House of Cards or House of Brick?
Evaluating Organizational Structure

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Great Leadership
Warren Bennis

• Learn to ask people for their opinions before you decide, not after.
• Learn how to help people understand what they need to be thinking about without telling them what to think.
• Especially in times of change, learn to spend as much time working on the organization as you spend working in the organization.

Why Focus on Structure?

• “Structure” is essentially organizational infrastructure
• Investments in infrastructure have a payoff = capacity to focus on mission and performance
Why Focus on Structure?

• Neglect of an organization’s “infrastructure” can have devastating consequences…
• Many dangers are hidden from view, like a crumbling foundation in an old home

Your Compelling Mission Here

Unhappy volunteers
Ineffective division of labor
Lack of clarity in board/staff roles

Nonprofit “Structures”

• What lies beneath…
• The “support system” for the organization
• Plans and strategies to realize key goals and objectives
• Relationships between and among stakeholders
**Structural Categories**

- **Financial** – financing strategy
- **Governance** – board role, operations, intersection with staff
- **Staffing** – what does the org chart look like?
- **Transparency** – “windows and doors” to your nonprofit; syncing what the public knows with reality; allowing outsiders “in”
- **Relationships** – stakeholders; board-staff; whose organization is it?
- **Risk** – how does the organization “cope” with risk?

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**Financial Structure**

- See *Transforming Nonprofit Business Models*, Nonprofits Assistance Fund
  - “Leaders of every nonprofit must carefully assess the effectiveness and efficiency of their particular structure and prepare for a potentially different approach in the future.”
  - “Seeking an ideal or permanent answer is not productive, nor is it likely to be successful. Organizations grow, change, contract, and change again.”

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**Revenue Mix**

<table>
<thead>
<tr>
<th>MISSION/BUSINESS MODEL</th>
<th>ORGANIZATIONAL EXPENSES</th>
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<tbody>
<tr>
<td>REVENUE MIX</td>
<td>COST OF EFFECTIVE PROGRAMS</td>
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SOURCE: *Transforming Nonprofit Business Models*, Nonprofits Assistance Fund

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Financial Structure

• Challenges:
  ▪ Each revenue stream is a “business”
  ▪ Developing a new line of “business” requires expertise, infrastructure and relationships
  ▪ Understanding the true cost of programs (service delivery) is key to evaluating effectiveness

Governance Structure

• Governance relates to decisions that define expectations, grant power, or verify performance. It consists either of a separate process or of a specific part of management or leadership processes.

Governance Structure

• Means in which the leading authority, often the board of directors… guides and monitors the values and goals of its organization through policy and procedures.
Governance Models and Frameworks

- There is no single model that is optimal for all organizations.
- Good governance practices are strikingly similar across sectors: business, public and nonprofit
- Each governing board must determine “what works best” given its:
  - Mission, culture, environment, resources, ambition, vision of the future, etc.

Common Areas of Divergence

- Board size
- Committee structure
- Existence/role of executive committee
- Division of labor (within board and between board and staff)
- Frequency of meetings
- Operational rules, protocols and culture

Governance Structures

- Governing Board versus Operating (hands on, “working”) Board
- Community Board and Executive Board
- Others?!
- Roles: legitimacy and trusteeship
  - “Nonprofit Boards: Crucibles of Expertise or Symbols of Local Identities?”
  - [http://nvs.sagepub.com/cgi/reprint/30/1/51.pdf](http://nvs.sagepub.com/cgi/reprint/30/1/51.pdf)
Good Governance Principles

- Intentional Governance Practices
- Clarity in Board / Staff Relationship-Partnership
- Strategic Thinking
- Culture of Candor

Intentional Governance Practices

- Structure is intentional, not accidental
  - Do we have all of the committees we need? Is the role of each committee clear? Do the committees and board work in partnership?
- Structure helps position the organization to cope more effectively with changing circumstances
  - For example, leveraging new opportunities and meeting challenges, ensuring a thoughtful leadership transition, exploring the expansion of mission/programs/scope of responsibility, etc.

Clarity in board/staff division of labor

- "Constructive partnership"
- Recognition of Board / Staff interdependency
- Lack of clarity may result in duplication of effort, frustration, inability to realize important goals (performance falls under target), etc.
- Lack of clarity regarding the process creates a challenging dynamic
Clarity is Key

- Effective corporate governance requires a clear understanding of the respective roles of the board and senior management and of their relationships with others in the corporate structure. The relationships of the board and management with shareholders should be characterized by candor; their relationships with employees should be characterized by fairness; their relationships with the communities in which they operate should be characterized by good citizenship; and their relationships with government should be characterized by a commitment to compliance.


The “data first” and “framework first” dilemma

- Board seeks data before entertaining and weighing policy options.
- Staff provides detailed analysis with recommended course of action; Board may feel irrelevant.

The “data first” and “framework first” dilemma

- Board openly discusses policy options prior to requesting and reviewing data.
- Staff receives clear direction for its data collection/analysis; Board revisits initial discussion with data in hand.
• **Strategic thinking**
  - Board hones the organization’s direction by engaging in strategic thinking

**Culture of Candor**
- “Duty of dissent”
- Institutionalizing a culture of inquiry:
  - Constructive debate leading to sound and shared decision making
  - The Board seeks more information, questions assumptions, and challenges conclusions – in an environment of mutual respect

**Staffing Structures**
- **Do:**
  - Design positions around critical functions and needs
  - Think “inside” and “out” when determining roles
  - Revisit positions as the organization evolves
- **Don’t:**
  - Eliminate positions or “restructure” to remove poor performers
  - Use titles as a system of reward
The Organizational Chart Shuffle

The Organizational Chart Shuffle is used to change the structure of an organization. In the example, the CEO is replaced by a new CEO, and the COO. The new COO is responsible for strategy and business development. This change is implemented in order to improve the organization's performance and meet the needs of its stakeholder groups.

“Ethos” of Transparency

- The degree to which an organization:
  - Provides public access to information,
  - Accepts responsibility for its actions, and
  - Makes decisions more openly


- Practical steps?
  - Operating as if the policies and policy-making process of the organization were on display
  - Erring on the side of open, versus closed deliberations
  - Code of conduct

Nonprofits worry about Family Connections fallout

Local nonprofits have been hit by the news of the Family Connections scandal, which involves a non-profit that provided early childhood services to local children and their families — shut down Tuesday amid state and city investigations. The nonprofit’s former executive director, Laurence Applegate, is facing criminal investigations for the nonprofit’s financial problems. Travis County prosecutors have issued two warrants for her arrest, charging her with tampering with governmental documents.

Prosecutors say audits flagged audits used to secure almost $1 million in state funding.

Over the last few days, nonprofits have been expressing concern over what will happen to the 32,000 clients Family Connections served each year through its child care voucher, Head Start screening, mental health and educational programs.

But there are also worries that the scandal will tarnish the rest of the nonprofit world. One charity — the One Foundation — posted its response to the situation right here.
A New Era of Transparency?


Thursday, April 19, 2007

Well-run nonprofits have transparent accounting and business practices that are supported by internal controls and a rigorous system of checks and balances. Any Baby Can employs the following practices, which are standard and normal:

- Separation of duties among executive positions
- Compliance with Generally Accepted Accounting Principles (GAAP) and the Office of the Auditor of State’s (OAS) Board of Accountancy Policies
- Active governance by a seasoned board of directors, including separate Finance and Audit Committees
- Third-party programmatic and financial monitoring tools from lenders who routinely audit the agency’s books
- Annual audits by reputable external firms, most recently Cunningham, Truett & Co., LLC
- Financial records that are open to the public and may be viewed upon request at our offices.

For more information, please contact Any Baby Can Executive Director, Shere Balfour, at 614-343-3611 or sbalfour@anybabycan.org, or the Other of the Board of Directors, Lisa Sforza, Vice President of ASC Bank, at 614-343-3616 or lisa.sforza@asc.com.

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Relationship Structures

- Board-Staff Dynamic
  - Principles of Corporate Governance 2005 (Business Roundtable)
    - “the paramount duty of the board of directors…is to select a chief executive officer and to oversee the CEO and senior management…
    - “It is the responsibility of management to operate the corporation in an effective and ethical manner to produce value for shareholders…”

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Principles of Corporate Governance 2005 (Business Roundtable)

- "It is the responsibility of management... to produce financial statements that fairly present the financial condition and results of operations of the corporation and to make the timely disclosures investors need to assess the financial and business soundness and risks of the corporation."
- "It is the responsibility of the board... to play a leadership role in shaping the corporate governance of the corporation. The corporate governance committee also should select and recommend to the board qualified director candidates for election... ."

Relationships as Structure

- What are the nonprofit's critical relationships?
- Who builds and sustains relationships?
- What is the nonprofit's track record in the view of key stakeholders?

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Risk

• What does risk mean in this organization? What is the nonprofit’s appetite for risk-taking?
• Who bears responsibility for risk oversight? How do those with responsibility gain the expertise they need?
• How does risk get on the board’s agenda?
• How does the organization go about identifying and measuring its risks?
• How does the organization learn from its experience with risk?

My Reading List…

• *How Risky Is It, Really? Why Our Fears Don’t Always Match the Facts*, by David Ropeik
• *RISK: The Science and Politics of Fear*, by Dan Gardner

My Reading List…

• *The Shallows: What the Internet is Doing to Our Brains*, by Nicholas Carr
• *The Upside of Irrationality* and *Predictably Irrational*, by Dan Ariely
• *Why We Make Mistakes: How We Look Without Seeing, Forget Things in Seconds, and Are All Pretty Sure We Are Way Above Average*, by Joseph T. Hallinan
New from the Center

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Thank you!

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Next Month’s Webinar

• Reputation Risk: *What’s in a Name?*
• August 4, 2010 – 2:00 pm Eastern