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Let's Get It Done:
How Businesses Can Propel and Profit from Social Change
by
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Chapter 2: The Wrong Way to Solve Social Problems

> *What really matters . . . is "the system." Whether you can get around it or manipulate it or beat it or change it, or whether . . . it ultimately defeats you.*
>
> Lisbeth Schorr
> *Common Purpose*

In this chapter, we want to explain why our society's system to solve social problems is not working. But doing so presents us with dilemmas. First, we want to convince you of the need for business involvement in new approaches without making you run away in fear of the task before us all. We want you to see the nonsense in current ways of working without leading you to say, "Yeah, that's why I just write a check and stay out of the mess." While it can be messy, we'll try to get a description of the problems out of the way in this one chapter, so you can spend the rest of your already limited time reading about what you can *do* (unlike most books on social change which spend all but the last chapter on the problems and then have little to say about solutions.)

Second, we want to criticize the way work is done without criticizing the people who do it. We want you to see the nonsense in current ways of working without leading you to disrespect the folks with whom you will need to partner to do the work a better way. In our experiences with community leaders—government officials, nonprofit executives, foundation officers, and business leaders—we have been almost universally impressed with these individuals' dedication and desire to be effective. The problems arise with the systems in which these individuals are asked to work to address social problems—systems that were not of their design and that create barriers to success. While changing these whole systems may not be possible, we believe that business leaders can spearhead efforts in their local communities to change the way we all respond to these systems, and in the process replace wrong ways of *reacting to* social problems with right ways to *solve* them.

Case Study: Homelessness in Toledo, Ohio

The problems discussed in this chapter are characteristic of community work in just about every location across the U.S. To give the discussion some context, however, we want to introduce you to one community and one social issue which exemplifies much of the problems discussed in this chapter. Toledo, Ohio, a mid-size, rust-best city with higher-than-average unemployment and lower-than-average high school graduation rates, also suffers from a noticeable homelessness problem. It's about a 45-minute drive from our home in Ann Arbor, but a world away from our thriving educational and cultural community.

As requested by agencies who work with homeless clients and then by the city council, we began facilitating and coaching a community-wide effort to address homelessness through what we called a "comprehensive, coordinated approach." The idea was to bring together all the various people and organizations involved with this issue so that they could get agreement on their shared purpose and implement new processes that would align all their activities toward this purpose. We also sought to bring lots of other community members to the table who may not have had an initial interest in homelessness, but whose leadership status and influence would help make this a "community concern" instead of just the concern of a few under-staffed, over-worked homeless shelters. While much progress has been made toward these goals, the history of barriers and constraints we encountered is telling of social problem solving systems in general.

We first encountered deep scar tissue from old wounds that made it difficult for leaders of nonprofit agencies (emergency shelters, family housing programs, substance abuse services, etc.) to trust each other or, especially, to trust city government. City government also had internal friction between elected council members (who could pass ordinances for how things should be changed) and employees in the city's Department of Neighborhoods (who were expected to pay for and administer the work of these ordinances). This Department was in charge of applying for all federal government funds for homelessness services, but they didn't provide any of the services, so they would then dole out the funds to the nonprofit agencies.

Each nonprofit agency also raised additional money from foundations, donors, and special events, and was anxious to make sure that no one could horn in on these carefully cultivated sources, so they were wary of any hint of centralized management. Meanwhile, the nonprofits rarely communicated with each other to know who was offering what services, to what populations, with what restrictions, and with what results. Thus, it was difficult for clients to improve their lives if they needed different services for different problems, and it was impossible for the community to know how the homeless system worked.

Most nonprofits did not keep computerized records of their services to clients, and there was no automated way to find out whether a client was receiving services elsewhere. Even if there had been, the desire to protect client's limited power over their lives prevented service providers from sharing information about clients, even if the clients said they wanted this information to be shared. Thus, determining the success of the nonprofit services in changing client's lives was also impossible.

When it came time to apply for federal funds, the city had no rigorous way to determine what needs existed in the community, how those needs were being addressed by the nonprofits, what gaps existed in the services, and where resources should be targeted to address these gaps. The city, therefore, had no way of knowing whether the dollars it was getting from the federal government were consistent with its need, or with the level of need in similar communities, and no objective way of prioritizing who should get what.

Because the city had been the lead funder (with these federal dollars) of homelessness services for many years, and because city leaders were not well respected by other community leaders (to put it tactfully), the few local foundations in the community had long pulled away from any support for this issue, and were reluctant to participate in a community-wide project for what they saw as a "city government function." Similarly, the county level government provided some of the services associated with homeless clients (such as mental health services), but they too wanted to avoid entangling themselves with city government efforts.

In the midst of all of this confusion, fractured services, turf wars, and deficient information was a group of homeless or potentially homeless individuals and families in Toledo who just wanted to know where they could get help. Of course, many of them were at least partially responsible for their own situation, but all of these well-meaning funders, leaders, and service providers existed to serve their needs, and their needs were not being served. Residents didn't understand what services were available, they didn't know which ones they were eligible to receive, they had to tell their story over and over again at every new office to which they were sent, and it often became easier to do nothing to improve their lives than to try to get help.

This was the situation we found when we came to the community as an impartial convener, researcher, meeting facilitator, and connector for these various factions. Their situation is not unlike that of many communities, around many social issues, that end up with a lot of resources spent on ineffective systems and no solutions.

A Quick Overview of the Nonprofit Sector

> *Nonprofits need their own reinvention paradigm.*
>
> Dennis Young, Professor
> Case Western Reserve University

Our society's present systems for solving social problems have developed over decades, in conjunction with government policy, market forces, cultural norms, historical precedent, and daily work. While these systems are made up of many players, including government agencies and legislators, schools, and businesses, the key place where social agendas meet action is in the nonprofit sector of society. The daily work of nonprofits, and the resources that fund them, are often the driving force behind how problems get addressed. Most of the volunteering and money you may already give to social causes is probably given to nonprofits, and if you feel that too much is being asked of your business to help with social issues, it's probably the nonprofits who are asking you.

The nonprofit sector is also the place where change is most needed to improve community problem solving. Think about it like a market analysis where the "product" is social change. When looking for the best opportunity to offer this product, analysis would quickly point to the nonprofit sector as the most ready market where social change agents (such as businesses) can bring their values and influence to bear. (Government, in comparison, has already been "reinventing" itself in recent years and is not the hub of local social action in most communities.) Before we look at why the nonprofit sector is ripe for change, let's take a quick look at what it means when we talk about "nonprofits" and how their position in society affects our collective ability to solve problems.

The "nonprofit sector" (defined most broadly as all organizations with tax exempt status in the U.S.) is highly diverse, to the point where you really can't lump them all into one sector. Nonprofits range in size from state universities and the American Red Cross to a grassroots environmental organization operating out of somebody's kitchen. Major hospitals are often nonprofit and so are neighborhood health clinics. Foundations that give money to nonprofits are themselves nonprofits, as are churches, soccer leagues, and chambers of commerce. Nonprofits work on all sorts of issues, from feeding the hungry to running after-school programs to staging operas. Most nonprofits provide direct services to individuals, but others research and advocate for particular issues with local and national policy makers, while still others are simply large membership associations.

In other words, it's very difficult to talk about the "nonprofit sector" as a whole and make much sense. Nonetheless, we're going to do so, because it's the best avenue we can find for explaining how our system for solving social problems prevents communities from succeeding. Just keep in mind that our observations are broad brush strokes across the whole canvass, and may not apply in every case.

The nonprofit sector is in an interesting transitional phase these days. It is getting more attention than ever before, perhaps as a result of government's devolution of more responsibility to the sector, which at least partially explains the sector's growth by more than 200 percent from 1975-1995. The IRS reports that nonprofit organizations accounted for 12.4 percent of the U.S. economy in 1995, with assets over $1 trillion and revenues of $617 billion. Research about the sector, its management, its volunteers, and its role in our society has greatly expanded in recent years. For example, the Association for Research on Nonprofit Organizations and Voluntary Action has grown from 550 members in 1996 to 1050 members in 2000. In addition, many new professional management programs for nonprofit leaders are arising in universities around the country, and the field of "management support" (training and consulting for individual nonprofits) has grown dramatically in recent years.

Management and governance practices in nonprofits are, concomitantly, undergoing greater scrutiny and innovation. Scandals resulting from poor leadership or mis-use of funds are more prominently documented in national media, while sector leaders look to prevent future abuses. Business management practices, such as benchmarking, total cost accounting, and performance-based compensation, are promoted as tools the nonprofit sector should also implement (although usually many years after they were the "in-thing" for business). The National Center for Nonprofit Boards publishes scores of books and pamphlets on how to improve the governance and leadership of nonprofit organizations, and foundations are earmarking more grant dollars for technical assistance and improving the operations of nonprofits than they have in the past (though it's still pitifully less than 1 percent of all grant making).

Nonprofit fundraising is also in flux. While organizations used to rely almost solely on gifts from donors and grants from government and foundations, much more focus these days is on earned revenue. In addition, entrepreneurial ventures (for-profit businesses operated by the nonprofit) are getting a lot of attention, though their use is still quite limited. The World Wide Web is opening up the possibilities of online giving with several sites encouraging potential donors to use their credit card to make a cyber-donation to the charity of their choice. This trend is sending the United Way of America scrambling, as its traditional role of collecting money from donors on behalf of multiple charities begins to seem unnecessary.

For two years, we've been keeping a folder labeled "Nonprofit Sector in Transition" which documents these and other trends (proposed tax-law changes, growing for-profit competition, new attention to lobbying, etc.). Not a week goes by that some newspaper or magazine article or new report doesn't land in that folder. But, interestingly, all of these changes still seem to be tinkering around the edges of the sector, accepting its structure and role as givens, and looking for ways to make individual organizations more effective, without changing the way work is organized across the sector and in our communities.

When we first began looking at social problem-solving within the nonprofit sector, we had grand visions of how it could be changed to serve our communities more efficiently and effectively. With business concepts of how the world works in our heads, we didn't realize how different the characteristics of the nonprofit sector are from the business sector. The following table summarizes many of the differences that will be discussed in this chapter:

Nonprofit Sector Characteristics	**Business Sector Characteristics**
No market forces	Driven by market forces
No way to raise capital	Founded on capital investments
No clear definition of success	Ultimate success is profit; other successes are also easy to define—happy customers, loyal employees, useful products
Chastised for investing in infrastructure, better management, technology and other tools for improved working environment	Insist on investing in a high-quality work environment to ensure high-quality results
Goals defined according to problems	Goals defined according to opportunities
No budgetary way to reveal returns-on-investment at the organizational or community level; no budgetary connection between prevention and intervention	Budgets are designed to reveal returns-on-investments; future-oriented costs (e.g., R&D) are built into the same budget used for present action (e.g., sales)
Use innovation to replace whole programs/processes with new ideas that may or may not work	Apply innovation to existing processes to seek incremental improvements
Strive to avoid the perception that the same products/services are offered year after year or that delivery of services is routine	Strive to create products/services that will become standard offerings with routine processes for delivery
Outcomes of the work of individual organizations tell little about how well a social problem is being addressed.	Outcomes of the work of individual companies tell much about how well a market need is being met.
Collaborations or alliances with other nonprofits are seen as likely lose-lose competitions, avoided whenever possible.	Collaborations or alliances with other companies are seen as hopeful win-win opportunities, pursued whenever possible.
Responsibility for vision is held by the board, while responsibility for action is given to staff.	Responsibility for vision and action is held by both staff and board.
Leaders often feel victimized, ashamed, guilty,	Leaders usually feel strong, confident,

and burned out, with no control over their own destiny.	energized, and in control of their destiny.

We quickly realized that three of these characteristics—no market forces, no way to raise capital, and no clear definition of success—are structural givens of the nonprofit sector which would require much more creative and subtle responses than we had originally imagined. If you are willing to bring your business influence and know-how to community improvement, it will save you a lot of time and frustration if you are aware of these givens before you embark on any effort to reorganize the way work is accomplished in our communities.

No Market Forces

The nonprofit sector, in its work to serve communities, is not shaped, motivated, or checked by market forces. On the face of it, that may seem obvious—nonprofits are not, after all, businesses, so they are not part of the market economy. But if you have long taken for granted the power of market forces (the ability of consumers to choose or reject your products or services) to tell you how to improve your business and beat your competitors, it may be hard for you to picture trying to operate a company in the absence of this feedback loop.

For the most part, consumers of social services (whether nonprofit or government-run) have very little choice about where to go for these services. Either there is only one place to go (such as the local food stamp office or the one adult literacy program in town) or the appropriate location is decided for them (such as with most public schools). When multiple options do exist, nonprofits rarely advertise their services in a way that potential clients can shop and compare. Also, because these services are often provided at a difficult time in a person's life, few clients are willing to go from one organization to another—revealing their needs over and over—in search of the best services.

While observers regularly lament the "wasted duplication of services" in the nonprofit sector, the appearance of duplication is often actually specialization, where each organization serves a particular need with funds which can only be used in a certain way. For example, an emergency shelter that only serves women with substance abuse problems may be a necessary specialization to effectively serve that population and be eligible for narrowly-defined grants. Except in very large cities, there is probably only one such shelter (if at all), even if there are fifteen total shelters, most with different specialties. Instead of multiple choices, most users confront an array of services for which they are not eligible and have difficulty finding the one right door to the help they need.

In addition to a lack of choice, consumers are often not the purchasers of these services. Services are offered for free or at a discount, and a third party pays the difference, whether it's the donors who support the nonprofit, or a government contract that reimburses for each client served. Therefore, when consumers need these services, they have no power to say, "If you don't serve me better (find me a better counselor) (offer a new treatment), I'm going to go elsewhere with my money."

When users have no power to choose, and grant money is simply contingent on numbers served, there is little incentive for the service providers to strive to do the best job possible. Individuals who provide these services often do strive for this anyway, because they care about the problem and want to see improvements. But when results are slow in coming, low-paid employees are feeling burned out, and no one really cares whether or not you solve the problem as long as you get the reports in on time, performance takes a back seat to conformance. Market forces are simply not there to separate the wheat from the chaff, to tell service providers what they could do to improve, and to encourage excellence.

No Way to Raise Capital

While businesses can seek investors, and governments have the power to tax, nonprofit organizations generally have no avenue for raising capital. Money they raise through grants from government and foundations are almost always for particular programs or products, rarely for general operating expenses, and never for a base of investment dollars to grow the organization, conduct research and development, and explore new opportunities. Any significant money that nonprofits raise from donors is also usually tied to a particular program or to build a new facility. In fact, a "capital campaign" almost always translates into a massive fundraising effort for bricks and mortar.

Even when nonprofits can raise money which is not already earmarked, such as through a special event or direct mail appeal, their public role prevents them from using these funds in ways that a business would think is healthy and smart. Nonprofit leaders understand that the larger community frowns on the use of donations to pay overhead costs. Donors want to know how many meals their check bought for a hungry child, not how many reams of paper for the office or salary for the data entry clerk. And donors certainly don't want to hear that their money was used to raise more money. Even though the nonprofit's lack of ability to raise capital requires it to constantly fundraise for programs, donors don't want to pay the salary of the fundraiser who is going to send them another appeal next year. In addition, few donors or foundations are interested in giving money to endowment funds. Although some high-profile endowments are looked upon with envy and scorn (such as Harvard's $14 billion endowment), very few nonprofits have an endowment of any kind. Finally, while nonprofits can take advantage of a line of credit to get an infusion of cash, they must have some way to pay it back. Grant money is out of the question, so if fees-for-service won't do it, the only other choice is individual donations. But donors don't want to pay off bank loans either.

While on the surface, these perceptions make some sense, they are grossly unfair to the nonprofit that is trying to strengthen its roots so that it can flourish on behalf of its clients. Because the primary purpose of a business is to make money, profits are expected to be used to produce more profits, and investments in sound management, good employees, state-of-the-art facilities, product development, marketing, and sales are all taken for granted. Of course, an initial shot of capital is often needed to support these activities, but the potential of profits is what lures investors.

Even though nonprofits and community leaders have begun to recognize the need for nonprofits to invest in these valuable underpinnings of success, the "investors" are lagging behind. As we mentioned earlier in the chapter, more attention is being paid to nonprofit management practices, and training on marketing and human resource development is much more common. But changing public perceptions, government regulations, and foundation priorities for how nonprofits should spend the "public's money" is another matter altogether, and nonprofits themselves cannot do much about this. Without the ability to raise capital that is not constrained by funder limitations or donor expectations, the nonprofit sector has little access to the flexibility, security, and risk-tolerance that makes for great organizations.

No Clear Definition of Success

> *The key to innovation is the ability to discern the important issues and to keep your real goal in view.*
>
> Frederick W. Smith
> Chairman, President, and CEO
> FedEx Corporation

What does "success" mean to a business? Profit, for sure, which results from other successes—knowing what business you're really in, developing products people want, using efficient business processes, and making happy customers. What does "success" mean to a nonprofit? Ah, this is much harder to define. Most nonprofits have a vision and a mission, but these are usually bigger than they can actually accomplish (such as "to cure cancer" or "to protect wildlife"), so they settle for incremental improvements and indicators that they're headed in the right direction. Although there are always small victories, the nonprofit leader's day-to-day experience is not rewarded by a sense of ongoing success (or quickly re-directed by a clear indication of impending failure).

The nonprofit's definition of success is also often shaped by a sense of a problem, not a solution. While the business leader may look to "more sales" or "new uses for our product" as motivators, the nonprofit leader often looks to "fewer abused children" or "lower tobacco use." Most of the money we spend on social issues is to respond to bad things that have already happened: children born unhealthy, teens who dropped out of school, people living on the streets, air that has been polluted, cities that have been abandoned. Motivation is shaped by (and therefore often diminished by) an overwhelming sense of the "bad stuff," instead of a grand vision of the good life for people and our community.

Without a clear definition of what success would look like for the individual nonprofit organization, it has no way of documenting its progress toward that goal or rewarding its employees when success is reached. But even if single organizations could define success, that goal would fall far short of the community's definition, since our communities are looking for big solutions to whole problems. Such goals cannot be reached by individual organizations, but only by a shared effort among many community players, which brings forth a new crop of challenges for the nonprofit sector and its inhabitants.

Where These Givens Get Us

Is it hard for you to imagine how you would run a business with no market forces, no capital, and no understanding of what success means? If so, then you begin to get some sense of how difficult it is for community leaders every day to hold things together. Whether they are nonprofit executives, government officials, foundation leaders, board members, or social workers, they are often stymied by the structure in which they find themselves. As each participant tries to occupy the best position for his/her work within this system, everyone ends up creating approaches to social problem solving that don't make sense and don't get the job done.

Funders Control the "Marketplace" with a Divide and Conquer Strategy

> *All the king's horses and all the king's men couldn't put Humpty-Dumpty together again.*

With no market forces and no way to raise capital, nonprofits are fiercely dependent on the grants they receive from government sources and private, corporate, and community foundations. While individual donors account for the greatest share of contributions to nonprofits, grants drive decisions about what programs to offer, for what clientele, in what way.

As a result, the decisions of these grant makers control much of the system of how we solve social problems. But government agencies and legislators and foundations are themselves affected by the givens discussed above. Market forces do not exist to tell them the preferred way to allocate funds, and uncertainty about what success looks like prevents them from aligning their efforts toward clearly articulated goals.

Funders have responded to the uncertainties by dividing up complex problems into separate issues, categories, and funding pots. By fracturing the problems, they fracture the potential responses to the problem, and therefore fracture our ability to see whether we are making a difference. Both government and foundations seem to recognize that this is problematic, but efforts to change this approach are coming slowly, if ever.

<u>Fractured Government Grants</u>

When the Government Accounting Office tallied up federal support for homeless services in 1999, they found that 50 federal programs administered by eight federal agencies supported services for homeless people; sixteen of these were reserved for the homeless, and the other 34 were available to low-income people generally. In addition, 26 programs administered by six federal agencies offered food and nutrition services. Thus, when a community like Toledo is trying to look at solving homelessness for its residents, it has to make some sense of over 75 different streams of funding just for these two areas of assistance, not to mention whole separate funding streams devoted to community and economic development to improve the employment and housing climate.

Government grants also come from fractured government budgets which have no way of connecting investment in services with return on investment. Therefore, not only do we not know when government spending was "worth it," but we have no way of connecting the results of that spending to prevention of future problems. Budget allocations for "prevention programs" are separate from budget allocations for "interventions." Fiscal policy expert Mark Friedman likens this to a company that expects research and development to be financially independent from sales.

As discussed in the previous chapter, devolution holds the greatest promise so far for government reform by creating block grants at the federal and state level that reduce the number of separate grants, programs, and regulations imposed on communities and allow more local-level decision making. But making devolution work is still quite cumbersome. For example, Gary Stangler, Director of the Missouri Department of Human Services, told us that, while seven state agencies could agree to pool their funds to give communities one large grant to integrate children and family services, these same agencies had to then re-separate the funding into fragmented programs before submitting their budgets to the various state house appropriation committees.

While Toledo received one large grant for homelessness services from the federal Department of Housing and Urban Development, it still represented a variety of HUD department allocations that came with their own restrictions. In addition, the city still divided the funds into distinct programmatic grants, because it didn't have a community-wide, coordinated system for using the money in any other way.

<u>Fractured Foundation Grants</u>

Foundations, and other private grant makers such as the United Way, are still painfully stuck in a framework of categorizing issues into small programs and grants. Almost all foundations distribute their give-away dollars in a similar fashion:

- The foundation chooses a set of "program areas" on which they want to concentrate (e.g., children's health, K-12 education, modern art)
- The foundation invites nonprofit organizations to write a proposal of how they would use some of the money to address one of these areas. The bias is for creative, new solutions so that the foundation will be seen as on the cutting edge.
- "Program officers" review grant requests and make suggestions to the foundation's board of directors about who to fund.
- The board meets quarterly and makes final decisions about the grants
- They usually only want to fund the same program for one to three years.
- They then expect the program to become self-sufficient (however that's supposed to occur in a no-market-no-capital environment), so they don't have to fund it anymore and can free up the money for other new ideas.

It's a simple, clean process, intended to keep foundations from being swamped by requests for everything under the sun, and allowing the foundation leaders to focus on just a few issues where they might be able to make a difference.

Our experience is that the grant-making approaches of influential foundations (of all sizes from the Ford Foundation to your local community foundation) prevent them from seeing the forest for the trees. By chopping complex problems into bite-size pieces, declaring that they will only address a few of those pieces, and then assigning separate departments to each piece, they sacrifice any attempt at whole solutions. How can your community end homelessness without addressing the root causes: substance abuse, mental illness, domestic violence, lack of affordable housing, and lack of living-wage jobs for under-skilled residents? But just try and get a foundation grant that will support a community-wide vision on this grand scale. Foundations that support homeless shelters don't support economic development, and foundations that support women and children's issues don't support mental health services. Or if they do support both, their program officers in each area don't talk to each other and can't entertain a proposal that seeks funding from both areas.

In all, foundations only account for a small percent of the nonprofit sector's total resources for services. Even so, the role of foundations in community problem solving is particularly significant because their giving often sets the agenda for how issues will be addressed. The topics that interest them, the organizations they fund, the speeches and articles they publish, and the approaches they label as "innovative" are closely watched by nonprofit and community leaders.

For instance, before they would give money to teen pregnancy prevention, the California Wellness Foundation required grantees to recognize and respond to the fact that some teens are sexually active. While we think this was a healthy way to encourage communities to get past the bickering over whether teens should be provided access to contraception, it demonstrates the power that foundations and their dollars can have over how communities decide to address a problem. No contraceptive services? No money.

The power that grant dollars have over nonprofit work could be very positive for communities, if that influence was designed to facilitate whole solutions to whole problems. Community-wide efforts could take advantage of the confluence of opportunities we discussed in Chapter One—government devolution, collaborative technologies, and blurred boundaries—to coordinate resources and work toward big solutions. Unfortunately, while funders still control the marketplace with a divide and conquer strategy, there is little hope for communities to take collective action to solve problems.

Nonprofits Respond Accordingly

> *These days, the problem isn't how to innovate; it's how to get society to adopt the good ideas that already exist*.
>
> Douglas Engelbart
> Inventor of the computer mouse (20 years before it was used)

With funders controlling the marketplace, nonprofits—who need those funds—must design their activities around the funders' priorities and fractured approaches. Thus, we end up with as many separate responses to a social problem as there are funding pots available. Nonprofits are accused of "mission creep" when they tailor their programs to fit the latest round of funder "requests for proposals," but, frankly, what choice do they have?

As a result of the fractured funding approaches from government agencies and foundations, social problem solving efforts in communities are divided among nonprofits (as well as some for-profit businesses and government-run programs) into uncoordinated, piecemeal services that are nearly impossible to enumerate, navigate, or evaluate. John O'Looney, who studies human services, estimates that a single community has 400-500 social service programs. It took him six months to map out all the services available to youth with emotional/behavioral problems in the Atlanta area, and he ended up with an incomprehensible (and still incomplete) drawing.

We still need to keep in mind, however, the difference between unnecessary duplication and valuable multiple strategies. While the obvious response might be mergers and consolidations, the different approach and emphasis of a good percentage of existing programs is probably worthwhile to the community. The problems arise when these various strategies are not connected in any way that allows the community to see the bigger picture and harness the power of multiple strategies toward a common goal.

One of the worst manifestations of nonprofit response to the fragmented, funder-driven system revolves around the concept of innovation. When funding is never secure and success is amorphously defined, it's easy for nonprofits to get caught up in an endless cycle of innovation. Whatever we might have already learned about what works to solve social problems, foundations and government agencies are always looking to fund new ideas. We recently read this absurd quote from Richard Driehaus, a founder of a Chicago investment firm who is now heading up his own private foundation, started with his earnings: "We don't want to fund the program that we *know* is going to work. We want to fund the one that is innovative."

Unlike businesses, which use innovation to perfect what they're already doing, funders use innovation like a salve. Even though the system isn't set up to get to solutions, they constantly look for new programs to make them feel like they're getting closer to success.

So when these funders are asking for the "latest thing," nonprofits have two choices for trying to get the money: always propose to implement new ideas, or propose old ideas as if they were new ideas. The first choice creates a reckless approach to innovation where the nonprofit is constantly re-working its services and processes. It also brings to an end programs that have promise but need a further investment of time and resources to reach their full potential.

A classic example we learned about recently was an effort in Kansas to prevent teen pregnancy in various counties. One foundation had offered to fund three counties for three years to implement a community-wide process to address teen pregnancy. The schools, hospitals, parents, nonprofits, and churches were all on board, and the programs were moving along toward their goals. But as soon as the three years were up, the foundation decided it wanted to hear from three new counties, not continue to support the three "old" communities. Without outside funding, the project couldn't continue, and the counties simply had to stop what they had worked so hard to begin, before the program even had a chance to show whether it had reduced teen pregnancy or not.

The second choice nonprofits have with funders—to propose old ideas as if they were new ideas—can prevent a nonprofit from schizophrenically changing its programs at the whim of each funder, but then the organization enters into a duplicitous relationship with funders, which both parties usually know they are doing. One of the Kansas counties told us that they were going to look for new funding by trying to tailor their existing effort to a new funder's priorities.

We have also had this experience first-hand in a nonprofit where we worked which offered a series of management training workshops for other nonprofits every spring and fall. We were always tinkering with the series, but it was a basic idea that seemed to be needed in the community, and it's structure and topics were fairly standard from one series to the next. Even though we charged for the classes, nonprofits couldn't afford to pay the full cost, so the program couldn't survive without philanthropic dollars. In order to get these, every new grant proposal had to highlight a new "innovation" in the program—a new population we were trying to reach, a new area of concern such as Internet training, and so on—in order to make the funder feel like they weren't being asked to support the same old workshop series. But, essentially, it was, because the series was needed and the funding was needed—the same thing every season over and over.

Businesses invest in ideas for the long haul with the hope that the same products will be needed over and over and that processes can become routine. They use applied innovation to continually perfect these products and processes, but they don't throw the baby out with the bathwater, and they don't pretend that they're doing something new when they're not. They don't have to, and they wouldn't want to. A hallmark of success is finding something that works and sticking with it. But because nonprofits have difficulty defining and then proving the "success" of their work, and because their "investors" are often fickle, a nonprofit that does the same thing year after year, with routine processes, is frowned upon. Of course, any organization wants to continue to grow and learn and respond to new opportunities, but it is easier to do so in a stable environment where your core purpose and products are firmly established.

Nobody Knows Whether They're Doing Any Good

> *You know, it would be possible to blow $100 billion and have no impact at all.*
>
> Patricia Stonesifer
> Co-chair, Bill and Melinda Gates Foundation

If you've followed our observations so far, you see that we've got a system with no feedback loops leading back to the problems we are trying to solve. Nobody knows how to define success, nobody knows whether customers' needs are being met, intertwined problems are divided into artificially separate issues, and everybody's working at cross-purposes. As a result, we have no way of knowing whether all this money and effort is making any difference.

To respond to this last deficit, the nonprofit and government sectors have recently turned to "outcomes" to try to measure performance and results. This is a step forward from previous approaches to evaluation which simply counted activities—the number of people attending a job training class, the number of meals served at the soup kitchen, the number of kids participating in an after-school program. Recognizing that these tallies do not tell us much about whether services are changing people's lives for the better, funders have begun to request that their grantees provide them with measurements of the outcomes achieved—the attitudes and behaviors that change as a result of their services, not just who uses the services.

We see this in the Government Performance and Results Act that requires government agencies to report the outcomes of their work to Congress. We see this in the United Way of America's push to train nonprofits in the use of outcomes measurement tools and provide them with a workbook for doing so. We see this in foundation requirements for outcomes-based reports at the end of a grant cycle.

The problem these strategies encounter is that, like the problems we are trying to solve, the outcomes that would indicate success are bigger than most organizations by themselves can reach or measure. Because the grants and the services are so fractured, the outcomes become inherently fractured. Instead of measuring whether they are ending homelessness for an individual or for the community, nonprofits who provide emergency shelter can only measure whether the shelter residents are moving forward with their goals. And as we saw in Toledo, they can only measure what happens in their own shelter, because they don't communicate enough with other organizations to know if the same person is going to more than one shelter, getting help breaking free from an abusive relationship, taking medication for a mental disorder, receiving substance abuse counseling, getting help finding a job, and so on.

Similarly, if the goal of a nonprofit is to help children succeed in school, but the funding they receive is only for tutoring, and the only program they provide is tutoring, but the children they serve also have problems with absent parents, dangerous neighborhoods, and underpaid teachers, how can that one nonprofit be held to an expectation to demonstrate that the children they serve are succeeding in school? It is simply more than they can do to affect the big solution that the community cares about.

Because the nonprofits know this inherent limitation to outcomes measurement, and the funders know it too, the outcomes that do get measured don't tell us much more about whether we are reaching solutions than simply counting numbers served. In a system of fragmented services and multiple strategies, meaningful outcomes can never be measured one organization at a time, but must be looked at across organizations, at the community level.

Why Attempts at Collaboration Have Failed So Far

> *More people are living off of these systems than are living for these systems.*
>
> Gene Wilson
> Senior Vice President
> Ewing Marion Kauffman Foundation

Almost nothing that we've discussed so far is news to people actively involved in the system described here. So, you may ask, if they know that success must be defined more broadly, funding needs to be less fractured, services need to be better coordinated, and outcomes need to be measured across organizations, why haven't they done it? The truth is, they have tried. From "service integration" to "one-stop shopping" to "collaboration," the nonprofit sector and its private and public funders continue to try to coordinate their work, and, for the most part, they continue to fail.

There are many possible explanations for this failure. One is that most collaboration is expected to take place only among a small group of nonprofits who provide similar services. Funders make grant money available for several agencies to apply for and use together. While this sounds sensible in principle, it merely brings together those organizations with the least means to change a system that is beyond their influence. Nonprofits simply do not have access, by themselves, to the resources and support that would enable successful work across organizational boundaries. For instance, they are often tragically behind-the-times in their use of computers, and collaborative technologies such as e-mail, document-sharing, and MISs are almost nonexistent in individual organizations, let alone across multiple organizations.

We saw clearly in Toledo the resistance that nonprofit service providers can muster when they feel that the demands of collaborating may be more than they can handle. When the homelessness collaborative (which, if you remember, consisted of a much broader membership than just nonprofits) began making plans to implement a management information system for homelessness services, many nonprofits immediately put up barriers to this idea: it would violate clients' confidentiality, it would require technology that they didn't have, case managers won't want to use it, computers only add to the time it takes to do things. In all fairness, these nonprofits changed their tune over several months of hearing about the benefits, being assured of strategies that would protect clients, hearing that the community was committed to finding resources to provide the needed hardware, and so on. But the automatic reaction to changes that required more resources and support than they were used to getting was deflection and resistance.

Nonprofit collaboration also fails because of perceived competition. While the explicit message nonprofits hear from funders is "You should collaborate," the underlying message is "You are in competition with each other for a piece of a small pie." Most nonprofit collaborations, therefore, rarely lead to solutions which are greater than the sum of their parts, because each nonprofit wants to protect its own turf (of available funding and clients). Nonprofits typically come to the collaborative table in order to get grant money, not to give to a collective effort. Thus, sharing is superficial, and "working together" usually means just dividing up the tasks. If groups of nonprofits do explore how they might collaborate to address a problem, their goal and plans end up at a least common denominator agreement about what to do. Because no one is willing to risk his own organization's survival or funding base for the greater good of clients or the community, grand visions for real change can never be considered. And as soon as the funding for collaboration runs out, nonprofits see no benefit in continuing to work together. Instead of agreeing to "do whatever it takes to end homelessness in this community," nonprofits fall back on a plan to "each do more of what we're already doing and see if we can reduce homelessness a little bit." Without a community-level definition of success, each organization operates from its own conception that success means staying afloat, not necessarily solving the problem.

Another explanation for failed collaborations is that funders themselves rarely collaborate. While, as a group, they control the social problem solving marketplace, each government agency and foundation wants to maintain its own control over its own strategies and grantees. Thus, when we convinced a dozen funders in Toledo (including the United Way, city government, county agencies, the community foundation, and a family foundation) to attend a meeting to talk about funding for homelessness, they wouldn't even entertain the idea of working together on the problem. Their response was to wait and see what the nonprofits decided to do, and then each of them might entertain a funding request tailored to their funding process and priorities. Lack of collaboration among funders is an ongoing frustration for nonprofits, who either feel unfairly burdened by the challenges of collaboration ("If they don't have to do it, why should we?") or hampered in their desire to collaborate by fractured funding.

A third explanation is the governance and leadership of nonprofit organizations which split vision and action between a board and an executive. In order to receive tax-exempt status, a nonprofit corporation must be governed by a board of directors or board of trustees, who are ultimately accountable for the success of the organization. This board is usually a group of volunteers from the local community—often high-profile, wealthy individuals—who determine the vision and mission for the organization. Perhaps even more than the executive director, the board feels responsible for ensuring the organization's funding and future, regardless of what is necessary for collaborations to succeed or for the community to solve a problem.

Unlike with most corporate boards, the executive director of the nonprofit—while entirely responsible for the daily work of the organization—is rarely a voting member of the board, and is sometimes not even invited to board meetings. Many nonprofit staff are known to view the board as burdensome and to try to keep board members at bay whenever possible. Board/staff relations vary widely within the nonprofit sector, but a structure that separates vision from action so distinctly can easily make for confusion about what is trying to be accomplished and how work can be aligned to get there. As Richard Chait, a Harvard professor and scholar of board governance has pointed out, "Board members are part-time amateurs overseeing the work of full-time professionals, which, by definition, takes a certain amount of hubris."

What we thus find with this leadership design is decision making that has to pass through two hurdles, representing different agendas and concerns, and often ineffective at communicating with one another. While this creates many challenges for the individual nonprofit, it can be especially detrimental to collaboration across nonprofits. If the board feels that its decision-making power or the identity of the organization may be threatened by a collaborative effort, board members can easily pull the plug. When success is difficult to define and funding is fragile, the potential benefits of collaboration can be quickly overshadowed by a pervasive fear of risk.

In sum, efforts to collaborate typically fail because there is not a broad enough engagement of community members involved, participants are not driven by a shared sense of high aspirations for solving the problem, funding is not aligned and pooled to promote coordinated services, leaders are not sufficiently protected from competition and risk to be willing partners, and the supportive services and technology needed to enable work across organizational boundaries is absent.

Everybody Becomes a Victim

> *The Board of Education doesn't want us to succeed because it will prove that they are failures because they couldn't succeed when they ran this department.*
>
> A senior manager of the NYC School Construction Authority,
> as reportedly told to a new employee

> *Some men have thousands of reasons why they cannot do what they want to, when all they need is one reason why they can.*
>
> Mary Frances Berr

With all of this fear, failure, and lack of progress, it's hard not to get down about it all. Throughout our interactions with policy makers, foundations, nonprofits, community residents, and volunteers, we've gotten the impression that everyone feels like a victim—givers and receivers, decision makers and implementers, social workers and their clients. No matter how much progress the community members in Toledo made on envisioning a new, coordinated approach to homelessness services, almost every meeting would end with, "But the city will never let us do this" or "It's a good plan, but it'll never work." After so many years of feeling victimized by the city's poor leadership on this issue, the lack of coordinated information and progress, the size and complexity of the issue itself, and the ongoing fragility of funding, community members had difficulty developing their own sense of ownership and confidence in the solutions they had come together and designed.

Lorna Lathram, of the Omidyar Foundation, recently likened nonprofits to abused children; the situation in which nonprofit leaders and staff find themselves can make them withdrawn, passive, anxious, ashamed, and self-destructive in their community work. The saddest part about this victimization is that all of these players share the same ache that we talked about in Chapter One: they all want to make things better. They all got into this work because they cared about other people and the communities in which we live and the earth that sustains us, and they wanted to devote their work life to improving society.

But for many such committed and hard-working individuals, they find that their days are filled with activities that fail to approach the vision of community and societal impact that propelled them along this career path. Whereas in the other sectors, achieving the "corner office" signifies fulfillment, for nonprofit leaders, it often expands the perceived inconsistent, inconsequential, and insipid demands on their time and soul. Many stay for their whole careers, but it may be as much because they are co-dependent than that they are hearty disciples. As the CEO of a large social service nonprofit once told us, "If I had known it would come to this, I would have never entered the field."

This sense of victimization is further fed by a sense of guilt. With no market forces to allow clients choices and no good sense of whether nonprofit work is leading to success as defined by clients, nonprofits and funders find themselves in what we've dubbed a "philosophical dilemma." For the most part, nonprofits, foundations, and government programs are overseen by people who are more privileged and accomplished than the people they are serving. While they sometimes seek representatives of clients for their boards, hold client focus groups, try to hire former clients for staff positions, and otherwise involve clients in the decision-making about the organization, there is still an underlying sense that a group with power is imposing its answers on a group without power.

This guilt works its way into the fabric of social problem solving such that it prevents people and ideas from progressing. For instance, service providers hesitate to share data about a client with another organization serving the same client, because they don't want to violate the client's rights, even though this would lead to much better support for the client, and even though the client would prefer that both organizations know the same information.

In another example, foundations hesitate to provide too much guidance to their grantees for fear that they will be accused of using their money to take control. We've already discussed the power that foundations have over how services get provided, and we agree that foundations should be more thoughtful about how they use this power. But guilt can send them too far in the other direction, as suggested by this observation from the president of the Minneapolis Foundation, Emmet Carson:

> It is tantamount to an emergency medical team arriving at the scene of a serious traffic accident, running up to an injured pedestrian who is barely conscious, and saying: "Ma'am, we're going to empower you to save yourself, not that we're saying you have a problem. We're going to put this equipment that you have never seen before on the ground next to you and, if you choose, you may save yourself. Or, we can partner with you to work on this situation together."

This guilt grows out of a much improved understanding in our society of the diversity of our population, the rights of our citizens, the need for everyone's voice to be heard, and what history teaches us about how those with power (money, influence, white skin) have taken advantage of those without power. No sector of society is more cognizant of these issues than the nonprofit sector, and there is a need to uphold the values that come from respecting difference and empowering others. The challenge comes when this respect mutates into guilt and the guilt prevents us from acting. We're not advocating a "we know what's best for you" stance, but it seems that broader engagement of the full community in decision making, while still ensuring that people with knowledge and resources are encouraged to share these, will get us much further than hands-off policies of community change.

In the meantime, however, the system is peopled by shame-faced victims who ache to do the right thing. Compare these feelings to the strength and confidence that permeates the business sector. For the most part, business leaders feel in control of their destiny; they have a clear sense of purpose, and they would fight vigorously against any attempt to victimize their companies or their work. As a society, we simply can't allow the leaders of the nonprofit sector to feel like victims. It is cruel and unusual punishment for people who have dedicated themselves to service.

A Quick Overview of Some Current Responses to the Mess

We are obviously not the first people to make these observations about the nonprofit sector, foundations, or social problem solving processes. People working inside and outside of these systems have suggested and/or attempted a variety of strategies—in addition to collaboration—in recent years to respond to the lack of market forces, lack of capital, fractured grant making, and so on. Many of these ideas have promise, but they all have drawbacks when compared to the need for communities to get to big solutions:

<u>Social Enterprise</u> – Social enterprise seems to have at least two meanings these days, both of which document the blurring of the nonprofit and for-profit sectors. The first refers to businesses that are paying significant attention to social change in their daily practices. Well-worn examples include Ben & Jerry's, Timberland, and Working Assets. Business schools and newly minted MBAs seem particularly drawn to this trend, as evidenced by the creation of the Haas

Social Venture Business Plan Competition (at UC Berkeley School of Business) and Net Impact (a nonprofit that helps place MBAs in internships with socially conscious companies).

The second use of the term "social enterprise" refers to nonprofits creating for-profit ventures to generate capital for their nonprofit services. Everything from bakeries to conference centers to recording studios have been created; some businesses are in line with the nonprofit's mission (such as a museum gift shop), others are completely separate in focus, and still others are designed to connect clients from the nonprofit's programs to job opportunities in the for-profit venture. Like any business start-up, the risk of failure is great, so while a few loud proponents have received a lot of attention nationwide, the number of nonprofits that have actually engaged in these enterprises is relatively small. Questions abound about the ability of nonprofit leadership to make good business decisions, the likelihood of business ventures to distract from the nonprofit's goals, the future of these ventures in an economic recession, and so on. Basically, we fear this is an ameliorative approach to nonprofit funding that puts all of the burden on the shoulders of already fragile nonprofit organizations, instead of forcing changes in the way government, foundations, and communities resource the work of social change.

<u>Venture Philanthropy</u> – While it sounds similar to the above, this term is generally used to refer to the practice of donors/foundations behaving more like venture capitalists in their relationship with nonprofit grantees. Spearheaded by the suddenly wealthy New Economy entrepreneurs, venture philanthropy is now infiltrating traditional older foundations; even the W. K. Kellogg Foundation has a Venture Philanthropy Director. Venture philanthropists don't want to simply write a grant check and wait a year for a report. Instead, they become actively involved in the nonprofit's use of the grant. The funder may take a seat on the board of trustees, provide regular technical assistance, consult on management and financial matters, and so on. This has the potential to improve or aggravate relations between nonprofits and funders, and it may put more resources toward operational challenges that most grants do, but it does little to change program-driven funding patterns or enable collaboration across the community. It also may exacerbate funder focus on innovative ideas rather than long-term follow through.

<u>Mergers and Acquisitions</u> – One response to fractured services in communities has been to encourage mergers and acquisitions among the nonprofit sector. The expectation is that if fewer organizations were working on the same issue, the money wouldn't be divided into so many programs, clients wouldn't be confused about where to go, and efficiencies of scale could save resources for direct services. Some mergers among nonprofits are probably appropriate in any community, after careful examination of duplicated efforts and inefficient operations, but the risk with this approach is the loss of multiple strategies and client-specific services. Addressing the complex and sometimes sensitive needs of people requires a variety of approaches and an ability to tailor services to particular populations. Large nonprofit conglomerates are only efficient with one-size-fits-all approaches, which may not be in the client's or community's best interest.

<u>Privatization</u> – We discussed privatization already in Chapter One, where government-funded services are provided by non-governmental organizations. While government funds given to nonprofits is a form of privatization, the term is usually used to refer to for-profit businesses providing government-funded services. We are excited by the possibilities of this form of privatization—bringing the strengths of businesses to the work of social change—but given the

current system of social problem solving, we are also wary of potential abuses. For instance, until outcomes can be set and measured at the community level, it is hard to hold private businesses to some community standard of accountability. In addition, this approach currently doesn't do much for consumer choice or fragmentation of services. It ultimately takes public money out of the community and puts it in the pockets of shareholders, whereas we would prefer that more efficient use of public resources should result in greater investment in prevention of future problems, not an increase in the private individual's profit share.

Vouchers and Debit Cards – From public schools to welfare checks to job training programs, the push is on to provide consumers with more choices and control through the use of vouchers or electronic cards that indicate an individual's allotment of dollars for the service. One argument is that this would bring market forces to bear on the service providers, forcing improvement in order to "attract customers." Another is simply that it would cut down on paperwork and time involved with third-party payers. It could also allow services for an individual client to be better integrated if an electronic card kept automatic records of service "transactions." All of these possibilities may prove true, and they could create real opportunities for less fragmented, more goal-oriented systems. But some problems include the lack of choices for certain services, the lack of information provided to clients to make good choices, and the lack of access to any choices when transportation is an issue. In addition, when vouchers can be used to purchase services from any provider, whether nonprofit, for-profit, or government, it calls into question the wisdom of using public dollars to support private enterprises.

Nonprofit Management Support – In an attempt to make nonprofits more efficient and give them more of a sense of control over their effectiveness, many communities have developed training or consulting centers for nonprofits to help them with management challenges (accounting, fundraising, marketing, personnel, strategic planning, etc.). In addition, several large consulting firms in the country have added a nonprofit management consulting arm to their practice. This is a necessary service to focus on operational improvement for nonprofits, but it does nothing to improve the operations of collaborations across nonprofits, funders, and other community institutions that will be required for less fractured services and outcomes and more attention to whole solutions.

Notice that none of these approaches address the fundamental challenge of a lack of clear definition of community success. And many of them add enough to the competition and uncertainty of daily work in nonprofits that they probably exacerbate the sense of victimization. While the situation is messy enough that a variety of reform ideas should be welcomed and explored, we should all be wary of the "quick fix" that does not ask our community members to come together to decide what they want and how they're going to get there.

Where This Leaves Us

The whole point of the existence of most nonprofits and foundations and many government programs is to get to the big solutions that our communities want. But we've shown here some of the main reasons why the systems we've created simply aren't doing that. The ultimate loser in this mess is the community—meaning all of us in the towns and cities where we live and work together.

The rest of this book explores how business leaders like you can respond to this mess in ways that benefit the community's work and your work. The solutions will focus on how to engage the broader community in solving social problems, how to make collaboration at all levels of the system desirable and effective for all participants, and how to harness information technology to get to solutions that simply would not have been possible before the 21^{st} century.

If you're still with us after such a long and wearisome journey through the wrong ways to solve social problems, we encourage you to join us now for the fun stuff—the right ways to solve social problems that will allow everyone to feel like confident contributors, in charge of their own destiny, and energized by collective wisdom for the common good.