller than those of the other nonprofits in the region. Given their modest assets, these groups can be financially vulnerable in economic downturns.

IMPLICATIONS

With the sector in flux, this is an opportune time to begin a public debate on the future of the nonprofit human service sector in the Pittsburgh area. At least three important questions emerge from these findings. First, can Pittsburgh's nonprofit human service sector do more for people in need? Other metropolitan areas appear to be investing more in their human service sectors. Second, what mix of funding will yield financial stability for human service providers? Fee-for-service income does not produce greater financial stability for human service organizations, and reliance on fee income raises a broader question of the purpose and mission of the charitable sector. Strong reliance on fee income is likely to hurt the neediest members of the community. Private philanthropy and government funding seem to provide the crucial underpinning for the financial health of the sector. Finally, can a consensus be built on how to strengthen and enhance the capacity of the human service sector? While some nonprofits may need to build their infrastructure, others might be encouraged to seek collaborations or even mergers or acquisitions. In essence, the sector must decide how to achieve a balance between enhancing the capacity of individual organizations and strengthening the sector as a whole.

The challenges faced by nonprofit human service groups in Pittsburgh and elsewhere have no quick and easy solutions, but the financial portrait presented in this report can serve to open dialogue, inform debate, and guide the development of public and private policies to strengthen this vital part of our communities.

Reference

Salamon, Lester M., David M. Altschuler, and Carol J. De Vita. 1987. *Pittsburgh Nonprofit Organizations: The Challenge of Retrenchment*. Washington, D.C.: The Urban Institute.

THE **FORBES** FUNDS

TROPMAN REPORT

2003 SERIES

volume 2 : number 2

STRATEGIC RESTRUCTURING: *A Tool for Improving Organizational Effectiveness*

Echoing across Pittsburgh's hillsides, for at least two decades, has been a call that this region's nonprofit organizations must achieve greater economies of scale. Fairly or unfairly, nonprofits have been challenged to reduce administrative costs, eliminate duplicative services, and seek collaborations with peer agencies. Indeed, in February 2001, The Forbes Funds advanced this call by hosting a Leadership Roundtable featuring James Austin, the John G. McLean Professor of Business Administration at the Harvard University School of Business Administration, who presented numerous case studies and examples of strategic alliances and provided practical, down-to-earth strategies for local nonprofit staff and trustees. In 2003, The Forbes Funds commissioned David La Piana, Michaela Hayes, and Natasha Terk of San Francisco-based La Piana Associates, Inc., arguably the nation's leading resource on strategic restructuring for nonprofits, to examine the lessons learned from mergers, alliances, and joint ventures involving local nonprofits. In cooperation with The Forbes Funds, La Piana, Hayes, and Terk conducted case studies of ten agencies located across Pittsburgh.

WHAT IS STRATEGIC RESTRUCTURING?

Strategic restructuring—mergers, alliances, joint ventures, and other forms of strategic partnerships—is a tool used by nonprofit organizations that seek to improve their organizational effectiveness. It is used across the country and even more so in certain urban areas—such as Pittsburgh—where the number of nonprofit organizations grew dramatically in the past decade. These environments are laden with challenging dynamics, including increased competition for funding and other resources, such as qualified staff. Times of economic downturn exacerbate this situation. Strategic restructuring can offer organizations in crisis—due, for example, to shortfalls in funding, increased competition, or departure of an executive director—a means of survival or a way to assure continued advancement of mission. Of broader interest is the use of this tool to improve organizational effectiveness in general.

THE **FORBES** FUNDS

Envisioning Pittsburgh's nonprofit sector as innovative, informed, and engaged, The Forbes Funds advance capacity-building within and among the region's nonprofit organizations.

THE COPELAND FUND FOR NONPROFIT MANAGEMENT

The mission of The Copeland Fund for Nonprofit Management is to strengthen the management and policymaking capacity of nonprofit human service organizations to serve better the needs of their communities.

- Management Enhancement Grants
- Emergency Grants
- Cohort (Professional Development) Grants

THE TROPMAN FUND FOR NONPROFIT RESEARCH

The mission of The Tropman Fund for Nonprofit Research is to support applied research on strategic issues that are likely to have profound effects on nonprofit management and governance, especially among human service and community development organizations.

- Applied Research Projects
- Annual Research Conference

THE WISHART FUND FOR NONPROFIT LEADERSHIP

The mission of The Wishart Fund for Nonprofit Leadership is to encourage pioneering nonprofit leadership by promoting public learning and discussion about issues critical to ethical and effective management, as well as by celebrating exemplary practices.

- Leadership Roundtables
- The Frieda Shapira Medal
- Alfred W. Wishart, Jr., Award for Excellence in Nonprofit Management

HOW COMMON IS IT?

Strategic restructuring is not new in the sector, as revealed in findings from previous research and demonstrated by some of the organizations included in the study sample. However, there is an increasing awareness of this tool, due to various factors. These include an increased focus in the sector on organizational effectiveness, in part motivated by foundation interest in improving the effectiveness of grantmaking. This is exemplified by the emergence, in 1998, of Grantmakers for Effective Organizations (GEO)—a grantmaking affinity group that works to improve both nonprofit and philanthropic effectiveness. Strategic restructuring is a promising tool for achieving this outcome.

During the past five years, the amount of information on, and interest in, strategic restructuring has increased dramatically. Contributing to this is the Strategic Solutions project, an initiative funded by three California-based foundations: the James Irvine, William and Flora Hewlett, and David and Lucile Packard foundations.[1] Since 1998, this project, managed by La Piana Associates, has focused its efforts on increasing the sector's awareness and understanding of strategic restructuring. The large and increasing number of articles on strategic restructuring in both sector-specific publications, as well as in the popular press, is indication of increased interest in, and use of, this tool for improving organizational effectiveness. In the past year, the interest has spiked, due in part to the economic downturn and the resulting financial difficulties that nonprofits are facing.

WHAT IS THE ROLE OF STRATEGIC RESTRUCTURING IN PITTSBURGH?

The nonprofit sector in Pittsburgh shares many of the challenges faced by nonprofits throughout the country. Reduced government and foundation funding is placing great pressure on the sector, which has experienced a proliferation of new nonprofits during the past decade, thus increasing the competition for a smaller pool of funds. This is certainly the case in Pittsburgh. Further exacerbating this situation is Pittsburgh's weak economy and resulting broad-based job losses. The result has been an increased need and demand for services, especially in the health and human services subsectors which serve as a "safety net."

The impact of these trends is evidenced in increased competition among nonprofits and also from for-profit entities. This is most acute in the health and human services subsectors. For-profits have entered this market seeking to expand their base through government contracts, including those focused on bringing managed care to federal and state-funded programs, such as Medicaid, and to county-funded programs.

As the Pittsburgh nonprofit sector, and particularly the foundations that support it, strives to address these interrelated challenges, it will be important to provide leaders more information about strategies available to improve the effectiveness of their organizations. Among these, strategic restructuring has shown great promise. However, in order to make the best use of this tool, nonprofit leaders need to understand:

- When strategic restructuring is an appropriate strategy (i.e., for what situations);
- What outcomes are reasonable to expect;
- What form of strategic restructuring is best for the organizations involved; and
- How to increase the likelihood of achieving the desired outcomes.

Similarly, foundations, concerned about improving the effectiveness of the nonprofits they support, can benefit from this information as well. For all involved, having clear and realistic expectations of the potential outcomes is perhaps most important.

HOW EFFECTIVE IS STRATEGIC RESTRUCTURING?

While there is a growing body of knowledge about the factors that support effective negotiation and integration of strategic partnerships, much less is known about the actual outcomes nonprofits experience and how these compare to their expected outcomes, prior to the strategic restructuring. The Forbes Funds commissioned La Piana Associates to address these questions, specifically as they relate to the health and human services subsectors in the Pittsburgh nonprofit community.

STUDY METHODOLOGY

Strategic restructuring, especially in its more complex form of corporate integration (e.g., mergers, joint ventures), typically spans a multi-year period from pre-negotiation discussions through negotiations and integration. Further, while there has been an increase in activity related to strategic restructuring in the sector, within any subsector (e.g., human services), and within any given geographic area, there are a finite number of such partnerships developing at any one point in time. For these reasons, La Piana Associates used a retrospective case study approach to investigate the research questions. This involved in-depth interviews with the leadership of ten nonprofit organizations identified as study participants by The Forbes Funds. Separate interviews were conducted with two leaders from each organization, the executive director, and a board member (typically, the board chair). This allowed comparison of responses and provided different perspectives on the process and outcomes.

The study participants represented a variety of types of strategic restructuring, spanning the partnership continuum from strategic alliances—administrative consolidation and joint programming—through corporate integration—joint venture, management services organization, parent subsidiary, and merger. (See Figure 1: The Partnership Matrix.) Not only did the types of strategic restructuring differ, but these organizations also differed along many other dimensions. Through the in-depth interviews, La Piana Associates gathered both qualitative and quantitative data that would provide measures of change in organizational effectiveness. La Piana Associates then sought to determine whether these could be attributed to the strategic restructuring.

WHY DO NONPROFITS PURSUE STRATEGIC RESTRUCTURING?

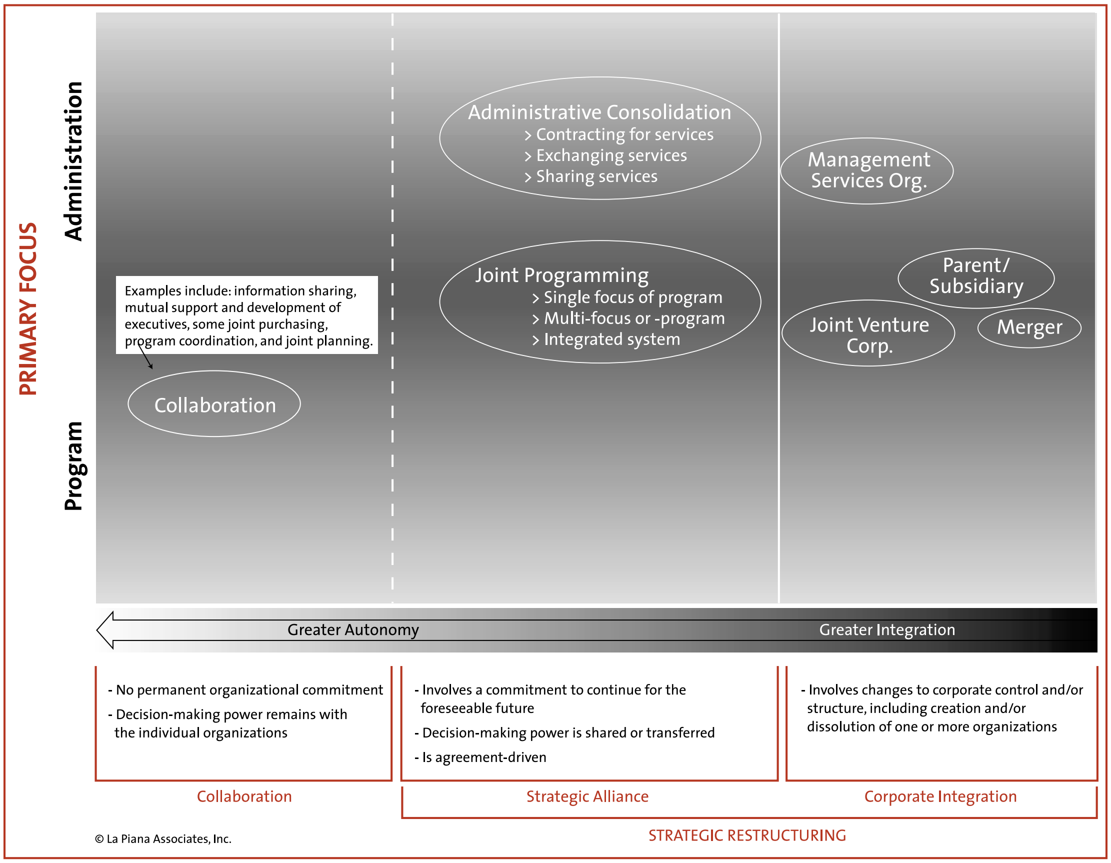
One objective of this study was to learn to what extent the Pittsburgh nonprofit sector is the same as, or different from, other similar urban areas throughout the country. Prior research studies—both La Piana Associates' studies and those of other researchers—as well as La Piana Associates' field experience have found that the reasons for pursuing strategic restructuring generally fall into a few key categories. These are to:

- Increase efficiency—in particular, to reduce administrative expenses;
- Serve the community (stakeholders) better by offering more and/or an expanded continuum of services;
- Respond to increased competition (e.g., for clients and/or funding); and
- Address leadership challenges (e.g., the departure of a skilled ED, or a "burned-out" board).

SUCCESS FACTORS AND CHALLENGES IN STRATEGIC RESTRUCTURING

Strategic restructuring is not easy. It requires dedication, time, focus, and patience—all in addition to the day-to-day management and operation of the organization. While it can reduce expenditures, it also often requires *new* expenditures. Even in consolidation of administrative functions, where the potential for reducing expenses is greatest, there are expenses involved, such as new and/or expanded IT capabilities to handle the increased volume of transactions (i.e., more clients, more services delivered). Over a period of time, increased volume and the associated revenues may counterbalance the additional expenses.

FIGURE 1: The Partnership Matrix



Research studies and first-hand experience reveal several factors that make it more likely that a strategic restructuring will achieve its objectives. These include:

- Having a "champion"—someone in a leadership position who acts as a cheerleader of sorts for the partnership;
- Positive experiences and relationships—past positive experience with collaboration/ partnership, especially between the organizations involved, to help build the trust that is so crucial to a successful partnership;
- Honest, frequent, and clear communication;
- Positive board/ED relations and the absence of internal conflict;
- Risk taking/growth orientation; and
- Focus on mission—being able to keep the ultimate objective in sight and rallying staff and board to this shared vision.

These success factors help organizations overcome the key challenges that arise, including:

- Autonomy concerns—fear of losing individual autonomy, "ego" issues, and lack of trust; and
- Conflicting organizational cultures[2]—While it pervades all aspects of an organization, organizational culture is not always something of which those outside of an organization (or even those inside it) are consciously aware. Often differences in organizational culture do not become apparent until the implementation phase of strategic restructuring when staffs begin working together.

EXPECTED OUTCOMES: OBJECTIVES OF STUDY PARTICIPANTS

In undertaking strategic restructuring, the Pittsburgh nonprofits participating in this study sought to achieve a range of objectives related to organizational effectiveness. These varied by organization and included:

- Reducing competition for donors;
- Reducing competition from for-profits;
- Meeting an unmet community need—e.g., providing needed services where no one else was offering them;
- Sustaining a needed program—e.g., helping to maintain the services of an organization on the brink of closure;
- Offering a continuum of services—e.g., partnering so services could be coordinated in a manner that would be beneficial as well as transparent to clients;
- Reducing administrative expenses;
- Enhancing IT capacity;
- Offering a better benefit package to employees; and
- Increasing visibility and reach.

ACTUAL OUTCOMES: STUDY FINDINGS

In general, study participants felt their strategic restructuring had been successful in improving their organization's effectiveness. While (a) the degree of success varied, (b) the time to implement the strategic restructuring fully was often longer than anticipated, and (c) the specific success factors were not entirely what was originally expected, study participants were able to point to specific indicators of success, including:

- Improved services and service delivery—This was the most frequently cited outcome;
- Decreased costs—This was also a frequently cited outcome. In particular, specific administrative costs decreased for many of the study participants;
- Decreased competition, increased market awareness, and improved (more competitive) market position;

- Improved organizational infrastructure, including enhanced capabilities in marketing and IT, and better healthcare and other benefits for staff; and
- Increased ability to recruit staff, volunteers, and board members.

SUCCESS FACTORS FOR STUDY PARTICIPANTS

Among the factors contributing to the study participants' success were:

- Careful, thorough planning;
- Patience and flexibility;
- Good relationships and trust between the partners;
- Funder support (in all stages)—both encouragement and funding;
- Shared vision and focus on mission;
- Board involvement and support;
- Strong leadership that kept people motivated and focused on the shared mission and desired outcomes;
- Early agreements about leadership—e.g., who would be the executive director; and
- Outside expertise—Although the participants tended not to use outside consultants, those that did felt that this had been helpful.

A few factors were specific to the Pittsburgh community:

- Funder support—Several interviewees mentioned that, during the mid to late 1990s, funders in Pittsburgh were encouraging nonprofits to collaborate.
- Close-knit nonprofit community, particularly in the human services subsector—One commonly cited success factor in strategic restructuring is previous relationships (e.g., collaboration, peer networks) between nonprofits. Leaders in Pittsburgh's health and human services subsectors tend to know or know about each other.
- Threat of for-profits entering the market—During the 1990s, many of the nonprofit leaders in the health and human services subsectors faced a common threat in the form of for-profit entities. This threat made nonprofits more inclined to work together.

CHALLENGES FOR STUDY PARTICIPANTS

The challenges that study participants experienced are similar to those that typically arise in strategic restructuring. These include:

- Changes in the external environment and changes in motivating factors—Threats, such as those posed by external competitors, often drive nonprofits together; if, however, the threat dissipates before the involved organizations have solidified their partnership, then there tends to be less motivation to continue.
- Delayed programmatic integration—Organizations have a tendency to stop working once they have negotiated the strategic restructuring. However, the most difficult work often lies ahead. If there is not follow-through, the organizations tend to be consumed in their day-to-day work, resulting in the strategic restructuring never being fully implemented or being significantly delayed. This was the situation for a few of the study participants.
- Operating in separate locations—The implementation process is much faster and smoother if the organizations are co-located. If they are not in the same building, having frequent face-to-face interaction is at least helpful. This lack of shared space and/or "face time" was challenging for several participants.
- Creating a unified organizational culture.
- Poor communication—Good communication is one of the most important factors in successful implementation of strategic restructuring. Lack of honest, frequent, and clear communication can create major problems and impede the implementation process, especially when the partnership involves multiple organizations in different locations.
- Lack of adequate systems to support the new entity.
- Internal changes, especially the departure of key leaders—Just as having a champion for the strategic restructuring is a success factor, not having one is a major challenge. Often, there are periods of significant uncertainty in the course of strategic restructuring. During these times, key leaders may leave the organization, causing further confusion and anxiety.
- Constrained resources—Strategic restructuring, while it can reduce expenditures, also requires the expenditure of resources.

SUMMARY

Overall, La Piana Associates found that the study participants achieved positive outcomes—in the form of improved organizational effectiveness—from their strategic restructuring efforts. Interestingly, study participants often embarked on strategic restructuring without having a complete understanding of the factors associated with success, nor of the challenges that they would encounter along the way, especially in the implementation phase. Given the positive outcomes that study participants experienced, the current challenges facing the sector, and the need for increased organizational effectiveness, nonprofits would benefit from having more information about strategic restructuring. This includes information about what to expect and tools to increase the potential for positive outcomes.

Funders can help make these resources available to nonprofits. However, they must tread a delicate line between providing information and support, and tipping the balance of power and making nonprofits feel they *must* undertake a given course of action because funding is dependent upon it. Of importance is the role a funder elects to play in providing information and practical support. Each foundation's approach will be dependent upon the foundation's general relationship with its grantees. Above all, foundations should themselves be aware of the information and tools that are available.

[1] Interested readers are encouraged to visit the Strategic Solutions web site (www.lapiana.org/ss/index.html) for information and other resources on strategic restructuring, including an extensive list of publications by researchers and practitioners throughout the country.

[2] Organizational culture encompasses the way people communicate with each other; the way they resolve conflict; and how they celebrate, reward, lead, manage, do their work, break down and assign work, and relate to each other. It is the core of the organization's belief system.

THE **FORBES** FUNDS

Tropman Report

2003 SERIES

volume 2 : number 3

IDENTIFYING FINANCING OPPORTUNITIES FOR PITTSBURGH-BASED SOCIAL ENTERPRISES: *Challenges and Opportunities for Capitalizing Entrepreneurial Ventures*

The Forbes Funds commissioned Community Wealth Ventures (CWV) to examine and document financing opportunities potentially available to nonprofits starting or growing social enterprises. This study comes at a critical time when it is ever more apparent that philanthropy and government funding are insufficient to address the pervasiveness of social problems.

Innovative nonprofit organizations are increasingly looking to the small business sector — analyzing, learning from, and even co-opting business practices and ideas in order to launch market-based ventures. These ventures hold the promise of generating revenues, furthering mission objectives, and improving organizational sustainability. While many of these organizations and individuals have the knowledge of the marketplace and the necessary passion to succeed, they often lack the wide array of financial tools and resources that have been developed to assist the traditional small business owner.

A major hurdle faced by small businesses is capitalization, and capitalization is an even greater hurdle for nonprofit organizations seeking to launch a business venture. The process of raising the necessary capital to seed the creation and growth of a business is often difficult and time consuming. At the same time, adequate capitalization is one of the most critical determinants of small business success. In many cases, businesses fail not because of a flawed business model, but because they do not have the necessary capital to manage negative cash flows or to invest in infrastructure to support growth.

Much has been written on the financing process for traditional for-profit businesses, and, to a lesser extent, on financing the start-up and growth of nonprofit organizations. However, very little research has focused on the unique capitalization challenges faced by nonprofit organizations when attempting to launch and grow social enterprises.

THE **FORBES** FUNDS

Envisioning Pittsburgh's nonprofit sector as innovative, informed, and engaged, The Forbes Funds advance capacity-building within and among the region's nonprofit organizations.

THE COPELAND FUND FOR NONPROFIT MANAGEMENT

The mission of The Copeland Fund for Nonprofit Management is to strengthen the management and policymaking capacity of nonprofit human service organizations to serve better the needs of their communities.

- Management Enhancement Grants
- Emergency Grants
- Cohort (Professional Development) Grants

THE TROPMAN FUND FOR NONPROFIT RESEARCH

The mission of The Tropman Fund for Nonprofit Research is to support applied research on strategic issues that are likely to have profound effects on nonprofit management and governance, especially among human service and community development organizations.

- Applied Research Projects
- Annual Research Conference

THE WISHART FUND FOR NONPROFIT LEADERSHIP

The mission of The Wishart Fund for Nonprofit Leadership is to encourage pioneering nonprofit leadership by promoting public learning and discussion about issues critical to ethical and effective management, as well as by celebrating exemplary practices.

- Leadership Roundtables
- The Frieda Shapira Medal
- Alfred W. Wishart, Jr., Award for Excellence in Nonprofit Management

SOCIAL ENTERPRISE IN PITTSBURGH

Pittsburgh is poised to stand as the Silicon Valley of Social Enterprise. The region's nonprofit community gathered for its annual summit in 2001 to learn about social enterprise; social enterprise is again the subject of the 2004 nonprofit summit. All the while, local foundations have convened workshops among practitioners to meet with strategists, attorneys, and venture capitalists to discuss social enterprises. Peer learning groups have continued and advanced the learning. Local universities have offered substantive social enterprise courses to students and practitioners alike. National and international experts have advised local nonprofits about earned-income revenue strategies. And local and national business plan competitions are preparing Pittsburgh's nonprofits to implement and launch the promising practices of social enterprise.

In 2002, The Forbes Funds published "Profit Making in Nonprofits: An Assessment of Entrepreneurial Ventures in Nonprofit Organizations." This study, conducted by Olszak Management Consulting, Inc., documented the earned-income revenue strategies of 25 nonprofits located in the Pittsburgh region. Olszak set forth 7 'promising practices' and 34 specific activities associated with successful social enterprises. Of note, Olszak documented that start-up funds for social enterprises were most commonly granted by foundations, and that, while some organizations derived continued support from sales or fees, nearly 1/2 of the respondents turned to foundations for on-going operating costs. While local foundations — such as the McCune Foundation, the R.K. Mellon Foundation, and the Alcoa Foundation foremost among them — have generously funded social enterprises to assist nonprofits in attaining more diverse and self-sustaining revenue mixes, as well as to build community wealth generally, the pool of potential investment to initiate social enterprises has not been fully developed nor realized.

REPORT OVERVIEW

The Forbes Funds commissioned CWV to seek answers to questions relevant to financing social enterprises in Pittsburgh:

- How do the capital markets for social enterprise differ from the traditional for-profit capital markets?
- What criteria should be used to evaluate a social enterprise investment?
- What financing instruments and sources of capital are most appropriate for social enterprise?
- Based on the financing needs of social enterprises, where do Pittsburgh-area financing sources fall short?

CWV reviewed the existing literature on financing for-profit enterprises and funding nonprofit organizations. In addition and more importantly, CWV talked to dozens of foundations, bankers, venture capitalists, academics, and social enterprise practitioners in order to understand the experiences and lessons learned by those in the field.

CHALLENGES IN FINANCING SOCIAL ENTERPRISE

A social enterprise is defined as a market-based business venture that is operated by a nonprofit organization. Because social enterprises have the goal of self-sustainability or profitability, they are often more akin to a for-profit business than to a nonprofit organization. Depending on the legal structure and balance between social and financial outcomes, social enterprises can access both nonprofit and for-profit sources of capital. However, the unique nature of a social enterprise often means that neither the for-profit nor the nonprofit capital markets can provide the appropriate financing instrument for its need. Straddling the nonprofit and for-profit worlds creates several conditions that make financing a social enterprise challenging:

- **Double "Bottom Line"** — Social enterprises often have dual goals of providing mission-related outcomes as well as financial outcomes. From a capitalization standpoint, these often-competing goals deter traditional investors, such as foundations or lenders.
- **Limited Understanding** — The field of social enterprise is still relatively early in development, and without a track record many investors are hesitant to take a financial risk.
- **Restriction on Private Benefit** — Nonprofits are forbidden from disbursing a profit to investors and are therefore effectively cut off from the largest source of investment capital, the public markets.
- **Familiarity** — Innovative hybrid forms of financing may be appropriate for the needs of a social enterprise, but nonprofits are more likely to approach the same sources of funding that support their programmatic activities. Similarly, many potential investors are reluctant to develop and utilize new tools to serve this emerging market.
- **Type of Entrepreneur** — While traditional small businesses are frequently launched by an individual, social enterprises are started and owned by a nonprofit. Nonprofit ownership may cause potential investors to be more risk averse, for fear of unclaimable collateral or foreclosing on "community" assets.

Thus, while social enterprises should, in theory, have access to a broad array of both nonprofit and for-profit sources of capital, market realities hinder their ability to appeal to many potential sources of investment.

ANALYZING AN INVESTMENT IN A SOCIAL ENTERPRISE

Traditional private investors examine both the risk and financial return of a venture when determining whether to make an investment. A social enterprise investor, in order to value the full return of the venture, also takes into account the venture's social impact. The creation of positive social impact by a venture will cause a socially motivated investor to accept a lower risk-adjusted financial return than would be acceptable from a traditional investment. While most investors value either financial return or social impact, a growing number of investors expect a combination of both from organizations in which they invest.

THE RANGE OF INVESTMENT TOOLS

Depending upon the legal structure of a social enterprise, it can raise investment money through traditional nonprofit means, traditional for-profit means, or hybrid types of financing specific to ventures that offer both social and financial return. The five broad types of investment are:

- **Internally Generated Cash Flow** — The cash reserves of the nonprofit parent are the most frequent type of funding for social enterprise start-ups. Self-financing is flexible and shows commitment to the social enterprise. While a nonprofit will have to overcome the "opportunity cost" of not investing in programs in the short-term, a high-risk venture may have no other choice for capitalization.
- **Grant** — A grant refers to money that is given to an organization with no expectation of repayment. In essence, a grant becomes the nonprofit's equity stake in the social enterprise. Because the money does not have to be repaid, in most cases grants are the preferred type of capital to raise from the social enterprise's perspective. However, depending on the source of the grant, it may take significant time,

effort, and expenditure to secure. Specific types of grants include technical assistance grants, in-kind donations, "angel" grants, foundation grants, government grants, and business plan competitions.

- **Equity Equivalent** — An equity equivalent investment is unsecured, long-term money that is expected to be repaid by an organization at a defined rate of return. Equity equivalent investments can take several forms, including recoverable grants, below market rate loans, or loan guarantees. Equity equivalents are an attractive option for a social enterprise because the investor often takes on a large portion of the risk in exchange for financial and social return. Unfortunately, equity equivalents require a level of tracking and reporting that most foundations or individual grantmakers do not wish to undertake. Moreover, banks, which have the necessary tracking structures in place, are not interested in the below-market rate returns. As a result, very few equity equivalent investments are made.
- **Debt** — Debt is money that is borrowed by an organization with the expectation of repayment over a certain period of time. Debt can be an attractive form of financing because the interest rate is often fixed at a rate set by the market, and no exchange of ownership is required. Additionally, lenders often provide technical assistance to ensure that a debtor can repay the specific loan obligation. Debt is most often reserved for organizations with predictable cash flow that can provide collateral or other security to a lender. Credit cards, lines of credit, term loans, leasing, customer/supplier financing, receivables financing, and tax-exempt bonds are all forms of debt.
- **Equity** — An equity investment refers to money that is given in exchange for an ownership interest in a venture. Equity investments, including joint ventures, angel or venture capital, and public growth financing, are attractive to ventures that may not have significant or predictable cash flows in the near future to qualify for a loan, but predict considerable future growth. However, an investor will only be willing to make an equity investment if he or she believes that it will result in a larger financial return over time. Equity investments will dilute the ownership of the venture and can result in a loss of control. Equity investments cannot be made in nonprofit organizations, but may be an attractive option for a social enterprise operating as a for-profit subsidiary.

The above types of investment capital illustrate that, while a social enterprise may have to overcome limited understanding and familiarity on the part of external investors, there are numerous and varied types of financing available. (The full report delves into sub-types of financing and illustrates each with real world examples.) As with any business, however, a social enterprise must understand specifically what a potential investor is looking for; what the enterprise has to offer an investor in terms of financial return, social return, or a combination of both; and, as a result, what is the most appropriate type of financing.

STAGES OF SOCIAL ENTERPRISE GROWTH

The appropriate type of financing for a venture is often determined in part by the stage of development of the social enterprise. **Seed** or **early stage** ventures will often involve high risk and negative cash flow, and internal financing or grants will often be the most reasonable type of capital. As a social enterprise matures, it may represent lower risk and have a greater ability to repay investment, but its capital needs tend to increase as well. **Survival** and **expansion stage** social enterprises may still be able to attract grants, but should look to equity equivalents (or straight equity if the venture is a for-profit subsidiary) and flexible forms of debt for larger infusions of capital. When a social enterprise reaches a **mature stage** it will have developed a track record of success and can self-finance its day-to-day capital needs. If needed, external capital of all types will be available, and, because investors and lenders want to be involved with stable, successful businesses, the social enterprise will be in the position to go after the cheapest terms.

SOURCES OF CAPITAL FOR SOCIAL ENTERPRISES

The underdeveloped capital market for social enterprise means that a nonprofit venture will often have to be persistent and creative to locate willing sources of financing. While traditional charitable funding comes from a limited array of sources — donors, foundations, or governments — the combination of social and financial return of a social enterprise opens up access to a broader array of types of capital and, therefore, sources of capital. Each type of investor will have differing goals and expectations for its investment, and it is important that a social enterprise not only find the right type of investor but also the right fit with a specific investor. Potential investors (described in detail in the full report) include:

- Parent nonprofit
- Angel
- Private foundation
- Community foundation
- Business plan competition
- Corporation
- Venture philanthropist
- Government
- Strategic partner
- Community development financial institution
- Venture capitalist
- Commercial bank
- Investment bank

IMPLICATIONS

Nonprofits pursuing social enterprise often lament that neither traditional grantmakers nor traditional for-profit investors are willing to provide appropriate financing to support the launch and growth of their business. Four changes in strategy on the part of social enterprises and potential funders would improve access to capital:

1. **Increased Willingness to Bootstrap Ventures** — Nonprofits need to be more willing to invest their own funds in the

seed and start-up of a social enterprise. An investment on behalf of the nonprofit organization in its social enterprise signals a true commitment to, and interest in, the success of the venture.

2. **Openness to Repaying Capital** — In order to access broader pools of capital, both from for-profit and charitable sources, nonprofits will need to be more open to repayment of capital. Recoverable forms of financing allow the initial funds to be recycled and used to help other social enterprises get off of the ground.
3. **Improved "Dual Bottom Line" Financing Options** — Traditional funders, specifically foundations and donors, will also need to think more creatively. Increased use of financing tools such as recoverable grants and program related investments has the potential to improve the accountability of social enterprises and lead to greater total impact from foundation assets.
4. **Focused Capital-Raising Strategies** — Rather than simply responding to multiple grant applications in search of funding, social enterprises will need to examine more carefully their own financing needs in order to focus on the most appropriate sources of capital.

THE PITTSBURGH-AREA SOCIAL ENTERPRISE CAPITAL MARKETS

With an understanding of the larger trends and theories behind the emergence of a capital market for social enterprise, CWV conducted research into potential sources of capital for social enterprises in the Pittsburgh area. A detailed directory was developed to catalog the various potential financing sources. Based on this research, a number of characteristics were identified that define the social enterprise capital markets in Pittsburgh.

- **Strong Regional Foundation Community** — Pittsburgh has many large foundations that provide for the community. Additionally, a few of these foundations have taken a leadership role in supporting social enterprise through technical assistance and other grants.
- **Underdeveloped Individual Donors** — A side effect of a strong foundation community in Pittsburgh is that individual donors have traditionally not been aggressively pursued for philanthropic contributions.
- **Limited Availability of Equity Equivalent Financing Instruments** — No set of institutions or individuals is focused on providing the survival or growth capital necessary to support maturing social enterprises. However, several community development financial institutions (CDFIs) are positioned to fill this gap.
- **Innovative Government Funding but Limited Knowledge** — Pennsylvania has one of the most innovative state governments for providing support for community development and emerging businesses. However, few social enterprises have the knowledge of these resources or the expertise to access them.
- **Large, Progressive Banking Community** — An array of large banks, through community reinvestment departments, and community banks, with a willingness to execute more creative deals, may be willing to finance social enterprises. Regardless of the size, however, traditional banks may view social enterprises as high risk investments. CDFIs may be a better resource for innovative lending solutions.
- **Equity Investors Focused on Technology** — Because of the technology focus of many angel and venture capital investors in Pittsburgh, social enterprises looking for equity investment may be better off looking to regional or national community development venture capital firms.

THE ROLE OF THE PITTSBURGH SOCIAL ENTERPRISE ACCELERATOR

The Pittsburgh Social Enterprise Accelerator (the Accelerator) supports emerging social enterprise ventures and helps accelerate their development through implementation assistance and financial support, knowledge sharing, and connections with key organizations. As such, it is a logical player to help fill gaps in the social enterprise capital markets and improve the flow of capital to deserving ventures in Pittsburgh.

The profile of the social enterprise capital markets in Pittsburgh suggests that the most appropriate and efficient role for the Accelerator to play is not that of a financier, but rather of an intermediary educator and matchmaker between social enterprises and potential investors. This role can be broken into five parts:

1. **Educator, Broad Information Provider, and Advocate** — The Accelerator should provide educational resources to help social enterprises and potential investors understand each other. Because a lack of familiarity has limited investment in social enterprise, the Accelerator should strongly encourage the groups to take the steps necessary to position themselves for mutually beneficial financing arrangements.
2. **Broker of Technical Assistance for Ventures** — The Accelerator can facilitate the provision of the necessary consulting to help nonprofits develop stronger financial systems, understand their capital needs, and target appropriate sources of investment.
3. **Network Builder and Relationship Manager** — In addition to educating potential investors about social enterprise, the Accelerator should build a network of potential investors with the ability to provide various types of capital. These relationships will allow the Accelerator to broker meetings between social enterprises and potential investors.
4. **Technical Assistance Provider and Underwriter to Financiers** — The Accelerator could provide a valuable service to key financial partners by producing objective and candid assessments of social enterprises from a financial perspective. Additionally, the Accelerator could provide technical assistance to foundations and lenders as they assess and track new types of investments in social enterprises.
5. **Guarantor** — The final way that the Accelerator can facilitate greater flows of capital to deserving social enterprises is through the creation of a guarantee program. Where appropriate, the Accelerator can provide a guarantee or level of financial security to lessen the risk and increase the willingness of financiers to invest in a promising social enterprise.

THE **FORBES** FUNDS

TROPMAN REPORT

2003 SERIES

volume 2 : number 4

KEEPING OUR PROMISE: *The Use of Modern Quality Assurance Methods in Nonprofit Management*

People enter a nonprofit's doors with hope in their hearts. Hope because the nonprofit's mission statement, proclaimed on its walls and in its literature, promises to help them. This report describes how those entrusted with that hope — the trustees and staff of nonprofit organizations — can use quality control methodology to keep their promises to those they serve.

The Forbes Funds commissioned Robert Bowen and Kate Dewey, technical specialist and project manager for the Youth Standards Project, to describe how and why the guiding principles and processes used by the Youth Standards Project are relevant to the management and governance of human service nonprofits as well as the nonprofit sector generally. The essential finding is this: **Strategy is everyone's job.**

THE YOUTH STANDARDS PROJECT

Tremendous social and demographic changes during the past 30 years have affected family life significantly, creating a need for diverse programs to support and strengthen families and help parents meet their children's needs. Out-of-school-based, youth-serving agencies (including: after-school care; academic enrichment; leadership development; partial hospitalization services; residential care; group homes; mentoring services; youth clubs; sports and recreation programs; and community service activities) contribute to helping youth develop the skills and values necessary to prepare for the challenges of adolescence, as well as the independence and responsibilities of adulthood. Each year, billions of public and private dollars are directed toward providing services to ensure that our young people avoid or overcome unconstructive experiences and, in turn, realize their full potential for success.

And yet, the results have been mixed at best, the services inconsistent, and the agencies difficult to sustain and hold accountable. Despite the hundred-year history of the youth services "industry," little has been done to capture and cross-fertilize best practices and standard methods of quality operations.

By contrast, major industries throughout the world routinely employ quality improvement standards to increase efficiency and, of course, profitability. Business leaders have learned that, when organizations concentrate on improving quality, other problems disappear, and the desired outcomes are achieved, i.e., costs and errors are reduced; services improve; and the bottom line increases.

The Youth Standards Project (YSP) has sought to seize upon, and appropriately adapt, such lessons learned. Launched in January 2000, the YSP enables youth-serving agencies to deliver quality programs and services confidently and consistently to families and youth (ages 12-18) residing in Southwestern Pennsylvania.

The Youth Standards Project is a multi-year initiative designed to:

- Develop clear, basic standards designed by and for youth-serving agencies to improve the consistency and quality of programs for youth ages 12–18;
- Develop a set of tools and technical support to enable agencies to achieve these standards; and
- Create institutional "buy-in" from donors and policymakers to support these standards.

THE **FORBES** FUNDS

Envisioning Pittsburgh's nonprofit sector as innovative, informed, and engaged, The Forbes Funds advance capacity-building within and among the region's nonprofit organizations.

THE COPELAND FUND FOR NONPROFIT MANAGEMENT

The mission of The Copeland Fund for Nonprofit Management is to strengthen the management and policymaking capacity of nonprofit human service organizations to serve better the needs of their communities.

- Management Enhancement Grants
- Emergency Grants
- Cohort (Professional Development) Grants

THE TROPMAN FUND FOR NONPROFIT RESEARCH

The mission of The Tropman Fund for Nonprofit Research is to support applied research on strategic issues that are likely to have profound effects on nonprofit management and governance, especially among human service and community development organizations.

- Applied Research Projects
- Annual Research Conference

THE WISHART FUND FOR NONPROFIT LEADERSHIP

The mission of The Wishart Fund for Nonprofit Leadership is to encourage pioneering nonprofit leadership by promoting public learning and discussion about issues critical to ethical and effective management, as well as by celebrating exemplary practices.

- Leadership Roundtables
- The Frieda Shapira Medal
- Alfred W. Wishart, Jr., Award for Excellence in Nonprofit Management

Such a transformation in the way nonprofit organizations operate requires: a monumental shift in thinking and functioning; infusion of knowledge and tools; and, importantly, patience.

Initially, eight respected youth leaders (6 local and 2 representing national agencies) served on a Core Team to develop a set of youth standards that would be applicable to the range of agencies providing services. Then, more than 200 representatives from the broader community (e.g., agencies' employees, policymakers, youth development specialists, researchers, and grantmakers) systematically reviewed, and subsequently modified, the draft standards.

Core Team members included: Colleen Fedor, The Mentoring Partnership of Southwestern PA; Saleem Ghubril, The Pittsburgh Project; Leslie Horne, Investing Now; Dennis Floyd Jones, Youth Enrichment Services, Inc.; Dave Madjerich, Boys & Girls Clubs of Western PA; Dirk Matson, Adelphoi Village; Tom Moore, Student Conservation Association, Inc.; and Wendy Wheeler, Innovation Center for Community & Youth Development.

THE YOUTH STANDARDS

Currently, the Youth Standards set forth 20 core requirements that describe a modern quality control system for youth-serving agencies. The Standards are organized into three functional areas. Each Standard represents the best practice for that specific function. When followed consistently, these best practices give the trustees, staff, and key stakeholders greater confidence that the agency is providing quality services.

Our Promise to Youth	Youth Standards (Functional Areas)
SAY WHAT WE DO	Agency Purpose and Relevance
DO WHAT WE SAY	Planning, Program Delivery, and Resource Management
PROVE IT	Documentation and Continuous Improvement

FIELD TESTING THE STANDARDS

In August 2001, youth-serving agencies across southwestern PA were invited to participate in a field test of the Youth Standards. Potential agency participants were identified through a nomination process involving grantmakers, the Core Team, and agencies. More than 36 agencies expressed interest. Applicants were screened according to willingness and readiness to participate. The qualifying agencies met two basic criteria: (1) the executive director had served for at least one year; and (2) no looming or actual financial or programmatic crisis would limit the agency's capacity to commit staff and board time to participate in the field test.

Every effort was made to select ten agencies for participation in the field-test (and four to act as control agencies) that represented a broad cross-section of youth serving providers, including: residential care; legal advocacy; mental and behavioral health; academic enrichment; career awareness; recreation; and experiential learning. Notably, different organizational models were recruited for the field test, such as multi-site and single site programs, faith-based programs, and programs affiliated with national organizations.

FINDINGS FROM THE FIELD TEST

An independent evaluator conducted a full assessment of the field test and affirmed that the investment of effort in implementing the Youth Standards did, in fact, translate into improved quality of agencies' services and organizational operations. For example:

Agencies meeting the Youth Standards were better able to:
- Define their purpose (i.e., say what they do);
- Evaluate and modify their programs and services (i.e., do what they say); and
- Measure and communicate their impact (i.e., prove it).

Agencies reported achieving *specific* tangible benefits:

"The types of conversations we're having now are different from when we started the pilot. We're more frank with one another about the likelihood of the success or failure of projects and we know each other a lot better and work better as a team — making group decisions seems easier."

"The single greatest benefit is that our energy and critical thought process is not so scattered now."

"The really hidden gem in this whole process is that once you know what your organization's strengths and weaknesses are, YOU become your agency's own strongest advocate — wow…we now have all this information, our own documents, that will serve us in our fund raising efforts. The YSP is really a self-help procedure more than a 'we'll help you' procedure. Agencies learn how to help themselves."

Agencies resoundingly said that the process had improved their capacity to serve. They described specific examples of management and governance growth, reporting that they had, e.g.:
- Focused energy, agency-wide, on key areas of impact;
- Developed useful data from the pilot process for fundraising;
- Developed a strategic plan from the initial baseline assessment;
- Assured less risk and increased safety of youth served through safety/risk assessment and learning about crisis management;
- Used logic models and process mapping to develop program implementation strategies;
- Developed or refined/updated procedures and policy manuals;
- Revised their mission statement;
- Changed staffing patterns and/or job descriptions to fit needs better;
- Developed more systematic hiring and orientation processes;
- Revised bylaws for the board; and/or
- Re-drafted agreements with vendors and contractors.

Each agency involved in the field test reported that the YSP developed permanent infrastructure to help advance its programming in concert with its mission. The bottom line? Agencies involved in the initial pilot created an informed organizational framework, as well as a system of defined performance indicators, that enhanced their capacity to make more precise adjustments successfully.

CASE STUDIES

Three field test agencies (Wesley Institute, Youth Places, and the Student Conservation Association-Three Rivers Region) participated in intensive field tests so that the YSP could capture best practices. The exact method used to implement the Standards varied depending on the nature and complexity of each agency's operations. The following case studies briefly describe specific issues and approaches used by these organizations.

Case 1: Securing revenue streams. Wesley Institute developed new process maps to secure key revenue sources and clearly understand delivery processes. For example, the "Accounts Receivables Team" developed a process map with explicit measures of timelines and error rates. This mapping process enabled the Wesley Institute to achieve a one-time savings of $70,000, and yielded a $5,000-$10,000 monthly cash flow during the first 12 months of use. In another example, the "Autism Team" developed a series of process maps to capture best strategies for the care of children with autism. This series of maps, for the first time, gathered all vital steps into a single repository. In addition to recording its existing practice, the team developed new services that were lacking in the overall business strategy.

> Process maps and logic models demonstrate how current and accurate — yet simple — documentation can yield repositories of information vital to an agency's management.

Case 2: Designing and implementing technology-based solutions. With the benefit of appropriate process maps, Youth Places used technology common in the private sector to achieve better day-to-day management. Youth Places provides services at approximately 20 sites to an estimated 3000 under-served, at-risk youth. Youth Places relies on attendance data as its primary measurement of engagement and impact. Historically, the agency's attendance data proved to be less than 50% accurate; reconciliation of errors and turnaround time for analysis often took 2–3 months. This extraordinary delay in data collection, and routine problems with accuracy, inhibited the ability of staff to manage effectively.

Process mapping and logic models focused the agency's attention to the need for automated data acquisition — using the Internet and wireless transmittals. In changing the way it collects data, Youth Places has set new standards for data accuracy (98%) and turn-around time (24 hours). Such changes allow the agency to respond immediately to what is happening at its sites. Currently, proprietary software is being designed to enable Youth Places to achieve such system automation at all sites. Not only will this software serve as a key control point for Youth Places, but it also may become a revenue source as Youth Places markets its unique methodology and accompanying software.

Significantly, the YSP has yielded unexpected benefits for Youth Places, that is, the introduction of statistical thinking into everyday management. Using simple statistical techniques, common among manufacturing industries, the staff is now establishing tools to allow the agency to focus on significant problems while giving it rationale to ignore "routine background noise" in day-to-day operations.

> Statistical process controls make it possible to understand that the key to managing chaos is to comprehend routine variation in day-to-day operations.

Case 3: Increasing quality and safety assurance. Evaluation must begin when program ideas are initially discussed. The Student Conservation Association — Three Rivers Region (SCA), the local affiliate of a national organization, and City Charter High School (City High), a new public high school located in downtown Pittsburgh, decided to use the YSP to design their emerging partnership. The five stages of partnership set forth clear parameters:

Step One: Meet and Get to Know Each Other

Step Two: Develop a Logic Model of the Partnership

Step Three: Create a Memorandum of Understanding

Step Four: Process Map the Partnership

Step Five: Conduct Failure Mode and Effect Analysis of the Resulting Map

At the initial stage of this partnership, staff members met to learn about each other and agreed on some key points:

1. The collaborative relationship must enhance both organizations' ability to fulfill their missions;
2. The principles of the YSP would be applied to the process of developing the new partnership and any programming;
3. Both organizations would seek to sustain this partnership, including committing to minimize programmatic risk by spending time up-front on quality planning; and
4. Staff would openly share knowledge, skills, and expertise by bringing their strengths to the collaborative, enabling each organization to learn new skills from one another.

SCA and City High then jointly developed a logic model. This process built understanding and consensus, clarified underlying rationale and expectations, and identified gaps in logic and uncertain assumptions. As a result, SCA and City High confidently entered into a Memorandum of Understanding after just 6 hours of meeting time.

> By deliberately identifying what needs to be done, an agency can quickly build trust and secure its own assurances with key stakeholders.

USING A LOGIC MODEL AND PROCESS MAP

A logic model is a high-level framework designed to show visually the relationship of process inputs and outputs in any given situation. Use the following template to develop logic models:

Logic Model Template

Prepare logic models through dialogue with a team. Know what data the agency has and what data the agency needs. Remember that the logic model describes **WHAT** the agency is trying to achieve in a particular process.

Organization:		Date:	Process:
Input	**Activity**	**Constraints**	**Outcome**
1.			
2.			
3.			
4.			
What we need	*What we do with the inputs*	*Obstacles we must overcome to be successful*	*The final outcomes we would like to see from this process*

Process Mapping

Next, develop the process map. The process map describes **HOW** to achieve success in a particular process. It is instructional and more descriptive than the logic model. A typical process map can be thought of as a recipe card that will allow a new person to execute critical tasks quickly. The process map establishes sequential work steps. When properly used, process maps provide agencies with greater direction than do long, text-based, manuals or documents. Maps better position staff to streamline workflows and reduce paperwork by letting other employees quickly see the important steps for each activity.

Vetting the Process

Request several "outside experts" to review the proposed process map. These experts should not have participated in developing the proposed map. Their task is to ask tough questions. Such critical review will allow the agency to engage in candid discussions before implementing any steps.

LESSONS LEARNED

The field test, especially the benefits achieved by the three focused agencies, further enriched the quality assurance methodology:

THE YOUTH STANDARDS QUALITY ASSURANCE METHODOLOGY

- Identify, improve and document core work processes used to fulfill the mission.
- Ensure the documents are simple, easy to use, and materially contribute to achieving strategic goals.
- Establish a document distribution methodology to ensure that all directors and staff have current and accurate information readily available at point-of-use.
- Set-up service and program measuring systems to ensure that problems are recognized (or predicted) and addressed at the lowest possible levels of the organization.
- Ensure that leadership teams can make important decisions based on timely and readily available data (rather than relying on emotion) in a climate of everyday chaos.

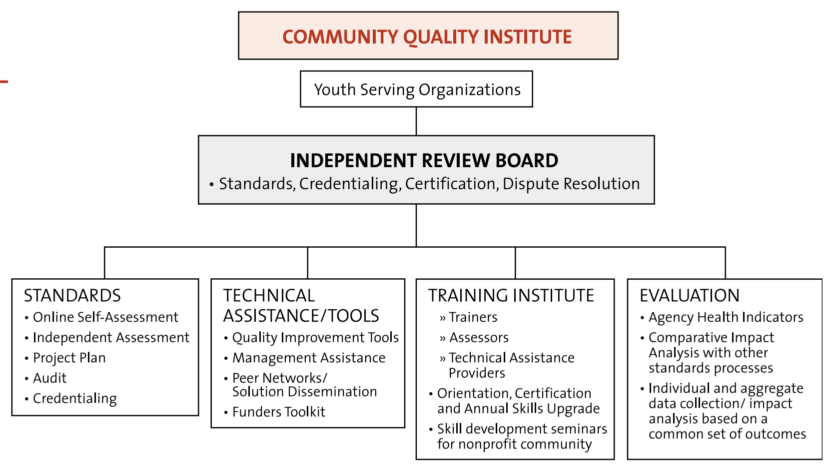
Say what you do, do what you say, and prove it.

In June 2003, the Community Quality Institute (CQI) was established as the new home for the Youth Standards Project. The CQI is designed to be a national resource for standards and quality improvement for youth-serving agencies and other fields of services.

The CQI is an agency-driven initiative, supported by The Forbes Funds, Alcoa Foundation, The Heinz Endowments, Grable Foundation, Hillman Foundation, McCune Foundation, and Richard King Mellon Foundation. Over the next two years, the CQI will:

- Build a scalable and certified network of trainers, assessors, and technical assistance providers;
- Provide training opportunities for nonprofits;
- Enroll and serve 20 youth serving agencies in Southwestern Pennsylvania;
- Create an on-line agency assessment tool that will be available to any youth service organization at no charge;
- Establish a broad-based network to educate agencies, funders, and other key stakeholders about the knowledge accumulated due to the work of participating agencies;
- Broaden its services to at least one additional field of service;
- Establish a commercial marketplace and distribution center for quality improvement products developed by nonprofit organizations; and
- Continue to evaluate and refine the standards and process based on data collection and anecdotal experience.

For more information about the CQI, email a request to **cqi@dkiinc.com**.



THE **FORBES** FUNDS

TROPMAN REPORT

2003 SERIES

volume 2 : number 5

THE CHALLENGE OF NONPROFIT LEADERSHIP: *A Comparative Study of Nonprofit Executives in the Pittsburgh Region*

In 2002, The Forbes Funds published "Recruitment and Retention of Managerial Talent: Current Practices and Prospects for Nonprofits in Pittsburgh," in which Carolyn Ban, Alexis Drahnak, and Marcia Towers identified how nonprofits might better invest in human resources so as to attract, retain, and train top-quality staff. In 2003, spurred by nonprofit literature suggesting looming leadership crises, The Forbes Funds commissioned Carolyn Ban and Marcia Towers of the University of Pittsburgh's Graduate School of Public and International Affairs to advance their previous research by focusing specifically upon leadership at the top levels of agencies. Their survey results compare executive directors in the Pittsburgh region to those in five other regions and evidence some significant differences in career paths and future intentions.

RESEARCH DESIGN

Ban and Towers replicated a study conducted by CompassPoint Nonprofit Services, an organization based in San Francisco that provides services to nonprofits, which examined the past careers, present challenges, and future plans of executive directors in Dallas, Texas; Fresno, California; Hawaii; San Francisco Bay Area/Silicon Valley; and Washington, D.C. Ban and Towers mailed a shortened version of the questionnaire used in the earlier study to 735 executive directors in the Pittsburgh region and received usable responses from 287, for a response rate of 44 percent (somewhat higher than the response rate in the original study).

FINDINGS

A picture of the nonprofit community

The respondent organizations differ from those in the other cities studied in both size and age. While the majority of organizations, in both Pittsburgh and other cities, were medium-sized, Pittsburgh had more large organizations, both in terms of budget and staff size. For example, the mean staff size in the Pittsburgh organizations was 89, compared to a mean elsewhere of 52 staff members. Pittsburgh organizations were also, on average, older, with a mean year of founding of 1966, compared to 1990 in other regions. The overall picture for Pittsburgh is of a mature nonprofit community, which includes a significant number of large, reasonably well-funded and well-established organizations.

Characteristics of executive directors

As organizations differ, so do their leaders. Pittsburgh's executive directors have the highest level of academic preparation among the regions, with 69 percent reporting a Masters or Doctoral Degree. As might be expected, those with only a high school education are grouped completely in the smallest organizations, and education level increases with organization size. Pittsburgh executive directors surveyed have an average age of 51, not significantly different from Fresno and Hawaii. The region with the lowest average age was the San Francisco Bay/Silicon Valley area, with a mean age of 46.

THE **FORBES** FUNDS

Envisioning Pittsburgh's nonprofit sector as innovative, informed, and engaged, The Forbes Funds advance capacity-building within and among the region's nonprofit organizations.

THE COPELAND FUND FOR NONPROFIT MANAGEMENT

The mission of The Copeland Fund for Nonprofit Management is to strengthen the management and policymaking capacity of nonprofit human service organizations to serve better the needs of their communities.

- Management Enhancement Grants
- Emergency Grants
- Cohort (Professional Development) Grants

THE TROPMAN FUND FOR NONPROFIT RESEARCH

The mission of The Tropman Fund for Nonprofit Research is to support applied research on strategic issues that are likely to have profound effects on nonprofit management and governance, especially among human service and community development organizations.

- Applied Research Projects
- Annual Research Conference

THE WISHART FUND FOR NONPROFIT LEADERSHIP

The mission of The Wishart Fund for Nonprofit Leadership is to encourage pioneering nonprofit leadership by promoting public learning and discussion about issues critical to ethical and effective management, as well as by celebrating exemplary practices.

- Leadership Roundtables
- The Frieda Shapira Medal
- Alfred W. Wishart, Jr., Award for Excellence in Nonprofit Management

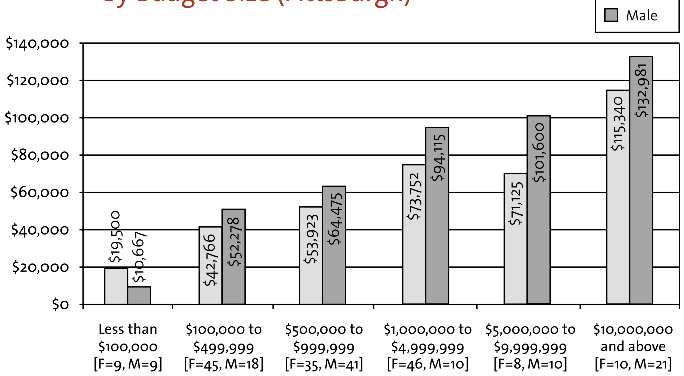
Pittsburgh had the second-lowest percentage of female executive directors, at 56 percent. Except for the smallest budget size (with many organizations led by volunteers), male representation grows steadily with budget size; of organizations with budgets over $10,000,000, only slightly over 30 percent are led by women. African Americans are fairly well represented, at 14 percent, and their representation is not closely tied to budget size.

Salary

Along with higher levels of education come higher salaries, and the mean salary for executive directors in the Pittsburgh region was $69,868, with a median of $62,750 and a range from zero to $250,000. In contrast, mean salaries for the other cities combined was $59,517, with a median of $55,000 and a range from zero to $420,000. These figures may reflect the fact that the Pittsburgh surveys were conducted two years after those in the other regions. But this is not enough to explain a mean difference of close to $10,000. Salaries were closely correlated with organizational size, with those at the largest organizations reporting a mean salary of over $127,000.

Unfortunately, this study confirms what a number of previous studies have shown: women are still likely to receive lower salaries than men. Even when budget size is held constant, there is a clear gender difference, and the gap is actually greatest in the mid-size to larger organizations. These findings are disappointing, given the espoused values of most nonprofits. There is a smaller, but still significant, racial difference in salaries.

Figure 1: Mean Executive Director Salary by Gender, by Budget Size (Pittsburgh)



Career paths

Pittsburgh area nonprofit leaders have, on average, longer experience in the nonprofit sector than those elsewhere. More than 60 percent have worked in the nonprofit sector for more than 15 years, compared to 46 percent in other regions. Conversely, they were less likely to have had management experience in another sector, especially in business. This reinforces the image of a mature nonprofit sector with enough depth so that people are able to gain significant management experience within the sector. Pittsburgh-area executive directors have also, on average, served longer in their current positions. On the other hand, they are not more likely to have had a previous position as an executive director. In Pittsburgh and the other regions, 65 percent had no previous executive director experience, and very few had more than two previous executive director positions.

In both Pittsburgh and other regions, a large majority of executive directors were hired from outside their current organization. This was particularly true in Pittsburgh, where only 30 percent were hired from within, compared to 36 percent in other regions. Of those hired from outside their organization, 60 percent came from within the nonprofit sector. This is consistent with earlier research showing that professional staff in nonprofit organizations tend to follow spiral career paths, moving across organizations in order to move up. Those who came from within did not follow any consistent career path. The largest number, 35 percent, had held a program director position, and 24 percent had been associate director. Others moved up from a development, financial, or administrative position, or a wide range of other posts.

The search process

The search process for executive directors is very similar to that used for professional staff in general. The largest number, over 40 percent, report being recruited personally. Word of mouth was the next most common method of recruitment, with 20 percent. Another 15 percent founded their organizations. Only 20 percent found out about the position "cold" (i.e., without any personal contact), either through an advertisement, the internet, or a listing in a professional organization. And a few had previously served on the organization's Board of Directors. The survey did not explicitly ask about the role of executive search firms.

Executive directors' motivation

Literature suggests that many professionals are attracted to nonprofits for altruistic reasons. This survey confirms that finding for executive directors in Pittsburgh, who list commitment to the organization's mission and 'giving back' as the most important motivators for accepting their current positions, as do those in the other five regions. While the numbers are small, there are interesting differences in motivation by age. Those below the age of 35 were more likely than older employees to rate opportunities for professional development and salary as important motivators.

Job satisfaction

Overall, satisfaction with salary is very high, with an overall mean of 4.4 on a scale of one to five. Not surprisingly, the level of satisfaction generally rises as salary rises. Most directors also enjoy their jobs, and the average response on an enjoyment scale is also 4.4. There is a very strong correlation between respondents' assessment of their own skill level on the job and their enjoyment of the job. When asked about factors they disliked and that had a negative impact on them in their current positions, they expressed moderate dissatisfaction about finances and fundraising, and moderate levels of general stress and of problems in managing personnel. Contrary to expectations, reports of dissatisfaction were not strongly related to budget size.

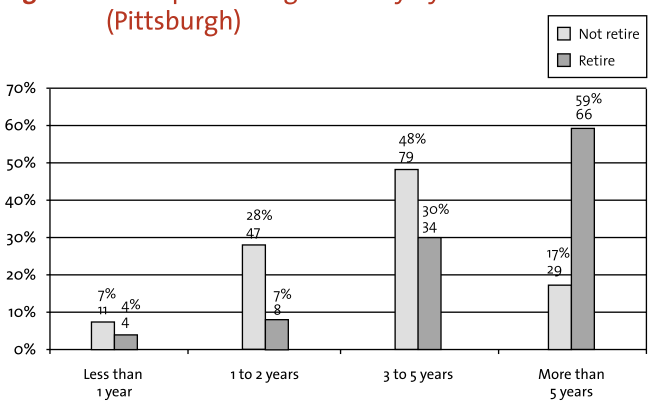
Support and training

Executive directors reported the three most important sources of support and training: support of the Board of Directors, relationship with the management team, and peer networking. The relationship of executive directors to their Boards of Directors is fairly positive in both Pittsburgh and other regions. Executive directors rate the board relationship least effective in fundraising and most effective in personal support of them as executive directors.

Tenure

Pittsburgh executive directors differ significantly from their peers in other regions in how they think about their futures. First, they expect to stay in their current positions for a longer period of time. Over one-third expect to stay more than five years, compared to less than one-fourth of those in other regions. And more expect that this will be their last job. Forty percent of Pittsburgh executives plan to retire upon leaving their current job, compared to only 30 percent elsewhere. These findings reflect the maturity of the executive director cadre in Pittsburgh, as well as their relative satisfaction with their positions. Those who see this as their final position do not expect to retire soon; as figure 2 shows, 59 percent plan to remain in their position more than five years, and only 11 percent plan to leave within two years. In contrast, only 17 percent of those who do not plan to retire expect to be in the same position for more than five years.

Figure 2: Anticipated Length of Stay by Retirement (Pittsburgh)



Future employment plans

Of those who do not plan to retire, most plan to stay in the non-profit sector (76 percent in Pittsburgh, compared to 72 percent elsewhere). In Pittsburgh, more executives report they are likely to take their next job in the for-profit sector (23 percent) than in government (17 percent), as opposed to other regions, where executives are more likely to go to government (15 percent) than the for-profit sector (13 percent).

One of the more striking findings of the CompassPoint Nonprofit Services study was that only 50 percent of executive directors said that their next job would be as an executive director. Again, the story in Pittsburgh is somewhat different. When one combines those who said they expected to stay at the director level with those who marked both executive director and another position, a total of 59 percent said their next position might be as an executive director. Age was an important factor here. Sixty-one percent of Pittsburgh executive directors under 55 expect to take another executive director position, while only 47 percent of respondents over 55 expect to do so. Job enjoyment is also an important determinant of future plans. Only 33 percent of those who report little enjoyment expect that their next job will be as a director, as opposed to 62 percent of those rating their enjoyment as very high.

While Pittsburgh is not facing a crisis of executive director transitions, the findings still reflect the need for development of a strong next generation of leadership. Summarizing the above findings, 40 percent of the sample expect to retire from their jobs. Of the remaining 60 percent, 59 percent may be available in the future for other executive director positions. Thus, at best only one-third of our respondents will be available, in the future, for other executive director positions. This means that the career pattern we reported above is likely to hold true in the future — about two-thirds of executive director positions will continue to be filled by people moving up into a directorship for the first time.

CONCLUSIONS

Pittsburgh executive directors are more stable, as a group, than those elsewhere and more likely to move to another executive director position.

The CompassPoint Nonprofit Services study painted a worrisome picture, in which many executive directors expected to be leaving in the next two years, and in which only half expected to move into another executive director position. The story in Pittsburgh is quite different. There is not a stampede to leave positions. In fact, many executive directors expect to stay in their current positions until they retire, and most of those plan to stay on the job for more than five years. And a higher percentage of those not planning retirement expect that their next position might be as an executive director of another organization.

In spite of these generally positive findings, there remain individual reports of organizations struggling to find or retain executive directors. Boards and current directors do need to focus on the issue of succession planning, even if the director is not planning an imminent departure.

Pittsburgh executive directors show a higher level of professionalism.

Pittsburgh executive directors are more likely to have graduate degrees and have, on average, longer experience in the nonprofit sector. Pittsburghers have also been in their current position, on average, for longer than directors elsewhere. But, as elsewhere, there is no consistent career path to a directorship. And for most, their current position is the first as an executive director.

Because Pittsburgh has a large and mature nonprofit community, there may be more opportunities here for organizations to combine efforts and to work with local management support organizations and universities to continue to build the professional management skills of current executive directors and to offer management training programs to develop the next generation of nonprofit leaders.

The gender gap remains a serious problem.

In Pittsburgh, as elsewhere, the number of women in directorships goes down as the size of the organizations goes up. The same pattern is not true for African Americans, who are fairly well-represented across all organizational sizes. And women consistently receive lower salaries, no matter what the size of the organization. In fact, the gap is higher for larger organizations. This finding is consistent with the CompassPoint Nonprofit Services study as well as other research, and it remains deeply disturbing.

It is the responsibility of Boards of Directors to set salaries, and they should be benchmarking against other organizations of similar size to make sure that they are not shortchanging women. But, as the conclusions in the CompassPoint Nonprofit Services study make clear, it is also the responsibility of women in executive director positions to search out the data on salaries, which are now publicly available, and to insist that they be paid comparably to men. We all need to realize that Pittsburgh continues to have a reputation as a tough environment for women at higher levels, and by our actions, to ensure that women are treated fairly. Doing so will help retain high-achieving women in the area and attract women into top positions from outside the region.

Boards play a key role in supporting executive directors.

The findings strengthen our understanding of the relationship between boards and executive directors. Boards play critical roles in selecting executive directors and in setting their salaries. They also, ideally, provide individual support and coaching, monitor performance, and assist in fundraising. Boards play different roles depending on the size of the organization, but at all levels the board should also monitor both executive director performance and job satisfaction and should work with the director on succession planning. Finally, the findings identified cases where board membership served as a training ground for future organizational leaders.

The health of the nonprofit sector depends on the quality of executive leadership.

This study focused on the directors themselves. Research across sectors has demonstrated the importance of leadership for organizational effectiveness. As the role of nonprofits in our communities grows, the quality of leadership becomes more critical. Pittsburgh already has a strong nonprofit community. The region has the opportunity to be a national leader in supporting and developing an outstanding cadre of nonprofit leaders, leaders who meld strong values of public service with solid management skills, who cope gracefully with the stresses of high-level positions, and who bring innovative approaches to the management of their organizations.

THE FORBES FUNDS

TROPMAN REPORT

2003 SERIES

volume 2 : number 6

WHEN THE CURRENT IS STRONG, ONLY THE BIG FISH SWIM: *THE 2002 WAGE & BENEFIT SURVEY OF SOUTHWESTERN PA NONPROFITS*

One assumption of good management is that an organization can benchmark its practices, enabling directors and staff to compare their operations with peer organizations locally and regionally. Too often, however, assumptions fail to give way to actual practice. One example of good management practice is the use of a salary matrix to set fair compensation levels. It is such a simple practice, yet one that nonprofit trustees and staff sometimes fall short in employing — not due to incompetence but to the absence of good local data against which an organization can benchmark salaries and benefits. This local void, however, has been addressed through the collaborative efforts of the United Way of Allegheny County and the Bayer Center for Nonprofit Management. Early in 2003, as described below, the United Way and the Bayer Center published findings from their survey of wages and benefits among regional nonprofits. The Forbes Funds commissioned the Bayer Center to set forth the survey's key findings.

Of note, the Pittsburgh region can examine these local findings in the context of similar surveying conducted nationally by the Nonprofit Times. In 2002, the Nonprofit Times noted that salaries were, for the most part, holding flat and that the great majority of organizations were declining to pay performance-related bonuses. In 2003, the Nonprofit Times reports that, while salaries are steadily increasing (and women are modestly gaining on men), open positions are being filled at compensation levels lower than would be paid during times of more robust economic growth. In some cases, employers are addressing this gap by offering innovative benefits, such as subsidies for health clubs, flexible schedules, and personal holidays.

THE FORBES FUNDS

Envisioning Pittsburgh's nonprofit sector as innovative, informed, and engaged, The Forbes Funds advance capacity-building within and among the region's nonprofit organizations.

THE COPELAND FUND FOR NONPROFIT MANAGEMENT

The mission of The Copeland Fund for Nonprofit Management is to strengthen the management and policymaking capacity of nonprofit human service organizations to serve better the needs of their communities.

- Management Enhancement Grants
- Emergency Grants
- Cohort (Professional Development) Grants

THE TROPMAN FUND FOR NONPROFIT RESEARCH

The mission of The Tropman Fund for Nonprofit Research is to support applied research on strategic issues that are likely to have profound effects on nonprofit management and governance, especially among human service and community development organizations.

- Applied Research Projects
- Annual Research Conference

THE WISHART FUND FOR NONPROFIT LEADERSHIP

The mission of The Wishart Fund for Nonprofit Leadership is to encourage pioneering nonprofit leadership by promoting public learning and discussion about issues critical to ethical and effective management, as well as by celebrating exemplary practices.

- Leadership Roundtables
- The Frieda Shapira Medal
- Alfred W. Wishart, Jr., Award for Excellence in Nonprofit Management

A LOCAL SURVEY

For those working in Southwestern Pennsylvania's nonprofit sector and wondering how salaries and benefits compare to others in similar positions and organizations around town or around the country, there aren't many places to turn for information. Why? Well, for starters, unlike the private and government sectors, nonprofit salaries are derived in a comparatively less systematic way, i.e., driven less by formulas with cost-of-living ratios and the like, and more by historical precedent, board mandate, or executive whim. To determine pay and benefits, the federal government's Office of Personnel Management, by contrasting example, uses a system of 15 General Schedule "GS" pay grades, each with ten steps; the government's system is derived largely from the private sector's wealth of research and documentation on salaries and benefits.

For nonprofits, however, this information is not readily available or, when available, is often outdated or incomplete. This lack of comprehensive, up-to-date, and accurate wage and benefit information creates unique challenges at the organizational level as nonprofits strive to attract and retain talented employees. Within this context, the Bayer Center for Nonprofit Management at Robert Morris University and the United Way of Allegheny County began a dialogue during Fall 2001 to address the need for useful, accurate, and timely benefit and salary data. What emerged from these discussions was the idea to develop a new wage and benefit survey to be used as a decision tool by local nonprofit trustees and staff.

With the guidance of a local advisory board, the Bayer Center and the United Way developed and implemented what became the 2002 Wage & Benefit Survey of Southwestern Pennsylvania Nonprofit Organizations. While the report was clearly not designed to draw conclusions about all Southwestern Pennsylvania nonprofits, it was meant, and has proven to be, an extremely beneficial tool to those making critical human resource decisions. Further, the release of the survey was prophetic in the sense that our region's nonprofits are operating in increasingly challenging economic times and thus facing critical or troubling employee decisions. To adapt the adage that "when the current is strong, only the big fish swim," for nonprofits "big" means "well-informed and prepared," and this survey functions as a critical element in informing and in preparing local nonprofit organizations to attract and retain talent fairly.

In six months following the release of the survey, the final document was made available free to the public by the United Way of Allegheny County. During that time, the full PDF version of the survey was downloaded roughly 2000 times — a clear indication of the need for this survey in our community. As a practical matter, and as anecdotal evidence suggests, the survey has been extremely useful to nonprofit leaders working to form competitive salary and benefit practices. But in a broader context, the document creates more questions than it answers…tougher questions, too. The survey sparks discussion concerning two primary areas: first, the question of gender equity within the nonprofit sector; and second, the question of equity in pay and benefits among nonprofits and for-profits. Below is an analysis of the survey design and methodology, followed by a review of the survey results around issues of equity, and finally a comparison of data between for-profit and national nonprofit trends.

METHODOLOGY AND DESIGN

The 2002 Wage and Benefit Survey of Southwestern Pennsylvania Nonprofit Organizations is the final analysis of data received from 193 area nonprofits. Significantly, these 193 organizations represent 9,408 positions. The survey was mailed to more than 2000 eligible organizations, yielding a response rate of approximately 10%. The survey questionnaire was sent to nonprofits spanning 16 counties; the majority of respondents (137 or 71%) were located in Allegheny County. It should be noted that Allegheny County's population of approximately 1,300,000 residents (2001 US Census data) is greater than the eight other contiguous counties combined.

In addition to direct compensation practices, the survey instrument gathered data on typical work weeks, time off, health and other insurance and retirement practices. Participants were asked about policies, qualifications for benefits, and incentives. Finally, data (including salary, work week, experience, and credentials) on each employee by title was included in the compensation table and sorted according to responsibility level and job function.

To maintain clarity, job responsibility levels were divided into six categories, three under supervisory and three under non-supervisory roles. A specific job function out of 72 possible choices was then assigned according to the supervisory role. For instance, if the employee was in a non-supervisory position, the job function was coded according to work that was performed; otherwise, the job function was based on the majority of work type that was supervised.

PROFILE OF RESPONDENTS

A glimpse into the Southwestern PA Nonprofit World

The largest category of organizations represented was "social support" or human service organizations, some 19%. Following were education and child care (11%), culture/arts (10%), neighborhood development (9%), and family support (8%).

The median operating budget of all respondent organizations was $730,534.

Following are some of the other benefit and compensation highlights produced by the survey:

Benefit Highlights

- 84% of organizations provide paid time off, including sick days, vacation, and holiday;
- 48% offer paid time off to part-time employees;
- Averages: 10 paid holidays and 10 paid sick days per year;
- 90% offer health insurance, 59% pay full cost of premiums;
- 26% provide some health insurance to part-time employees;
- 77% offer retirement benefits;
- 62% have retirement plans where both employer and employee contribute;
- 40% of organizations contribute 1–5% of employee salaries; and
- 27% contribute more than 5% of employee salaries.

Compensation Highlights

- 40% of organizations use salary plans, 33% set salary range based on competitive pay rates, 19% use a step system based on length of service and merit;
- Pay increases: merit used by 62% of organizations, cost-of-living 27%, across-the-board increases 26%, length of service 5%; and
- 86% of organizations report a merit review interval of one year, 3% every six months, and 10% have no set interval.

SURVEY FINDINGS

Discrepancies persist between women and men

Sixty-two percent of the organizations' executive directors were women; 38% were men. In the total sample of employees, 73% were women and 27% men. While in this respect women outnumber men in the survey by almost three to one, a greater percentage of the males employed had supervisory roles than the females. In addition, these men had higher salaries. Male executive directors had an average salary of $82,979, while female executive directors' salaries averaged just $55,615. This difference of males earning 49% more than their female counterparts is greater than the national average (as reported in the Nonprofit Times) of male CEOs earning 31.5% more than females in 2002 and 23.3% more than females in 2003.

It should be noted that not all service fields have this discrepancy; as reported in the study, women earn more than their counterparts as executives in health, education and child care services, and the arts, for example. However, there remains an astonishing gap in the salaries of men and women who serve as executives in foundations (where women earn just 33% of their male counterparts) and neighborhood development organizations (where women earn just 60% of their counterparts). Here are a few highlights:

- Executive directors: 62% women, 38% men
- Some supervisory role: 19% of all women, 25% of all men
- No supervisory role: 81% of all women, 75% of all men
- All employees: 73% women, 27% men

COMPARISON OF DATA WITH FOR-PROFIT AND NATIONAL NONPROFIT TRENDS

How does nonprofit pay hold up?

According to the Nonprofit Times 2003 Salary Survey, the average salary for executive directors in the North Central region is $85,017. The average salary for all executive directors in the SWPA survey was only $65,923, with men coming closest to the regional average at $82,979. The following table compares Southwestern Pennsylvania to the national average, according to the Nonprofit Times, on a variety of supervisory levels.

There are six broad job divisions in the survey: Three in Supervisory — SA, SB, SC; and Three Non-Supervisory — NA, NB NC. The highest job level is SA; the lowest level is NC.

RESPONSIBILITY LEVEL SA-ONLY

	NPTimes National	SWPA average	% difference	SWPA Men	% difference	SWPA Women	% difference
Executive Director/ CEO/ President	$88,749	$65,923	-26%	$82,979	-7%	$55,615	-37%

RESPONSIBILITY LEVEL SB-ONLY

	NPTimes National	SWPA average	% difference	SWPA Men	% difference	SWPA Women	% difference
Chief Financial Officer	$60,675		$67,695	12%	$67,707	12%	$63,667
Program Director	$52,253	$76,184	46%			$52,433	0%
Development Director	$55,807	$72,818	30%	$97,474	75%	$59,634	7%
Major Gifts Officer	$56,850	$47,682	-16%	$57,264	1%	$47,123	17%
Chief of Direct Marketing	$52,812	$89,033	69%				
Director of Volunteers	$35,267	$37,561	7%			$32,010	-9%
Chief of Technology	$58,595	$62,104	6%	$61,704	5%		

Note: No SWPA data on Planned Giving Officer or Webmaster

RESPONSIBILITY LEVEL SB AND SC – COMBINED

	NPTimes National	SWPA average	% difference	SWPA Men	% difference	SWPA Women	% difference
Chief Financial Officer	$60,675	$58,721	-3%	$63,527	5%	$52,997	-13%
Program Director	$52,253	$65,890	26%	$57,913	11%	$47,431	-9%
Development Director	$55,807	$57,736	3%	$75,822	36%	$51,475	-8%
Chief of Direct Marketing	$52,812	$66,191	25%			$44,816	-15%
Director of Volunteers	$35,267	$39,202	11%			$37,984	8%

Note: No SWPA Director titles in level SC for Chief of Technology; Major Gifts Officer included in SB and SC combination for Development Director; Program Director combination of Branch Management, level SB, and Facilities Management, level SB

This survey highlights the need for a regular local analysis of nonprofit wages and benefits that, in addition to providing local data, compares data across regions. Understanding the shifting trends in nonprofit human resource management, and perhaps more importantly the changing landscape of pay equity, is crucial to the long-term sustainability of the sector.

ACKNOWLEDGEMENTS

The United Way and the Bayer Center gratefully acknowledge the intellectual guidance of various contributors, including advisory team member Kevin Kearns of the University of Pittsburgh's Graduate School of Public and International Affairs, who offered insight and attention to detail; Bill Meyer of the United Way and Peggy Morrison Outon of the Bayer Center, both of whom provided critical support and oversight; Bob Orsor and Rita Haronian, who collected and translated the data into a meaningful document; and Jonathan Paslov of the Bayer Center, who managed the timeline and other critical components of the survey.

If you have questions about the survey or its contents, please contact the Bayer Center at 412-227-6814. If you'd like to download a copy of the survey, go on-line to the United Way of Allegheny County's web site at **www.unitedwaypittsburgh.org**.

[1] The North Central region includes states such as Indiana, Michigan, and Illinois, among others, and is arguably more akin to the Pittsburgh area than is the Northeast region.

THE FORBES FUNDS

TROPMAN REPORT

2003 SERIES

volume 2 : number 7

THE INSURANCE MUDDLE: *ADDRESSING HEALTHCARE COSTS FOR NONPROFIT SECTOR EMPLOYEES*

In order to attract and retain high quality employees, nonprofit organizations have, until now, often offered quality benefit plans. Rapidly increasing health insurance premiums, however, have forced some nonprofit employers to take drastic steps to alleviate the financial strains their organizations absorb in offering quality benefits. Across the nation, and in Allegheny County, employer groups have increased employees' contribution amounts, lowered benefit levels, and/or discontinued offering insurance packages altogether. In an effort to assist nonprofit organizations in achieving a solution to ever-increasing premiums, as well as to enhance their capacity to attract and retain highly qualified professionals, The Forbes Funds commissioned Dewey & Kaye, Inc. (DKI), a nonprofit consulting firm, and TRIAD USA (TRIAD), an employee benefits consulting firm, to conduct a survey of healthcare benefits offered by local nonprofits. These firms conducted an aggregated risk pool assessment of employees in the Pittsburgh region's nonprofit sector. They endeavored to determine if the sector could somehow achieve cost-control and maintain competitive benefits packages.

SURVEY FINDINGS

A survey was initially sent, in January 2003, to 113 nonprofit organizations in Allegheny County, requesting information about: organizational demographics; benefit plan designs; insurance carriers; and rate history for medical, dental, vision, disability, and life insurance. The response rate to this random sample (and to the subsequent follow-up) was poor; only 26 organizations returned the survey and 8 of those offered no benefits and, therefore, provided no useable data. The low response rate suggested that many nonprofits lack the administrative capacity to focus on and/or pursue cost-saving options related to this issue. As such, DKI and TRIAD determined, early on, that any potential initiative (such as a combined benefits program) would have to be packaged for easy access if it were going to attract participants. It also became clear that any such initiative would have to serve organizations outside Allegheny County in order to achieve the necessary collective scale. (The reasoning leading to this conclusion is detailed later in this report.)

That said, DKI and TRIAD still had no good data by which to assess how best to achieve cost-savings vis-à-vis healthcare plans for nonprofits. Accordingly, DKI identified 44 area nonprofits willing to provide the comprehensive information requested in the original questionnaire. In June 2003, TRIAD re-sent the survey to these 44 nonprofits. Thirty-five of these organizations responded to the questionnaires. Of note, 34 of the respondents offer health insurance. The vast majority of these respondents

THE FORBES FUNDS

Envisioning Pittsburgh's nonprofit sector as innovative, informed, and engaged, The Forbes Funds advance capacity-building within and among the region's nonprofit organizations.

THE COPELAND FUND FOR NONPROFIT MANAGEMENT

The mission of The Copeland Fund for Nonprofit Management is to strengthen the management and policymaking capacity of nonprofit human service organizations to serve better the needs of their communities.

- Management Enhancement Grants
- Emergency Grants
- Cohort (Professional Development) Grants

THE TROPMAN FUND FOR NONPROFIT RESEARCH

The mission of The Tropman Fund for Nonprofit Research is to support applied research on strategic issues that are likely to have profound effects on nonprofit management and governance, especially among human service and community development organizations.

- Applied Research Projects
- Annual Research Conference

THE WISHART FUND FOR NONPROFIT LEADERSHIP

The mission of The Wishart Fund for Nonprofit Leadership is to encourage pioneering nonprofit leadership by promoting public learning and discussion about issues critical to ethical and effective management, as well as by celebrating exemplary practices.

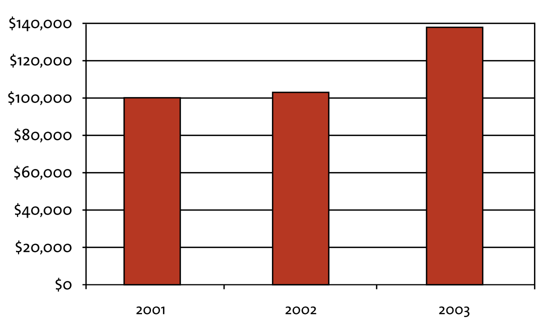
- Leadership Roundtables
- The Frieda Shapira Medal
- Alfred W. Wishart, Jr., Award for Excellence in Nonprofit Management

offer Highmark Blue Cross Blue Shield plans; UPMC, HealthAmerica, and Aetna plans are represented in lesser numbers. The nonprofit respondent groups represent, collectively, 962 contracts, with 29 of the groups having fewer than 50 participants.

GROUP SIZES	
Number of Contracts	Number of Groups
<10	11
10–20	8
21–50	10
>50	5
Total number of contracts: 962	

Significantly, the average annual cost of benefits for these entities rose (approximately 2%) between 2001 and 2002, and rose again (34%) in 2003. By example, the insurance rates paid by one of the respondent organizations increased more than 90% from 2002 to 2003. Per industry trends, health insurance rates are likely to increase again, dramatically, in 2004.

AVERAGE ANNUAL COST		
	Total Cost	Average Annual Increase
2003	$4,697,596.32 (34 entities)	34%
2002	$3,196,149.20 (31 entities)	2.2%
2001	$2,522,405.40 (25 entities)	--



Such soaring premium costs place a heavy burden on the employers surveyed, as nearly all of the organizations contribute at least 80% of the premium cost for their employees' benefits. Employers must therefore develop new strategies aimed at controlling and stabilizing costs unless they are prepared to absorb potentially huge and unpredictable increases year after year. It is unrealistic to expect nonprofit employers to continue to underwrite such increases. Passing the costs on to employees, however, is not feasible; such a strategy will lead to severe reductions in employees' take-home pay, especially for those earning the minimum wage. These reductions would, in turn, likely result in higher levels of employee dissatisfaction and might cause employees to seek work elsewhere, which would be ultimately costly to employers — and to the entire sector. This potential for a downwards spiral is troubling.

THE CASE FOR JOINT-PURCHASING

Collectively, the surveyed organizations represent more than $4.6 million in annual medical insurance premiums. One way that these and like organizations may control escalating costs is through joint purchasing, i.e., achieving purchasing power and economies of scale by joining together to purchase healthcare insurance as one large group.

Size presents a significant challenge to nonprofit employers because small organizations are allocated the "book rate" for premium costs by the insurers. For groups with fewer than 51 employees, the only factors considered by insurance carriers in determining rates are: average age of employees, physical location of the company, and the type of industry. For larger-sized groups (over 51 employees), however, additional factors, such as past claims experience, are considered in determining premium rates. To be sure, a large group may have the potential for experiencing some substantial claims, but the large number of members within such a group, who use health care services minimally, would balance the impact of the large claims. In contrast, the impact of a large claim on a small group with a small number of members would be significant. As a result, small groups represent more risk to insurers; hence, their rates are higher.

The great majority of nonprofit employers have fewer than 51 employees. (Even among the survey respondents, 85% employ fewer than 51 workers.) Taken individually, most nonprofits hold little advantage in negotiating competitive rates with insurance providers. Savings could be realized, therefore, by developing a larger group size through a joint-purchasing initiative. Admittedly, a number of variables could affect the savings realized (and costs incurred) of such an arrangement. Past efforts, however, at non-profit collaborative purchasing have proven to yield significant cost savings (between 10% and 30%).

In addition to traditional health care, many nonprofits also offer other benefits such as dental, vision, disability, and life insurance. For the 35 organizations in the sample:

- 88% (31) of the responding organizations offer dental insurance; 65% (23) of these plans are provided through United Concordia, and the rest are spread among Guardian, MetLife, and GE;
- 77% (27) offer vision coverage, with most of the plans provided through OptiChoice, and a few through UPMC, VBA, and NVA; and
- A select few offer disability or life insurance.

Again, however, due to small size, the respondent organizations achieve nothing better than book rates for such insurance packages. And, as with general health care plans, small groups retain no flexibility in designing, or making changes to, their plans. In contrast, larger groups often design their insurance plans, including items such as deductibles, to receive credits that can be applied towards premium costs. Such modifications typically allow larger groups to maintain high benefit levels, and to reduce the rates for employers. Further, since under such plans the employees might be required to pay additional amounts for services other than preventive care, these customized plans encourage more responsible consumption of health care by the employees. Small organizations are not eligible for such design options and must either absorb cost increases; pass costs onto employees; or reduce (and sometimes eliminate) benefits.

If nonprofits were to engage in joint purchasing, the group could select, design, and customize several different plans. For instance, the group could offer to underwrite the cost of a basic plan while giving each employee an option of bearing the incremental cost for buying a more comprehensive plan. By way of further example, such a base plan might include cost-sharing mechanisms, such as an annual deductible or co-insurance on certain in-patient, outpatient, and diagnostic services, such that each employer in the group could realize cost savings. Such a plan would still provide 100% coverage for preventive services while protecting employees from a large financial burden through the inclusion of an out-of-pocket maximum. Once employees reach pre-specified maximum amounts, the plan would pay health care costs at a 100% level. In this scenario, the employers would still provide a quality plan as the base, but employees who use health care more frequently would be required to pay additional amounts. Furthermore, the group could make additional adjustments to the plan, such as increasing the amount of office visit co-payments or the amount of prescription drug co-payments.

JOINT-PURCHASING IN ACTION

Existing associations such as the Technology Council and SMC Business Councils leverage size to realize cost savings through joint purchasing of insurance. Many members of these associations consider this the critical service provided by the larger body. These associations represent employers from many different industries. From the viewpoint of the insurers, however, diverse composition of the members of these groups means great differences in terms of the risk that they represent; utilization of services, rates, and benefit plans are subject to great variation as well. This can lead to problems with rate stability for the group as a whole.

By comparison, some other associations have successfully minimized renewal increases and stabilized rates precisely because the group members belong to similar industries. Because member groups attract an employee base similar to that of the other members, the employees of any one member group utilize services in a manner comparable to the employees of the other groups. From the viewpoint of the insurers, this makes the utilization of the larger association more predictable, and hence less risky, ultimately resulting in cost savings for the member groups.

Local examples of associations comprised of members from the same industry include Shared Services (a group-purchasing organization consisting of six entities in the Pittsburgh Cultural District), and Faith Based Network (a consortium of thirteen religiously affiliated, long-term facilities). Both Shared Services and the Faith-Based Network have realized significant savings by implementing a joint-purchasing program. In each instance, several plans were selected and modified to the group's specifications. Each of the member groups realized significant renewal savings compared to the renewal rates they would have received had they been rated individually. In addition, membership in the larger group resulted in lower administrative and brokers' fees than would have been paid if the entities had purchased insurance separately. All of the member organizations fared far better as members of the group than they would have individually.

A consortium of nonprofit agencies could mimic and expand upon what these associations have achieved. Insurers consider a group representing 1000 or more contracts as "100% credible." This determination means that a group with 1000 or more contracts presents a 100% chance that the group's claims cost will repeat itself, thereby lowering the insurance companies' assessment of this group's risk as compared to the risk presented by a smaller group. It would stand to reason, therefore, that any joint-purchasing initiative must obtain more than 1,000 members in its group in order to achieve 100% credibility. Consequently, this will minimize the insurer's perceived risk, leading to lower renewal increases in the short-term, as well as ensuring rate stability for the group in the long-term. Additional savings can accrue via group purchasing due to reductions in certain administrative charges (e.g., those related to billing services, broker services, etc.) levied by the carriers, which tend otherwise to be included in the rates charged to the employers. Such savings cannot be secured by individual entities.

THE OPPORTUNITY

Nonprofits can achieve substantial cost savings, or at least lower annual rate increases, only through capturing significant scale in their specific market. Several thousand nonprofits, working collaboratively, would achieve this end. An effort limited to the local region is not likely to be sufficient. For example, the United Way of Allegheny County has tried, admirably, for some years to gain a sufficient number of agency participants in the Healthcare Alliance so that member agencies could realize significant cost savings. To date, this regional initiative has not achieved significant savings for the participating agencies, and some initial participants have even dropped out. A truly successful joint-purchasing initiative may be possible only as a statewide effort, bringing together nonprofits to purchase insurance collectively under the auspices of an organization that connects or represents a consortium of agencies. Likely candidates for such representation may be the Pennsylvania Association of Nonprofit Organizations (PANO) or a consortium of United Ways. A statewide effort would encompass not only groups in the Pittsburgh area (most of which have Highmark Blue Cross Blue Shield coverage) but also those in the central and eastern regions (most of which typically have Capital Blue Cross and Independence Blue Cross coverage). Operating as a group, nonprofits would represent such substantial business that no insurance carrier could afford to ignore the unique needs of the sector. In fact, insurance carriers are likely to vie with each other (and thus offer competitive rates) to secure such large-scale business.

THE REALITY OF THE OPPORTUNITY LOSS

Double-digit rate increases persist among the region's major health insurance carriers. Concomitantly, nonprofit employers, faced with financial uncertainties, must control costs while simultaneously providing quality benefit plans. How can they otherwise retain and attract quality employees? This bind demonstrates the need for the nonprofit sector to explore creative methods for maintaining affordability as well as employee satisfaction. Failing to examine seriously the opportunity to develop a consolidated trust for joint purchasing may leave nonprofits with few short or long-term options to mitigate the impact of increasing employee benefit costs.

Operating in concert with one another, nonprofits represent substantial business. Nonprofits should seek this purchasing power by collaborating to form a health and welfare trust for the purpose of buying insurance for their employees. The sector needs to negotiate from a position of strength.

THE **FORBES** FUNDS

Tropman Report

2003 SERIES

volume 2 : number 8

DIVERSITY WITHIN AND AMONG NONPROFIT BOARDS IN ALLEGHENY COUNTY, PA

Nonprofit board diversity is critical for ensuring that the perspectives of people utilizing programs and services are reflected in the planning and operations of the organization. "Through representation, the board both accesses the breadth of perspectives it needs to make decisions in the best interest of the organization and simultaneously gains legitimacy for those decisions in the eyes of its members" (Robinson, 2001). According to Swanson (1992), it is a mistake when too many of the board members come from the same background and share the same basic interests. Even the youngest or smallest nonprofit organization must use the board to gather to the organization the multiple perspectives that will strengthen its work and build its credibility or risk losing some of its effectiveness.

A 2001 study conducted by Ralph Bangs and Christine Anthou, examining 42 of the largest economic development organizations (EDOs) and 3 African American EDOs in the Pittsburgh metropolitan area, showed that Pittsburgh-area boards lack diversity by race and gender. According to that study, the median African American board representation was 8.3 percent, while the median female representation was 16.7 percent.

Nationally, data evidence that most boards under-represent minority populations, as well as younger populations. According to research conducted by BoardSource, nonprofit boards — which, on average, include 17–19 members — over-represent males and Caucasians. Further, the average board member is 50 years old; more than 82 percent are older than 40.

These national and local findings highlight the need to look specifically at Allegheny County's nonprofit organizations so as to: (1) determine the levels of diversity on their boards and executive committees; and (2) suggest ways in which they can increase the representation of diverse groups on their boards and executive committees.

The Forbes Funds commissioned Ralph Bangs and Monique Constance-Huggins of the University Center for Social and Urban Research (UCSUR) at the University of Pittsburgh to examine the extent of diversity — with respect to race, sex, age, and profession — within and among the boards holding fiduciary responsibility for Allegheny County's nonprofit organizations. Successfully transmitting the tradition of nonprofit trusteeship in the Pittsburgh area requires that existing leadership recruit and prepare new generations of trustees who broadly represent the many faces of Pittsburgh.

THE **FORBES** FUNDS

Envisioning Pittsburgh's nonprofit sector as innovative, informed, and engaged, The Forbes Funds advance capacity-building within and among the region's nonprofit organizations.

THE COPELAND FUND FOR NONPROFIT MANAGEMENT

The mission of The Copeland Fund for Nonprofit Management is to strengthen the management and policymaking capacity of nonprofit human service organizations to serve better the needs of their communities.

- Management Enhancement Grants
- Emergency Grants
- Cohort (Professional Development) Grants

THE TROPMAN FUND FOR NONPROFIT RESEARCH

The mission of The Tropman Fund for Nonprofit Research is to support applied research on strategic issues that are likely to have profound effects on nonprofit management and governance, especially among human service and community development organizations.

- Applied Research Projects
- Annual Research Conference

THE WISHART FUND FOR NONPROFIT LEADERSHIP

The mission of The Wishart Fund for Nonprofit Leadership is to encourage pioneering nonprofit leadership by promoting public learning and discussion about issues critical to ethical and effective management, as well as by celebrating exemplary practices.

- Leadership Roundtables
- The Frieda Shapira Medal
- Alfred W. Wishart, Jr., Award for Excellence in Nonprofit Management

RESEARCH QUESTIONS AND METHODOLOGY

The research questions addressed by this study and the methods used to answer these questions are:

Question 1: How diverse are nonprofit boards and their executive committees in Allegheny County in relation to race, gender, age, level of education, country of birth, and profession?

Method: Between May and August 2003, UCSUR contacted 698 nonprofit organizations in the county to obtain demographic, education, and profession data on their board and executive committee members. Four hundred and three organizations responded, for a response rate of 57.7 percent.

Question 2: What factors affect diversity on nonprofit boards?

Method: UCSUR conducted a literature search of books, web sites, and electronic journals to identify factors that may affect the diversity of nonprofit boards.

Question 3: What local programs exist to aid in increasing board diversity?

Methods: UCSUR contacted some major organizations in Allegheny County to ask what programs exist to assist nonprofits in boosting the representation of diverse groups on their boards.

FINDINGS ON NONPROFIT BOARDS AND EXECUTIVE COMMITTEES (Table 1)

Diversity by Race

- Minorities make up 13.2 percent of board members and 11.2 percent of executive committee members in Allegheny County. The national average for minority board representation is 15 percent (BoardSource).
- African Americans, the largest minority group in the county, account for 12 percent of the board members and 10.4 percent of executive committee members, which are similar to the African American share (11.7 %) of the county's 2000 working-age population. One hundred and twenty six boards (31%) have above-average representation of African Americans in the region.
- 51 percent of the organizations do not have a single African American on their board, and 44 percent have none on their executive committee. Of the boards that have no African Americans, the average number of board seats is 12.3.
- Hispanics, Asians, and people of other races account for about one percent of both the board and executive committee members. Their representation is slightly less than their share of the working-age population.
- Organizations within the smallest revenue range (less than $25,000 a year) have the highest percentage of minority board members (23%). Minority representation on the other revenue categories are: 9.6 percent ($25,000–$99,999); 15.1 percent ($100,000–$249,999); 19.7 percent ($250,000–$499,999); 11.1 percent ($500,000–$999,999); 13.1 percent ($1m–$4,999,999); 11.3 percent ($5m–$19,999,999); and 10.8 percent (over $20m).

Diversity by Gender

- Females make up 51 percent of the 2000 working-age population in Allegheny County and represent 39 percent of nonprofit board members, and even less (37%) of executive committee members. These levels of representation are less than the share of women on nonprofit boards nationally (43%) (BoardSource). Forty-six percent (185) of boards and 30 percent (121) of executive committees have female representation that exceeds the average representation of women across Allegheny County nonprofit boards and executive committees.
- There are 30 organizations (7%) that have no females on their board, and 53 (11%) have none on their executive committees. For these organizations, the average number of board seats is eight, while the average number of seats on the executive committee is four.
- Twenty-eight percent of boards and 17 percent of executive committees have fair levels of female representation where the ratio of women on the boards is 1.0 or more times the share of women in the working-age population of the county.
- The largest board in our sample, Boy Scouts of America with 112 members, is among the organizations with the lowest level of gender diversity. There are 2 females on this 112-member board.

Diversity by Age

- Allegheny County nonprofit boards and executive committees are largely comprised of older members. Fifty-seven percent of the board members and 59 percent of executive committee members are age 50 or older. In fact, the majority of board members (32%) and executive committee members (35%) are between age 50 and 59. Twenty-four organizations (6%) have boards that are entirely made up of persons who are age 50 and over.
- About one percent of the board and executive committee members are under age 30. Eighty-seven percent of boards and 98 percent of executive committees do not have any board members under age 30, while 78 percent and 47 percent of boards and executive committees, respectively, have at least one member age 50 and over.
- The highest representation of persons under age 30 is found among the boards of Harmar Township Volunteer Fire Company (35%), Chartiers Nature Conservancy (33%), and Prevention Point (33%).

Diversity by Educational Level

- Allegheny County nonprofit organizations are largely governed by well-educated people. Ninety-nine percent of board members and 100 percent of executive committee members possess a high school diploma or above.
- On average, 89 percent of Allegheny County board members and 96 percent of their executive committee members hold a bachelor degree or higher.
- More than half of the boards and executive committees are made up of members who possess a bachelor degree or higher.

Diversity by Nationality

- Persons born outside the US make up a small percentage (about 3%) of nonprofit board and executive committee members.
- Eighty nonprofit boards (19%) and 18 executive committees (4%) have at least one foreign-born member. (These are often organizations that appear to be ethnic-specific.)
- The organizations with the highest level of diversity by nationality were Materials Research Society (35%), Alliance Française de Pittsburgh (33%), and Umoja African Arts Company (33%).

Diversity by Profession

- The two most common professions on nonprofit boards are business executives (16.1% of board members) and business owners (11.6% of board members). These professions are also the most common among executive committee members. Business executives account for 18 percent and business owners account for 11 percent of the members on the executive committee.
- Forty percent of organizations have at least one education professional; 31 percent have at least one retiree; 23 percent have at least one civic volunteer; and 12 percent have at least one public official on the board. Social workers and real estate and consulting professionals are least common on both the boards and executive committees.

TABLE 1. Percentage of Nonprofit Board and Executive Committee Members by Social Group in Allegheny County

Name of Social Group	% of Board Members	% of Executive Committee Members
African American	11.9	10.4
Women	38.6	37.0
Members under Age 30	1.5	0.4
Members Age 50 and Above	57.0	59.0
Members with a Bachelor Degree or Higher	89.5	96.1
Foreign-Born Members	2.6	2.6
Profession:		
Business Executive	16.1	11.6
Business Owner	18.5	10.9

FACTORS AFFECTING DIVERSITY ON NONPROFIT BOARDS

Several factors binder board diversity:

- **Increase in Women in the Workforce:** The increase in women in the workforce has greatly reduced the number of women available for long-term volunteer board and community activity.
- **Not a Priority:** It is believed that nonprofit organizations tend not to focus as much on board diversity because of a plethora of other issues they deem to be more important. According to Allison (1999), diversity initiatives often fail to compete in importance with other budget priorities.
- **Time Demand:** The accelerated pace of American living, with increasing demands on time by employers and family, has caused many qualified people of diverse backgrounds to restrict their volunteer activities.
- **Increasing Competition:** The growing number of nonprofit organizations has increased the competition for board members, which can limit the representation of members of diverse groups on each board.
- **Comfort Zone:** Board members generally like to surround themselves, albeit unconsciously, with people like themselves (i.e., the comfort zone). It is not unusual for people to want to clone themselves to invite people to sit on boards who are like them in style and substance (Allison, 1999). This type of behaviors hinders diversity and limits the ability of the organization to become more inclusive.

LOCAL PROGRAMS TO INCREASE BOARD DIVERSITY

Some local initiatives are beginning to address the need to maintain and increase the diversity of area nonprofit boards. These are:

African American Leadership Directory: The Directory, which is an initiative of the Urban League of Pittsburgh, is a resource guide to help nonprofit and for-profit organizations identify willing and able African Americans to serve on their boards. The directory displays biographical sketches of African American professionals. The success of the Directory is evident in the addition of 80 African American professionals to 45 nonprofit and 6 for-profit boards in the region since its first publication in 1999. Additionally, the Urban League of Pittsburgh's **African American Leadership Development Program** has, in partnership with Boards-by-Design, offered nonprofit board training and advancement to young African American professionals.

Boards-by-Design: This program, coordinated by Duquesne University's Nonprofit Leadership Institute, links people with particular skills, interests, and diversity with the nonprofit organizations which seek them for their boards. The program identifies the needs of the organization—specific discipline, growth, diversity, transition—and then matches them with the qualified candidates. Qualified candidates go through a rigorous recruitment where they are interviewed, trained, and mentored to ensure there is an effective and rewarding board match. Board matching is also provided by **BoardNetUSA**, an on-line service offered by the Bayer Center for Nonprofit Management at Robert Morris University, and **Leadership OnBoard**, an internship-like experience coordinated by Leadership Pittsburgh, Inc.

New Trustees for a New Pittsburgh: This collaborative project integrates the programming of local management support organizations, educational providers, and membership organizations so that outreach, board training, and matching are coordinated for potential board members and nonprofit organizations alike. Involving Leadership Pittsburgh Inc., the Nonprofit Leadership Institute at Duquesne University, the Bayer Center for Nonprofit Management at Robert Morris University, Dewey & Kaye, Inc., Pittsburgh Urban Magnet Project, and the New Pittsburgh Collaborative, and funded by The Forbes Funds and Mellon Financial Corporation Foundation, this cooperative endeavors to: (1) assemble the region's young professionals at civic leadership forums designed to impart the importance of serving on nonprofit boards; (2) prepare and train at least 200 young professionals to serve as knowledgeable and active board members; and (3) place at least 100 of these individuals onto the boards of area nonprofit organizations.

RECOMMENDATIONS

- All organizations, including those that are ethnic-specific and gender-specific, should clarify and articulate their board diversity mission, policies, and strategies. An organization's commitment to diversity is reflected in the extent to which diversity policies and procedures are communicated to, and understood by, the board, staff, and clients.
- Boards soliciting nominations and recruiting new members should aim at increasing board diversity by race/ethnicity, gender, age, education, and profession by:
    1. Taking advantage of local programs aimed at increasing board diversity such as: the African American Leadership Directory, which can be obtained from the Urban League of Pittsburgh at One Smithfield Street, 3rd Floor, Pittsburgh PA 15222, or by accessing the United Way of Allegheny County's web site at **www.unitedwaypittsburgh.org**; Boards-by-Design (**www.nli.duq.edu**); and New Trustees for a New Pittsburgh, which can be reached via PUMP at **www.pump.org**. Representatives of organizations with directories of minorities and other groups available for boards should meet occasionally with nonprofit officials to discuss how to use the directories and recruit board members.
    2. Maintaining their own database of potential board members from diverse groups. One way of building such a database is to have board members and senior staff continually be on the lookout for people from diverse groups who match the characteristics desired on the board. As potential persons come to mind, members should submit their names and profile to the organization. According to Swanson (1992), if an organization is to be guaranteed a strong board, all board members must be involved in a deliberate, ongoing effort to identify potential new members throughout the year.
- Existing nonprofit directors must include board diversity as an agenda item at every meeting so as to maintain and increase appropriate diversity at all levels of the organization.
- For more information about tools and best practices, training, and leadership development for board members, nonprofit organizations should utilize the web site for BoardSource, a national organization dedicated to increasing the effectiveness of nonprofit organizations by strengthening their boards of directors: www.boardsource.org.
- Funding agencies should adopt policies that require their grantees to increase and/or maintain diversity by race, ethnicity, gender, age, nationality, and profession at all levels of the organization.
- Regular social gatherings should be organized that bring together both prospective board members from diverse backgrounds and organizations that are seeking new board members.

A BRIEF HISTORY

The Forbes Funds was established in 1982 to provide emergency financial assistance to nonprofit organizations that were experiencing funding interruptions or short-term cash flow problems. Under the leadership of its founding director, Elmer J. Tropman, The Forbes Funds provided management consultation to small nonprofit organizations and conducted regional research to identify unmet needs in the human service sector. The Forbes Funds provided an important service during a particularly turbulent time when many nonprofit organizations were struggling to adjust to a new domestic policy agenda as well as to significant changes in federal and state funding priorities and procedures.

By the late 1980s, The Forbes Funds, while continuing to provide loan guarantees, shifted its emphasis to long-term capacity-building in the nonprofit sector. During this time, The Forbes Funds focused on helping nonprofits improve administrative skills and infrastructure, with special emphasis on long-range planning and strategic management. Through its grantmaking, The Forbes Funds helped nonprofit organizations secure technical assistance on such matters as strategic planning, financial management, and board governance.

Beginning in 1996, The Forbes Funds advanced efforts to support management capacity-building and strategic planning, while also addressing such sector-wide issues as inter-agency partnerships and mergers. Additionally, The Forbes Funds provided support for local universities and colleges to train nonprofit staff and boards.

Beginning in 2001, The Forbes Funds embarked on an ambitious strategy to enhance the management capacity of the nonprofit sector, especially human service and community development organizations, through three inter-related sets of activities: grantmaking; applied research; and sector leadership activities. Accordingly, The Forbes Funds supports capacity-building initiatives for human service and community development agencies; funds research critical to responsive, innovative, and sound nonprofit management; and encourages and celebrates exemplary practices in the nonprofit sector.

BOARD OF DIRECTORS

Estelle F. Comay, *Chair*
JoAnne E. Burley
Morton Coleman
Marva Harris

ADVISORY COMMITTEE

Morton Coleman, *Chair*
Jay Apt
J. Nicholas Beldecos
Henry S. Beukema
Carol R. Brown
Lavera S. Brown
Susan H. Brownlee
Esther L. Bush
Jonathan P. Caulkins
Marc K. Cherna
David E. Epperson
Karen Wolk Feinstein
Robert S. Foltz
Margaret P. Joy
Ellen G. Kight
Sherin Knowles
Phillip Pappas
Brian Parker
Robert B. Pease
Margaret M. Petruska
James E. Simms
John E. Tropman
William E. Trueheart
Beverly R. Walter
Alfred W. Wishart, Jr.

STAFF

Gregg S. Behr, *President*
Aradhna Dhanda, *Program Officer*
J. Khanh Bui, *Project Director*
Amy Thomas, *Executive Assistant*

THE FORBES FUNDS

www.forbesfunds.org