

SFK-NY 2009: Success for Kids or too Successful to Succeed?

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“Nothing breeds success like success – and that is exactly our problem!” Julian Roberts, The Executive Director of the New York branch of SFK (Success for Kids – a Not-for-Profit organization²), took over Directorship of SFK in early 2006 and saw their educational programs grow so rapidly that by the end of 2009 she had maximized the amount of service the NY branch could provide given their current operating budget. She had called an emergency session of her Advisory Board and her key staff members. “We need to figure out how to finance the growth of our programs by examining alternative options for raising revenues as well as delivering our program’s content. We cannot expect funding from SFK-International any longer given the overall downturn in the economy and its negative impact on fundraising by International. I am looking to you, the Board and my staff, for suggestions on how to tackle this problem.”

Overview of SFK International

The mission of SFK is to empower the human spirit in every child. They teach children to find their voices and to make conscious choices that end the cycle of conflict for themselves and for future generations. Their commitment is to give children the tools to realize their full potential and to help them meet life’s real challenges. Formerly called Spirituality for Kids, SFK gives children an awareness of themselves, of others, and of the interconnectedness of all things so that they may grow up to become caring and responsible citizens of the world.³ SFK is a registered 501 (c) (3) nonprofit organization. It acts as an umbrella an organization that provides funding, research, development, support, implementation, and management for current SFK programs.

Purpose, Mission, Vision, Goals and Objectives

SFK is about the human spirit – it’s connectivity to the world at large – and how our personal decisions influence the world around us. SFK defines spirituality as one’s connection to his/herself, to others, and to the world. The spirituality in SFK is not connected to any one religion. SFK is driven by the knowledge that the experiences and skills learned today mean a better tomorrow. In each SFK class, a dynamic experience awaits. Students participate in activities, games, artwork, discussion, and music, so they have fun while they learn life-changing tools. Children and young adults experience what they are learning, and the changes are not far behind.

SFK’s vision statement is “One World, Every Child” and therefore their mission will not be complete until every child and young adult in our target region has participated in our programs. By working with educators, families and children throughout the world SFK strives to remove the chaos created by events encountered in real life. SFK seeks to build four areas of personal strength in each child and young adult: social competence, problem solving, autonomy & self-efficacy, & sense of purpose.

¹ Names of the members of the organization have been changed to protect employee privacy.

² Background information on Not-For-Profit Organizations may be found in Appendix B of this case.

³ The reason SFK gives for the name change is that the people at SFK felt that “success” was a better fit with the mission and vision of the organization. According to SFK, success referred to the ability and potential for the children and adolescents to share their knowledge and gifts with the world. ⁽¹⁾

Product/Services

SFK is a copy written educational curriculum based on the ideas of sharing, cause and effect and the universal human truths. Regardless of personal faith, we teach children to make conscious choices throughout life, beginning in childhood. Programs include: Spirituality for Kids Outreach Program, Spirituality for Teens, SFK Global Relief, Kids Creating Peace, SFK International Summer Camp, the SFK Online Community, the SFK Donation-Based Program, and SFK Teacher Training. (See Appendix A for “Description of Key On-going Projects and Major Events”.)

Skills Taught in SFK Programs

1. Problem Solving: understanding cause and effect, and foreseeing the consequences of one’s actions.
2. Self Esteem and a sense of Autonomy: the power to impact the amount of happiness and satisfaction in a person’s life by making wise choices.
3. Social Competence Skills: having the ability to see and feel another’s perspective, being caring, sharing and tolerant with others.
4. A Sense of Direction: one’s purpose in life is to develop his/her inherent potential and use that potential to share with the community and world.

Concepts are first introduced by the teacher through visual aids, analogies, stories or activities that utilize puppets, dominoes, balloons, etc. These activities are designed to enable children to self-reflect and critically think about the application and concepts they are learning.

History

Founded in 2001, SFK was established to create global change by empowering children with the understanding that all possibilities lie within – their choices can influence the world around us. The program is designed to break the boundaries of religion, culture, economic background, race, and gender.

Founders and Key personnel

As the founder of Spirituality for Kids (SFK), Karen Berg has helped to enrich the lives of thousands of families through the worldwide SFK programs. Karen’s dream is for all children to learn the tools to help them make wise choices that provide them with certainty, happiness, concern for the well-being of others, and most importantly, the knowledge that they are in control over their destinies.

Drawing from her own childhood challenges, Karen understands what it would mean for a young person to be given the opportunity to discover these gifts within themselves.

Reflecting the purity of her vision, the SFK programs are inclusive and diverse, offered without regard to race, religion, gender, culture, or other differences. They provide children all over the world with grounded, practical, and universal spiritual tools that they can use to overcome the challenges they face, no matter what their circumstances are. As both the co-director of the Kabbalah Centre, and the founder of Spirituality for Kids, Karen Berg has committed her life to expanding spirituality across the global community. She has written extensively on parenting, relationships, and spirituality; and hosts lectures around the world offering wisdom and support to people in need.

As Founding President of Spirituality for Kids (SFK), Michal Berg works to bring the ground-breaking SFK programs to young people everywhere, by making them widely available to educators and caregivers who want to make a real difference in children’s lives. With a commitment to the welfare of children, and her belief in Karen Berg’s revolutionary vision that the children of the world desperately need universal spiritual tools to overcome the challenges they face, Michal is actively making the mission of SFK a reality. Overseeing the global operations of SFK, Michal ensures the expansion and integrity of the programs by building in continuous improvements to the curriculum in order to serve as many children as possible, at the highest level. Constantly seeking new ways to bring awareness to the needs of children, Michal is dedicated in her pursuit to introduce universal spiritual tools into the education system. Her background in curriculum development, large-scale production and executive-level management has helped Michal to build SFK from a small classroom to an international non-profit organization now reaching thousands of children in seven countries around the world.

Center Locations and Operations

International

SFK international operates in eight countries including Panama, Mexico, Malawi, UK, Liechtenstein, Russia, Israel, and Brazil. SFK program has been translated into nine languages. Access to these children typically is through school systems. The international focus of SFK is somewhat different from the United States in that internationally SFK concentrates on lifting the spirits of the children in order for them to overcome their challenges due to lack of resources and slow economic growth, raise social and emotional knowledge which combats the social problems brought about by economic, political, and social changes as well as teach children how to construct their own successes. The sites within the United States are Los Angeles, New York, South Florida, and Boston. SFK has reached over 25,000 children in the United States, Europe, South America, Africa and the Middle East. ^{(6) (7) (8) (9)}



The United States

SFK operates primarily out of major cities in the United States. In South Florida SFK holds classes in Miami-Dade and Palm Beach. In South Florida children are taught to think before acting and choosing the right path. The reason SFK entered South Florida was because of a higher percentage of unwed mothers, higher occurrences of in-school fighting and lower overall school grades. ⁽⁴⁾ In Boston SFK attempts to teach and bestow emotional intelligence, problem solving, interpersonal skills and self-esteem. The reason SFK operates in Boston is because of victimization in schools, youth homicide, gang violence, and adolescent assaults. ⁽⁵⁾ Los Angeles is where the SFK International headquarters are located. Both the domestic and international platforms are deployed here. Even though there are only four United States sites more are being added such as Chicago, and Las Vegas.

New York. The reason that SFK operates in New York is because it has a very large school system and the organization's reach is rapidly growing in that area. SFK services four out of the five boroughs of New York City (Brooklyn, Queens, Manhattan, and the Bronx). They enter NYC public schools and offer classes on Social Emotional Learning (SEL). SFK offers two programs for New York. One program is the regular program which serves 3rd – 5th grades and the SFK Youth program which serves 6th – 12th grades. ⁽³⁾ In 2009 SFK taught during curriculum time at The Village Academies, PS 307, PS 72, and PS 183, the teenagers in the New York City Dept. of Probation, the teenage inmates at Island Academy on Rikers Island, and many other public and charter high schools across the city.

Financing

SFK depends on donations from individuals, corporations, foundations, groups, clubs, and organization as well as their own fundraising from special events. SFK has many contributors and advocates. Some of the major partners of SFK are AT&T, Boys and Girls Club, Duke University, Jaguar, NYC Board of Education, and YMCA. ⁽¹⁴⁾

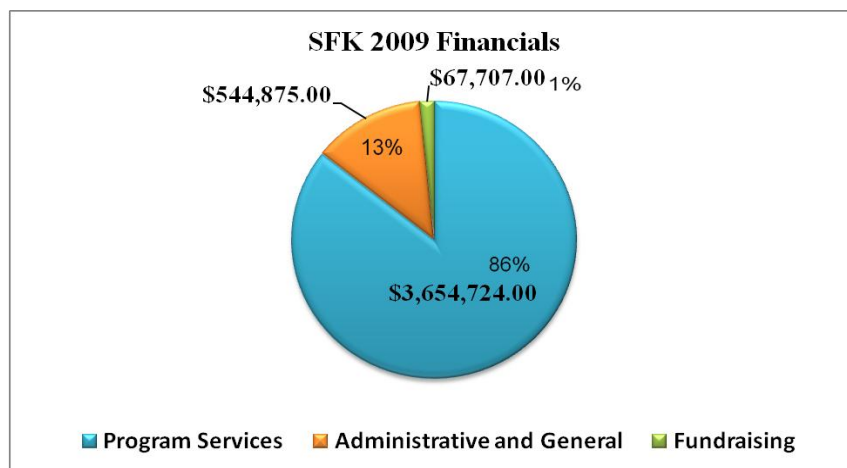
However SFK is currently trying to get Government funding as well.⁽¹⁾ Eighty-five cents of every dollar (85%) donated goes towards all the programs that SFK offers, while fifteen cents of every dollar (15%) goes towards the fundraising and administration.⁽¹¹⁾ SFK prides itself on their cost efficiency because the national average of administrative and fundraising costs is 25%.

Because of their cost efficiency policy SFK divides all the expenses into three categories which are program services (86%) and administrative as well as fundraising expenses (13%, 1% respectively). The below pie graph illustrates the amounts and percentages that are taken from the 2009 financial statements.

Figure 1:

Information for chart was retrieved from the SFK International 2009 Annual Summary financial statements.⁽¹³⁾

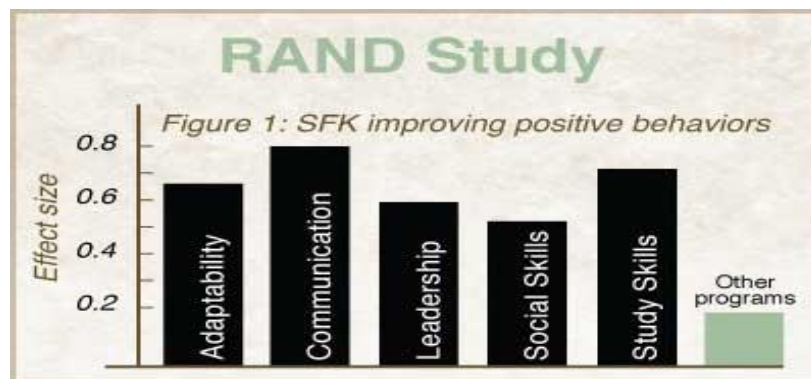
Program Services	Administrative/General	Fundraising	TOTAL
\$3,654,724	\$544,875	\$67,707	\$4,267,306



External Validation

A research study in 2006 conducted by RAND (a nonprofit organization that promotes policy and decision making through research and analysis) stated SFK had “positive effects on nearly every domain tested and many of the effects persisted at 12-week follow up.”⁽¹⁵⁾ For this research study RAND randomly selected the programs in South Florida and evaluated the behavioral outcomes of teachers and children before the program began, after it ended and even twelve weeks after it ended. (See below graph for research conclusions.)

Figure 2: RAND Study



Overview of SFK – New York

Purpose, Mission, Vision, Goals and Objectives for New York

SFK NY’s mission is to stop the suffering and chaos in the lives of children so that they can grow up as clear-minded, purposeful, and happy human beings. With SFK NY, children have the opportunity to learn how to make wise choices for themselves, to care for others, and most importantly, to shape their own lives.

SFK NY has been working towards accomplishing its goal of empowering children to make wise choices for themselves, to care for others, and most importantly, to shape their own lives through partnerships with after-school programs such as Police Athletic League (PAL), Oasis after-school programs, and the Beacon Program. Through unique, highly effective, non-religious, spiritual lessons, SFK NY empowers and guides kids to realize their own unique purpose and potential in life. SFK NY incorporates an inter-disciplinary and hands-on approach to teach children and families of all backgrounds in different community-based organization and schools. Children become better family members and more caring about their communities. As they mature into adulthood, these students will have the skills and understanding to lead productive lives.

SFK NY’s mission will be accomplished when there has been created a social and global order based on spiritual values - like connection and sharing. Then children can learn to be spiritual just by just watching the people around them and their everyday behavior.

Target Audience

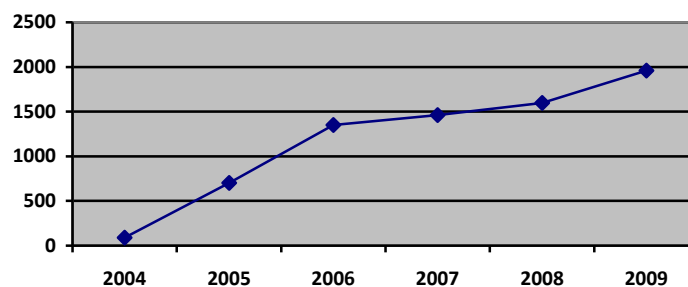
The target audience for SFT-New York is all children and young adults in the NYC – Tristate Region.

- SFK targets 6 to 12 years old. The average age enrolled is 9.1 years old.
- SFT (Teens) targets 13 to 18 years. The average age enrolled is 14.9 years old

SFK currently brings its curriculum to 15 locations throughout New York City. However, there are 20 programs that are on the waiting list. The need for SFK is growing faster than they are able to reach out to students. This is driving the organization to seek more volunteers and staff for this 80% volunteer-based organization.

SFK NY Student Count: 2004-2009

2004	89
2005	703
2006	1349
2007	1462
2008	1598
2009	1960



Director and Key Personnel (Organizational Chart)

Julian Roberts, Executive Director

Julian comes to SFK with a wealth of experience in fundraising, development, educational administration and teaching. Prior to joining SFK, she worked as Director of Development at St. Philip’s Academy in New Jersey where she oversaw a \$30 million dollar capital campaign and worked with the Board of Trustees to increase its giving and outreach. She served as Associate Head of School for Academic Leadership at St. Philip, where she oversaw expansive growth from 200-335 students.

She implemented cross cultural training for faculty and staff, and oversaw and revamped the curriculum development. Julian also managed partnerships with receiving schools to ensure alumni success and on-going relationships. Additionally Jenny has taught English and History to seventh and eighth graders. She graduated Columbia University's Teacher's College with an M.A. in Educational Administration focusing on private school leadership and obtained her B.A. in History from Smith College. Jenny was drawn to SFK because she believes deeply in the importance of social and emotional learning, and the way it empowers kids to make strong and healthy decisions for themselves.

Pam Esling, Director of Teachers

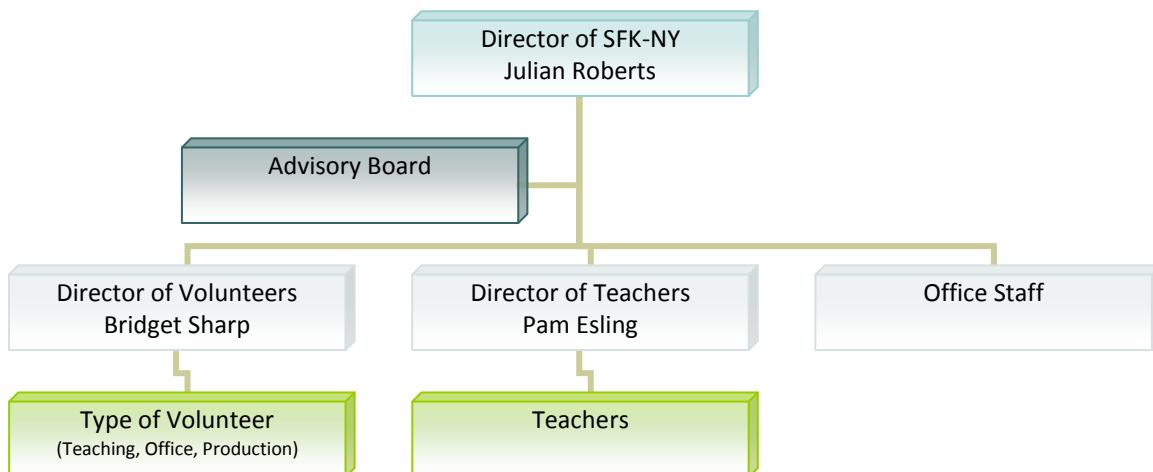
Before becoming the SFK Lead Teacher Pam was a Peace Corps Fellow at Teachers College, Columbia University where she received her M.A. in Bilingual/Bicultural Education in 2005. Pam worked in The NYC Public School system for 6 years where she learned the pressing need for teaching children social and emotional skills that they can apply in their lives on a daily basis. Pam is delighted to be practicing and teaching these life skills as part of the SFK New York team!

Bridget Sharpe, Director, Volunteers

As a Volunteer with SFK in the summer of 2009, Bridget was inspired and empowered by the incredible impact of the SFK Program. Now as a full time employee for SFK, she feels extremely fortunate to be a part of the amazing team of dedicated Volunteers, Teachers and SFK Staff that make it possible to plant seeds of emotional & social intelligence across the New York Area.

Advisory Board (Volunteers)

The advisory board was comprised predominately of major donors to SFK-NY and included volunteers who assisted in student instruction, instructional package assembly, or provided office support. None of the members were from participating schools (parents, teachers, or administrators).



Back to the Board Room

Julian, her key staff, and the Advisory Board discussed their current status. The Director's major concern that she shared was that SFK was not generating as much revenue through fundraising to support the current operation, no less the massive growth they could experience given the popularity of their programs.

It cost approximately \$300 per student per program (includes fixed and variable costs); many students had finished level 1 and could easily move onto levels 2 and 3 if funding were available. Fundraising, which had been so successful in 2008, raising \$1.20 for every dollar of student expense, declined with the economic recession of 2009. Fund raising lagged expenses rather dramatically with SFK-NY raising barely \$.50 for every dollar of student expenses requiring SFK-International to make up the short fall.

The Board considered and discussed several options for SFK-New York:

- (1) *They could generate revenue via more focused and targeted fundraising.* Donors and contributors are very important to a nonprofit organization. Donors' support reflects their perception of that entity as an effective vehicle in meeting a community or human need. Perception is vital because usually nonprofit organizations target a certain target audience. SFK's highest visibility is with the parents, teachers, and school administrators who are impacted by SFK's programs. Historically these groups have not been targeted by SFK's multiple fundraising events which include walks, dances, galas, brunches, and receptions. By targeting these groups whom they currently serve individually and through student, parent, and teacher interest groups (i.e. student clubs, PTA, teacher's associations), they might reach a very receptive audience who may provide funds or assist in fundraising events.
- (2) *Look for corporate foundations and government agencies that are interested in funding this type of educational program – grant writing.* There are numerous businesses and government agencies that target the same population as SFK and may be very amenable to funding SFK programs. One corporate example is World Wrestling Entertainment (WWE); they pride themselves on donating to nonprofit organizations like the Make-a-Wish Foundation. In terms of government grants, there are numerous government organizations (Department of Education) that provide need-specific funding as well as accept unsolicited proposals.
- (3) *Look for more powerful not for profit partners who may support similar causes as SFK and provide SFK access to their audience.* Teaming up with other nonprofit organizations like Boy Scouts and Girl Scouts of America, assuming they were amenable, may increase SFK's visibility and ability to fundraise with a more identifiable "brand" name. There also may be some potential for program and product crossover where each organization might offer part of the products and services to the others' target group. (I.E. The Boy Scouts/Girl Scouts include SFK training as one of their "Merit Badges.")
- (4) *They could go into business venturing which would allow SFK to sell certain program related products and services in order to raise funds and revenue.* Currently SFK provides all of the course material and instructors for their courses for free. Several options are available that involve charging the school in question for specific products (i.e. work books, activity supplies) and/or instructional services. For example, The NYC Department of Education has an open solicitation for student support "services [which] should provide students with a safe, engaging environment, opportunities for educational enrichment, and meaningful relationships with positive role models." (<http://schools.nyc.gov/Offices/DCP/Vendor/MTAC/Default.htm>, 1/3/12)
- (5) *They could investigate cause-related marketing (also known as joint venture marketing) where SFK could link themselves to a for-profit organization.* SFK currently has no formal ties to any for-profit organization. Linking themselves with a for-profit group might allow SFK to raise awareness of its organization and reach more people while having access to new revenue sources. An example of this is when American Express launched the Statue of Liberty-Ellis Island campaign in 1981. Every time a customer used their American Express credit card a donation was given to the nonprofit organization by American Express. Both organizations received solid publicity from this campaign.
- (6) *They could license their "brand" which would allow them to legally give a second party the right to use SFK's name, logo, etc. as well as offer SFK services.* SFK could train instructors of other organizations and provide them with the student workbooks and activity packages. These organizations could be the schools themselves or a third party provider who would service the schools (i.e. Sylvan Learning Center). An example of this is when Children's Television Workshop (CTW-creators of Sesame Street) gave permission to Hasbro to sell products such as toys, books, and videos with the CTW's name on it.
- (7) *They could find a for-profit partner and form a hybrid organization.* There are four components to a hybrid organization: involves both a for-profit and a nonprofit entity; shares the same or similar purpose; is controlled by a common group; and has an interest to raise money from investment monies and from charitable contributions. (<http://www.philanthropyjournal.org/resources/managementleadership/%E2%80%98hybrid%E2%80%99-organizations-what-and-why>, 1/3/12) SFK might approach an organization like the Apollo Group (holdings include the University of Phoenix, Apollo Global, College for Financial Planning, and Institute for Professional Development) which focuses on lifelong learning and developing personal growth skills as a potential partner.

- (8) *Scale back SFK's operation to fit their funding.* This strategy could take two separate paths: a) shrink the amount of classes being offered in each school to fit the estimated budget and allow SFK-International to determine how many additional courses below their “break even” International would be willing to fund. This would be the least invasive strategy since it requires minimal change to the operation.
- b) Have SFK teachers train school teachers in delivering SFK material and put the onus of distributing the program on the school's teachers and staff. This strategy would change the role of SFK from the actual deliverer of services to teacher trainer and program advisor. SFK could then scale back on paid instructors and assembling (paying for instructional material) and focus on program outreach and growth.
- (9) *Develop a SFK Club for schools in lieu of/or in support of existing SFK programs.* The purpose of developing “The Club” program is to provide a separate, low cost educational distribution channel outside of SFK's traditional classroom-based learning which would allow SFK to reach more students faster and with fewer economic and administrative burdens for SFK-New York and therein SFK-International. This approach places the burden of operation (both managerial and economic) of the Club squarely on the shoulders of the School and therefore reduces the cost to SFK-New York. This is low-cost alternative method for introducing SFK concepts to Schools will allow schools without SFK instruction to “test” SFK concepts in a less intensive fashion.

The Board was concerned, however, that some of these strategies might be detrimental to SFK-NY's mission and their ability to guarantee quality of program services (as denoted in the Rand report). They felt that the role and extent of their community service must be balanced against the organization's need for funds to ensure SFK-New York's survival and the mission of SFK. Julian echoed the Board's and her staff's sentiments as she asked the following questions to the Board and her staff:

- Is the preferred strategy compatible with SFK-NY's mission, and vision? Will SFK-International be comfortable with the strategy?
- Will the SFK-NY's staff be supportive of the strategy? How much resistance to change might there be?
- Does SFK-NY need to increase staff or other resources if they execute the strategy?
- What possible changes can result to the organization from this strategy and in what way?
- What are the risks involved in executing the strategy?

Julian broke the Board up into small groups to consider and weigh each option. Their final recommendation would be sent to SFK-International for review and approval.

Footnoted Case References

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Appendix A

Description of Key On-going Projects and Major Events

Children's Program (Ages 8-12)

Level 1: "The Game of Life" (10 Weeks)

This course is the foundation of all SFK programs and introduces key universal principles through the analogy of a game: key components of a game include:

- Rules to play by
- Some kind of challenge presented by an opponent (or opponents);
- Opportunities to choose a path and overcome that opponent;
- The potential to win the game through use of the rules as well as our personal choices during that game.

Children learn that life is much like a game: there are universal principles that we can use as our "rules", we each have our own personalized opponent challenging us so that we can choose to overcome, and every person has the potential to "win the game of life"! In this level, students are empowered to shift the focus-of-control from external to internal with an emphasis on knowing how to make positive choices and an understanding that all people have an essence within that is inherently good. These important concepts articulate for students how each of us has the power within to influence our own lives, as well as the lives of others, and lead to long-lasting happiness and fulfillment by transforming into caring and sharing beings.

Level 2: "The Spiritual Detective: Finding the Clues Within" (8 Weeks)

In this course, students are guided through an internal exploration as "spiritual detectives".

Students are taught concepts on how to conduct an investigation of a different kind: an investigation of the self. Through use of the four threads, students are given a new understanding of the importance of really knowing one's self. Like any good detective, students are encouraged to gather clues about themselves and to get to know their own internal opponent. By reflecting on their choices and behaviors, students are able to make new, better ones that help them to evolve. The primary concepts highlighted in this level are cause/effect and making positive choices.

Level 3: "The Art of Problem Solving" (8 Weeks)

Through the use of three fictional characters, a boy named Michael, his sister Judy, and his Grandpa, a painter; students are taught how to determine spiritually-based solutions to every day types of challenges. This art-based program uses artists and their great works to deepen the students' understanding of the techniques to problem solve. Once again, the four threads of the program enable students to move to a place of application of the universal principles they have been learning throughout levels one and two. They are taught to see challenges as opportunities for fulfillment and are encouraged to continue the application of the SFK tools in their everyday lives.

Youth Program (Ages 13-18)

SFK's Youth (teen) program is a multi-faceted prevention program with the mission of enriching adolescents and enabling them to become the engineers of their own lives. The program integrates thought-provoking activities with a focus on a transformative and personalized experience. Skills taught through Spirituality for Teens provide students with techniques to make effective and positive choices thereby working to avoid the negative effects of poor decisions. By exploring and learning universal spiritual principles, teens begin to understand that no matter what their current circumstance, they can tap into their inner power to change their lives for the better. During the critical developmental years of adolescence, the SFT program can provide the tools to help build a healthy sense of self while fostering and deepening the desire to share and contribute to the betterment of humanity. Graduates of the SFT program are better equipped to move forward into adulthood with a greater appreciation for their ability to become the creators of their own life experience.

Peace Program

Kids Creating Peace (KCP) is an SFK initiative aimed at helping children who are caught in war-torn areas of the world. With a successful pilot program in the Middle East, SFK recognizes that a crucial first step toward achieving sustainable peace in the region is changing the common attitude of hatred on both sides towards one another.

After learning the principles of unity and tolerance in the SFK curriculum, Arab and Jewish children are brought together for special programs, events, and summer camp experiences, where they bond in fun and friendship. Through KCP, the SFK principles are applied to real-world conflict in order to create change both in the individual and in the world.

Appendix B

Not-for-Profit Organizations – A Primer

NFP's exist to serve the public with products and services that fall between the cracks of services and products provided by government agencies and for-profit businesses. For example, Peconic Connections, Inc. was founded to supply transportation and brokerage services for individuals and organizations that could not afford existing transportation services and/or were not being properly served by the current network of transportation providers on the East End of Long Island (New York). This organization is funded through government and foundation grants and much of the staffs' time is spent in the formulation and implementation of grant writing activities as well as advocating in public forums for needed services.

Historically, religious organizations provided care for the needy and the poor and supplied most of the nongovernmental social services. As secularism spread in the United States (separation between church and state) and around the world, the need for unaffiliated organizations to provide social and economic support for the needy grew, especially after the downfall of the Great Society and reduction in social programs of the Johnson Administration in 1968. NFPs, by definition, do not exist to make a profit to reward owners for their investment; rather they exist to provide a public good, to benefit people in general or smaller groups of individuals without the need for creating and accumulating wealth. These features make the nature and structure of the NFP organization different from that of a traditional business, and it also means that the type of strategic planning and strategic management it puts in place will be different as well.¹

The Basic Nature of Not-For-Profit Firms

As indicated above, NFP firms exist to benefit the public good. Like the American Red Cross, such firms exist because there is a public need that businesses have determined that they cannot serve and make a viable profit. For example the International Red Cross and Red Crescent was created because Henry Dunant saw a great need to create an organization that could provide humanitarian, medical, and emotional support for soldiers who were injured in war. In considering this situation, one can see why any profit-seeking enterprise would not want to be involved with this type of activity. Where's the profit? The soldiers cannot pay for services they receive on the battlefield, and many die, making collection emotionally difficult if not nearly impossible. Granted, this is a harsh characterization of business organizations, but one must also recall that they are built with different missions in place, are supported through investors who have a right to be rewarded for their investment, and cannot afford to give away their products or services. Further, the government had chosen not to directly provide this service nor had they decided to subcontract this service out to the private sector. Henry Dunant understood this, but he also saw a great need going unfulfilled. He then set out to find support for his cause and created major organizations to carry out the provision of services they wanted to render.

Revenues and Management. Don't services cost money? How can NFPs exist without raising capital? This is one of the other major differentiators between for-profit and not-for-profit organizations. The for-profit raises capital from shareholders and borrowing, but also depends heavily on its ability to raise money through profitable operations. The NFP, however, has no shareholders, so it can't raise capital from this source; it can borrow money, but can only do so to meet short-term operational shortfalls (since there is no owner liability for loans), not to help it grow; and it realizes little to no profit (called surplus) from its operations (most realize no profit at all), and so it must rely on another source to generate capital and operating revenues – charity. Fund-raising, grants writing, subscriptions, and memberships form the core ability of NFPs to raise money and many survive or don't survive based on their skills in this area. Most NFP executives are more likely to be proven fund raisers more than they are to be proven operational managers.

This last point is worth pursuing a bit further. NFP management is a difficult commodity. Most top managers are highly dedicated to the cause, perhaps even fanatical.

They believe in their cause so much that they are willing to take less money for their services than they would in for-profit businesses, and to spend a significant amount of their time convincing others of the worthiness of their cause and the moral importance of others to financially support those causes. In terms of operational management, NFP top managers face the same level of performance expectations as do any other organizations, business or other. They are expected to hire properly, set and maintain a budget, solve internal problems, and assure that the basic mission of the organization is carried out. Therefore, even though NFP managers are paid less (far less in many instances) than their counterparts in business, their work load could be just as great or greater and carry the same level, or greater level of responsibility. That is why the successful NFP managers are the ones who are so very passionate about their organizations; their psychic income more than makes up for their lower earnings.

Issues of Governance. There are a wide variety of organizations that we can classify as not-for-profit organizations. The following list identifies several of these:

- Charitable agencies
- Public assistance organizations
- Churches, synagogues, mosques, and temples
- Clubs and interest groups
- Unions
- Health care organizations (though many are becoming for-profit)
- Educational institutions
- Governments (we develop this particular group in the next section)

Each of these types of organizations represents a potentially different form of organization. There is little to dictate common operational forms or governance structures among them. This is one of the issues that make strategic planning and strategic management in such groups the hot topic is tends to be today.

Another major difference is that of governance. NFP organizations by and large do not have the same state incorporation laws as business corporations do to govern the establishment of a particular Board of Directors or set of officers. Those few NFP organizations that do not seek legal status have no legal guidelines at all. Because most NFPs raise money, they interact with the Internal Revenue Service, and in order to avoid taxation, they do incorporate as not-for-profit entities and are governed by strict fiscal guidelines.

Section 501(c)3 Corporations. In order to be recognized as a NFP organization by the Federal Government, NFP establishments must file for incorporation under Section 501(c) 3 of Title 26 of the U.S. Code of Statutes.ⁱⁱ This statute applies to “Corporations, and any community chest, fund, or foundation, organized and operated exclusively for religious, charitable, scientific, testing for public safety, literary, or educational purposes, or to foster national or international amateur sports competition (but only if no part of its activities involve the provision of athletic facilities or equipment), or for the prevention of cruelty to children or animals, no part of the net earnings of which inures to the benefit of any private shareholder or individual, no substantial part of the activities of which is carrying on propaganda, or otherwise attempting, to influence legislation (except as otherwise provided in subsection (h)), and which does not participate in, or intervene in (including the publishing or distributing of statements), any political campaign on behalf of (or in opposition to) any candidate for public office.”ⁱⁱⁱ

Since these corporations are not profit-seeking organizations, they have a legal competitive advantage over their private counterparts which include:

1. Contributions that are tax-free and exempt from federal taxation.
2. Income related to the NFP’s operation is earned tax-free.
3. NFP’s have perpetual life so that they can continue operating in a tax-exempt status even after the original founders pass on.
4. Limited liability for directors, officers, employees, volunteers and members. This provides incentives for those asked to serve with the organization, whether on the board or otherwise.
5. Corporate Bylaws and a Constitution provide a structure for decision making, especially when disputes exist between individuals about the direction of the non-profit.

6. Donors are able to make charitable contributions and receive a tax deduction on their tax return and pay no taxes on this money. Donors may give property, money, stock and services.
7. May apply for public and private grant money which private organizations are excluded from applying for.
8. May be eligible for lower rates from public firms including cheaper advertising rates in publications, discounted hosting space from internet service providers. and lower membership rates to places such as The Price Club.
9. Non-profit employees can be eligible to participate in job training programs offered by federal and state agencies, as well as training programs provided by other non-profit organizations.
10. Lower Postal Rates on 3rd Class Bulk Mailing.
11. Free radio and public service announcements provided by local media.^{iv}

Since incorporation is at the state level, not the federal, each state has its own requirements for establishing a legal governance structure. For example, in the State of New York the by-laws of the organization must indicate how individuals and/or organizations become members of the NFP (open or selected membership), a specific list of officers, whether the board of directors and the officers are elected by the membership or appointed by the board and/or the president, membership dues (if any), meeting places and times, and order of business.^v

Governing boards also tend to be significantly different from their corporate counterparts. Members of these boards serve as unpaid volunteers, many of whom do not realize that their personal liability may be just the same as for their corporate counterparts. They tend to be strong supporters of the organization, usually some of the major contributors, and serve to fulfill a public service. Their power may be nebulous and is often a function of the agency head. Very strong top administrators (especially those who are also successful in promoting the organization's public image) may have boards of people who are nothing more than yes-men (and yes-women). Struggling organizations may tend to have boards that will jump in temporarily to help solve a leadership problem, but then try to find a strong manager to take over. Roberts and Connors, however, argued that trustees are, indeed, the most appropriate, best-positioned, and most influential persons to lead a NFP. They believe in the value of maintaining and strengthening the involvement of voluntary, community-based not-for-profit leaders. The generic responsibilities of governing boards of community-based organizations encompass five basic elements. They involve: 1. setting the direction, 2. assuring effective management, 3. enhancing the assets, 4. achieving quality goals, and 5. acting as stakeholders on behalf of the communities served.^{vi}

New laws and greater public sensitivity to scandals in the corporate board arena have heightened concern for the fiduciary responsibilities of NFP boards, especially private foundation governing boards. Private foundation board members must consider the impact of both federal and state law in making an investment decision. The Uniform Management of Institutional Funds Act (UMIFA), which applies to the governing boards of both incorporated and unincorporated charitable organizations, has been adopted by 28 states. The duty-of-care standard requires trustees and members of boards of not-for-profit corporations to act with care in managing the affairs of the entities they serve. The most important difference in application of the duty of care rule is that the business-judgment rule (directors are not liable for honest mistakes in judgment) generally applies to corporate board members, while the prudent-man rule (board members must act with care, skill, prudence and diligence) applies to private trustees. Surprisingly enough, UMIFA adopted the less stringent business-judgment rule and eased many restrictions placed on trustees of private trusts.^{vii}

The Case of Education. Educational institutions are by and large not-for-profit organizations, though not exclusively. There are proprietary educational firms such as Sylvan Learning Centers and the University of Phoenix that provide educational services from kindergarten all the way through university graduate degrees. These, however, are a very small segment of the industry, and the bulk of educational institutions are public and private primary and secondary schools, and then, public and private colleges and universities. Even here, there are differences. Public schools receive a significant amount of their funding from governmental agencies and may be considered governmental agencies themselves. Private schools receive the bulk of their monies from tuition, grants, fund-raising, donations and fees and face relatively minor regulation from governmental bodies. Yet, all of these schools have more in common than they have differences. All are involved in developing and providing quality educational experiences; all are expected to conduct the business of education as a business; and all use common operational methods and technologies. Primary and secondary public schools continue to depend primarily upon tax revenues, and under current national policy, are somewhat guaranteed adequate operating revenues.

Private primary and secondary schools have had to become much more inventive and strategic about how they secure funding and continue to be able to provide educational services. Higher education faces different issues of governance. Because public higher education in the 21st century has needed to become less and less dependent upon public funding, many have moved away from their strict reliance on state tax revenues. Instead they are depending more and more on charitable-type giving (endowments, restricted and unrestricted gifts, alumni support, grants, and fees from intellectual properties), grants and foundation funds to manage their budgets, just as their private counterparts have done for years. These shifts have caused many colleges and universities to actively adopt strategic planning activities and it is not surprising that this is leading to new educational types and models.^{viii}

Profits in Not-for-Profit Organizations. While NFP organizations do not exist to generate profits to support the investment of shareholders, this does not mean that such organizations do not seek a net gain from their operations. With the notable exception of the U.S. Federal Government (which we will discuss more in the next section), NFP firms must seek to break even or show a modest gain from their operations. While seldom called “profit,” this gain from operations may be what the organization depends on to expand its services, build new facilities, or improve salaries and benefits. Since revenues are closely watched, however, by outside boards and funding agencies, it is difficult for NFPs to achieve large gains from operations, let alone use them. For example, for agencies that depend on funding from the United Way or similar community charitable funding organizations, they need to defend their budget requests annually and must be willing to share overall budgets with these funding agencies. It is always best to project break-even and build in special requests as part of on-going operations rather than to ever suggest that the organization might be efficient enough to save revenues – such statements usually are countered by concerns that the agency isn’t as efficient as it ought to be and that it should be allocated fewer funds because of it.

All of these characteristics create two realities for the strategic planning process of NFP organizations: 1) survival is no longer based on growth and profit, rather it is based on public need and public support; and 2) the process of strategic planning cannot only be top-down, but highly integrated and represents a large array of both internal and external stakeholders.^{ix} Here, directed strategic planning and strong strategic management are necessary to help such organizations management through difficult times, manipulate their course through unstable revenue streams, serve the primary commitment of their stated missions, and somehow survive.

The Challenges to Strategic Planning and Strategic Management

Given the very public nature of NFPs, it is not surprising that they do not have the experienced personnel or highly trained managers that understand the importance or methods of strategic management. While nearly everyone has heard the terms, “strategic planning,” and “strategic management,” that doesn’t mean that everyone knows how to conduct them. This has proven to be a serious problem in many NFP organizations. Another major inhibitor is the single mission and direction that characterizes NFPs, their inability to alter this mission, and the inappropriateness of them even trying to do so. While earlier in the book we suggested that the buggy whip industry went out of business because no one wanted buggy whips anymore, this happens rarely in business. In the NFP sector, however, it can happen rather often. Election campaigns are a prime example of such eventualities, but other organizations that have outlived their usefulness or public support simply go away – they do not have the ability to transform their mission in order to protect their basic organization. Many states have even passed sunset legislation to force governmental agencies that no longer have a viable purpose to shut down.

The inability to sell just any type of product or service is yet another problem. NFPs primarily sell ideas, causes, and solutions which are not only intangible, they are also illusive concepts. They also may sell products and services related to their mission (i.e. museums charge admission as well as sell related souvenirs, gifts, books, etc...) in order to raise operating funds. The Museum of Natural History in New York, for example, has a web site where anyone around the world can purchase their goods and services from their on-line museum shop.^x Any products or services sold outside of the mission of the institution would jeopardize their tax-free status.^{xi} This may result in an unstable revenue stream, which not only prevents growth, it also prevents maintenance and often forces agencies to live their lives on the proverbial roller coaster – up one year and down the next, but through it all, they are still able to survive. Finally, the lack of comparable salary and compensation packages NFPs can offer their employees leads to a tenuous structural setting.^{xii} Loyalty is valued and desired, but it normally cannot be rewarded.

Zealousness is an absolute requirement for those who populate NFPs (as shown by Clara Barton in her unwavering devotion to the development of the American Red Cross), and when this fervor and drive is extinguished or is absent, the organization can become extremely problematic very quickly.

Strategic Opportunities. In a society that is continuing to grow and expand (while government spending on social services is decreasing), social needs are increasing, rather than shrinking. This means that for nearly every NFP organization, there are may be new publics who need services and support, new ideas for dealing with social ills, and an ever-developing set of world events and problems that require third sector intervention. While it has been stated that it is impossible for most NFPs to change their missions, it is not impossible to alter them. Religious institutions, educational institutions, charitable institutions, and public service institutions all need to be able to monitor their particular external environments, see the winds of change as they become evident, and be in a position to shift to accommodate those changes. It is those institutions that refuse to see that change is possible or that change is occurring that tend to find themselves way out of sync with the publics they are attempting to serve and ultimately go out of existence.

Strategic Threats. Certainly the inability to accurately predict grant, foundation, fund-raising/donation, and other indirect revenue streams is one of the major threats to any NFP. These are organizations that depend upon charitably provided revenues, and without that, like any business, they fail. The poor economy and soaring unemployment rate caused many big city United Ways to fall short of their 2002-03 campaign goals requiring that they cut their funding of NFP's by as much as 30% and reduce their own staffs by 10%.^{xiii} This has been echoed by other charitable organizations who are still reeling from 2001's disasters - Tropical Storm Allison, the Sept. 11 terrorist attacks, the Enron collapse, and the overall decline in the stock market.^{xiv} Yet the Association of Fundraising Professionals reported that about 60% of all charities reported raising more money in 2001 than in the year before with the hardest hit sectors being education, healthcare and those whose funds were tied directly to the stock market.^{xv}

The unpredictability of these revenue streams, the inability to build reserves (due to public scrutiny of budgets), and competition for labor from better-paying business firms all tend to make NFP organizations seem less sound and secure. Another major threat is societal change and its lack of support given other activities they become more involved with. For example, if society becomes less interested or calloused in their view of homeless shelters, many may have to close. If medical costs continue to skyrocket, the few NFP and/or public hospitals may decide to sell out their interests to for-profit health management groups. Many things can happen in the external environment of NFPs that they cannot anticipate hence they are often surprised and unable to cope with rapid change.

The Not-For-Profit Strategic Plan

One of the most important things for NFP organizations to do strategically is to develop an effective external environment evaluation capability. They need to not only be able to develop a sense for the shifting of opinion and public need, they need to be able to better detect sources of revenues and the effective means of tapping into these sources (note that we are excluding governmental agencies from this discussion point). This external resource environment, then, should frame the first and most important portion of a NFP strategic plan.

The second major need for a NFP strategic plan is that of assuring its ability to continue to support its public mission. More succinctly, the plan needs to identify ways in which the organization will continue to monitor public need and find ways in which the organization will be able to meet that need.

NFP organizations are adapting strategic planning as a method of creating a better connection between themselves and their publics. The Camden City Health Improvement Learning Collaborative (the Collaborative), a community care network, was formed in 1993 and is composed of representatives from local healthcare providers, public agencies, religious organizations, and neighborhoods. The major goal of this initiative was to improve the health status of the community by involving and empowering residents in the solution of their needs. The Collaborative represents a grassroots strategic model of community inclusion in the formulation of goals and programs to improve community health status.^{xvi} As the Collaborative demonstrates, strategic planning in NFPs should be broader in scope (include major segments of both their internal and external environments) with the resulting plans having the potential of broad acceptability, which will make them easier to implement and manage over time.

Not-For-Profit Strategic Management

Jill Muehrcke stated that “all the great nonprofit leaders have understood that you lead best by following, strengthen yourself by empowering others, and become invincible by confessing your humanity.”^{xvii} Managers in NFP organizations tend to be a different sort of person than one is likely to find in traditional business organizations. They tend to be zealous regarding the mission of their agency; they tend to be highly externally focused, while still able to maintain traditional business management within the firm itself; and they are willing to receive fewer monetary benefits for their services as long as they feel they are effective in advancing the mission of the organization. According to Young, the ultimate test of nonprofit organization leadership is whether leaders can responsibly interpret, and honestly and energetically promote, the organization's mission, even when environmental, stakeholder, and governance pressures make other paths more comfortable and secure. The degree to which nonprofits have become entwined with the business sector in recent years has brought new urgency to this challenge. The risk is that contemporary nonprofit leaders, under tremendous financial and social pressures and eager to make their institutions economically successful are led, perhaps inadvertently, to compromise their missions.^{xviii}

To be effective strategic leaders, CEOs of NFPs need to focus on developing a strategic mentality for themselves and for the people they work with (inside and outside the organization). This strategic mentality should focus on values of high quality customer service (often referred to as client service) and to the need to place the organization in a position where its financial resources will continue to be preserved. Effective strategic management in NFP organizations must focus on seeking to efficiently run their agencies and seek to allow all members of those organizations to understand that they are important contributors to the mission of the firm.

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