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MANAGEMENT TIPS THAT ALWAYS WORK

- + Thinking reflectively rather than taking action becomes more and more important as managers advance to upper levels.
- + To make best use of secretarial assistance:
 - * Don't ask the secretary to run errands -- or get you a cup of coffee.
 - * Avoid frequent interruptions.
 - * Don't give spur of the moment assignments near the end of the day (have everything assigned by 3pm)
- + When dealing with performance concerns, use the sandwich technique:
 - Come out from behind your desk;
 - Tell them about what a good job they did on something;
 - Then broach the problem subject;
 - As they leave, comment favorably about something else they've accomplished recently.
- + Remember: Everyone who works for you is afraid of you to one degree or another.
You aren't nearly as wonderful to the people who work for you as you think.
- + Always delegate but never only delegate.
Always delegate with an explanation.
- + Preserve the right of your employees to make mistakes as part of their on-the-job training. We learn best by our mistakes; and if they feel that they are not allowed to make mistakes, they will never turn into excellent employees and you will always have to monitor their work -- or do it yourself.
- + (Birth-order and future success: First borns and only children: self-confident, verbal, perfectionist, anxious to please and success-oriented. Middleborns: Likely to negotiate and compromise. Flexible in their interpretation of rules. Last borns: Socially outgoing and popular.)
- + While it takes more than money to make workers happy, underpaid are never happy on the job!
- + Managers should ask subordinates for two different solutions to any one problem.
Reason: Second solutions tend to be more creative.
- + Start all meetings by establishing when you will complete the meeting
"Let's wrap this up by 9:30, O.K.?"
- + The best managers communicate with workers and allow subordinates to participate in making decisions.
- + High achieving managers are concerned with the parts of the job that bring personal satisfaction.
- + Good managers are open in personal relationships.
- + Involve workers in key management actions.
- + Ask What questions instead of Why questions.
Example: What are you confused about? rather than Why are you confused?
- + The human brain gets 87% of its information from the eyes and only 9% from the ears. Use charts and a pointer to keep eyes focused on you!

MORE MANAGEMENT TIPS

- Unflagging consistency and unfeigned enthusiasm are the two most important considerations in succeeding as a manager. Recognize and value the skills of each staff member.
- + Never underrate your boss! (They'll detect your attitude!)
 - + Understand how your boss receives information best! (Don't give him or her a report if he's not a reader but a listener) . A lack of sensitivity to a boss's strengths and weaknesses is a failure of a subordinate.
 - + Don't mistake business for progress and performance. Try not to do everything. Good performance is sabotaged by too many promises. People remember failure to perform, not the many things you did for them.
 - + Information Trap: You must recognize that as a senior manager you must use two basic ways of gathering information -- reading analytical reports and walking around. Either one comes to grief sooner or later, if not complemented by the other.
 - + Avoid the happiness myth. Most people have a tendency to think that one magical thing will make them happy -- the right job, the right mate, the right body. Happiness is guess where --?
 - + You must take chances in your life. Most people avoid changes in their lives because there is a hidden payoff in suffering. Suffering is familiar and comfortable. Many people would rather go on making the same mistakes than admitting them and cutting their losses.
 - + Hold a five-minute priority setting meeting with your staff (and personal secretary) at the end of each day in preparation for the next day.
 - + Always challenge your employees. Give them continually more difficult and important jobs.

+ Leadership is an essentially human business. The higher the rank, the more interpersonal and human the undertaking. 90% of a top executives time is spent with others and roughly the same amount of time is spent on "messy" human problems.

Trust yourself and know what you are worth. To have self-respect is everything.
"I wouldn't join any club that would have me as a member."
(Grocho Marx)

the line for those without self-respect

Recognizing strengths and compensating for weaknessness represent the first step in achieving positive self-regard.

Nurture your skills with discipline. (keep on working and developing your talent) You must continue to be learners or "self-evolvers".

You must have the capacity to discern the fit between your own preceived skills and the skills demanded by the job. Or as Kenny Rogers put it:
" knowing when to hold and when to fold."

If you have positive self regard, you will invariably have a great deal of regard for others. The self-regard of leaders in contagious.

Develop the capacity to approach relationships and problems in terms of of the present rather than the past.

Treat those who are close to you with the same courteous attention that you extend to strangers and casual acquaintances. (Don't take for granted those who are closest to us.

Develop:

The ability to trust others, even if the risk seems great.

The ability to do without constant approval and recognition from others.
(You must take risks and if you do, by their very nature you will not always be liked or even understood).

The Wallenda Factor

Karl Wallenda supposedly said: "Being on the tightrope is living. Everything else is waiting."

You cannot think about failure. Put all your energies into succeeding
You mus. think about failing in terms of learning.
PETER THIGPEN after the European disaster: "I guess you want my resignation!"
You can't be serious. We've just spent \$10 million dollars educationg you.

Management Techniques

1. Unity of Management
2. Span of Control
3. Levels of Management
4. POSDCORB
5. Management = P/M/E
6. Ethics = Don't Lie, Cheat or Steal
7. Idiosyncrasy Credit
8. Stages of Organizational Development
9. 80/20 Rule
10. Delegation
11. Critical Path Methods and PERT
12. Minimax (maximin)
13. Concept of Stakeholders
14. The Executive Director - Director or Coordinator?
15. KISS (Keep it Simple, Stupid)
16. Efficiency and Effectiveness - What are the Differences?
17. Hierarchical Structure
18. Managing by Walking Around
19. The Power of Giving Credit to Others
20. Accountability and Credit: The Velvet Hammer
21. Making it Easy for the Board, the Executive Committee, and the Executive Director to Say Yes
22. Thinking and Planning for One to Two Organizational Level(s) Above and Below You
23. Positioning Topics

KEYNOTE SPEAKER

Michael Agopian, Director
PROJECT HEAVY

Management Effectiveness Training
San Francisco, California

January 13 - 15, 1986

GOVERNANCE

Burke Keegan
Independent Consultant

Management Effectiveness Training
San Francisco, California

January 13 - 15, 1986

INSTITUTE FOR NONPROFIT ORGANIZATION MANAGEMENT

STEPHEN R. BLOCK

How HEALTHY is your Governing Body?

Legal Documents

1. You have a set of Bylaw?
2. The Bylaws set forth the functions of the Board?
3. Your Charter/Bylaws set forth a public mission?
4. Your Board/staff are familiar with the Bylaws?

The Board

1. You have a set method for selecting new board members?
2. Your prospects are invited to a board meeting to observe?
3. Your prospects are informed of the duties of the board?
4. Your present board understands their duties?
5. Your board knows they are legally responsible for the organization?
6. The board is familiar with the structure of the organization?
7. The number of board members is established in your Bylaws?
8. The number of board members is satisfactory for the type and mission of the organization?
9. The board serves for a specific period of time?
10. The board is familiar with the client group?
11. The board has a planning process?
12. Frequency of board meetings is just right?
13. Attendance at board meetings is high?
14. Board members receive an agenda at least 10 days in advance of the meeting?
15. Financial reports are given/presented at board meetings?
16. The board has a system for minute taking?
17. The board evaluates its own performance?
18. The board followsup on "old" business?
19. The board has a set of job descriptions for members and officers?
20. The board understands their role and the role of the staff?
21. The boards working relationship with staff are clearly defined?
22. The board maintains a current board roster?
23. The board understands that they are responsible for hiring and evaluating the executive director?
24. The board reviews the organization's mission each year?

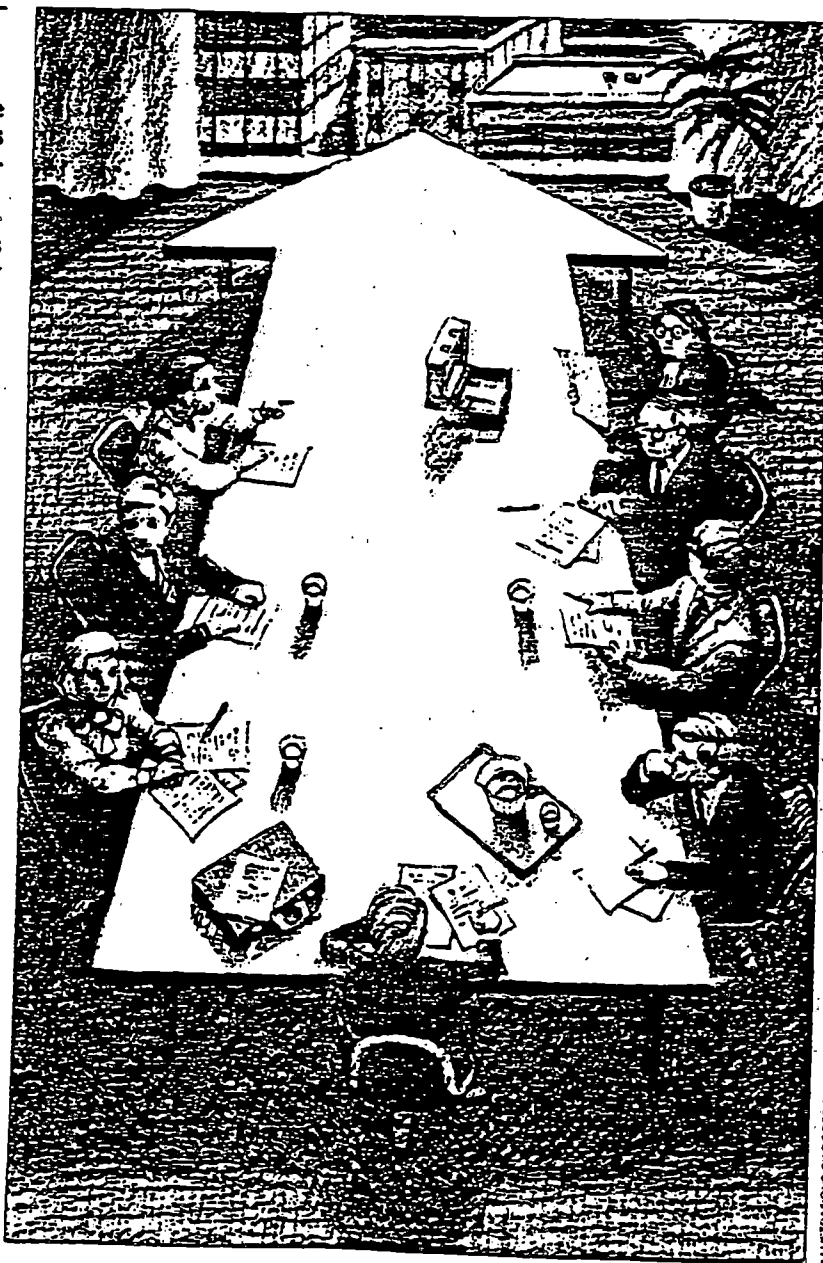
LEADERSHIP AND THE BOARD OF DIRECTORS

BY JEANNE M. LYNCH

The role of the board of directors varies from company to company, from actually managing the business in some — usually smaller — firms, to being passive witnesses to the actions of the managing executives in others. But the most common way in which the board functions is as an advisory council for the chief executive officer — a sounding board with whom he or she can test ideas and explore alternative courses of action.

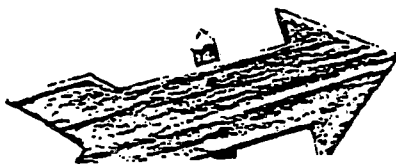
Because of this, boards have come in for a good deal of criticism for being too passive, too permissive, for not providing a sufficient check and balance to the power of the chief executive, and for failing to exercise their rightful role in the leadership of their corporations.

After spending more than three years studying the subject of how to develop active and effective boards of directors — a period during which I have interviewed more than a hundred corporate directors, who together hold or have held more than 350 board seats — I can tell you that the criticisms are not without foundation, and that the problems are not amenable to simple solutions. One needs only to consider the number of companies that have gone belly up over the past decade, the number of diversification efforts that have represented an almost foolish waste of



ILLUSTRATIONS BY ROGER REHN

BOARD OF DIRECTORS



assets, the increases in executive compensation in the face of deteriorating corporate performance, and the like, to see why the question is raised, time and again: "Where was the board of directors during all of this?"

Under the law, the board is charged with the responsibility to "manage" or to "direct" the affairs of the corporation. To the extent that a board delegates its authority to the management, and specifically the chief executive officer, it is putting its faith in management to govern itself, to avoid unnecessary and inappropriate risks, to avoid excesses, and to avoid the temptation to be self-serving. In most cases, that faith is justified; in others it is not. It is in these latter cases that board members put themselves at risk — legally, in some instances, but more often ethically, for failing to carry out the responsibilities they agreed to undertake.

When a corporation or its management runs out of control, the responsibility for the damage it does — to shareholders, to employees, to the community, or to any other parties at interest — is the board's. It is supposed to "manage" the company and its executives.

TO LEAD OR TO MANAGE?

The word *manage* derives from the French word for "to control," as in dressage — the control of a powerful, well-trained, high-spirited horse through subtle, barely visible signals. The analogy is appropriate for the relationship between a board and its management, and specifically its chief executive. If the board wants to lead an organization, it has to go afoot, as in leading a horse. If it loses the power, it loses the pace and the drive of a competent executive body; it might as well be leading a dray horse of a management, without spirit, initiative, or independence. Invariably, when a board tries to run a company, that's the kind of management it gets.

On the other hand, when a board lets a chief executive lead, without the appropriate controls, it runs the risk of a runaway, a poor performance, or a management that wanders off to graze — looking for greener pastures through diversification, or serving their own interests rather than those of the corporation and its

There is a middle course — which I have seen in organizations with active and effective boards — one that gives the appearance that the chief executive is providing all the leadership, but has, in reality, the subtle signals and ultimate control coming from the board. It is not an easy relationship to achieve. It takes time, it takes effort, it takes mutual independence, and as in the case of the dressage horse and rider, it takes mutual respect.

WHO LEADS THE BOARD?

One of the qualities I have found in active and effective boards, those that really participate in the governance of their corporations, is independent leadership — a chairman of the board who is *not* the chief executive officer of the corporation. Nowadays, this is not the most common arrangement. More often than not, the chief executive is the chairman. In most cases, this has caused no problems, but it offers a very real potential for problems. A chief executive who is also chairman has the opportunity, indeed the obligation, to control the agenda of the board. He or she can determine what items will come before the board, and when. Most do it with integrity and objectivity, but there is always the potential for that to change when the chief executive is in distress or under pressure — the very times when it is most important for the board to be involved.

In the same way, the board needs independent sources of information about the organization and its operations, information in addition to, and independent of, that which is being provided by the chief executive and the senior executives. In most cases, this information comes from outside auditors and consultants, or from employees inside the organization. While this is done with the knowledge and consent of the chief executive and the other executives involved, it is done without their control of either the contacts or the content of the discussions.

AVOIDING DISRUPTIVE INTERFERENCE

One of the most important decisions of an active board is that of choosing when *not* to become involved — of avoiding the temptation to react prematurely when

its members in matters that are the responsibility of the company's operating executives — in short, avoiding what is often termed "having a disruptive interference in management."

The work of the board can be grouped into two broad classifications: matters in which the role of the board and its members is to *participate*, and matters in which their role is to *evaluate*. Those that I have defined as being matters in which the board can and should participate are what might be called the critical decisions of the firm — the decisions that determine what businesses the company is going to be in, what kind of a company it is to be — decisions on senior executive compensation, the administration of the company's stock option or incentive compensation systems, the capital budget, changes in the company's capital structure, and the selection of new board members. Those in which its primary role is that of evaluation are the reviews of performance, of people, of previously established policies and guidelines, and of the company's organizational systems and processes.

What distinguishes between the areas of participation and of evaluation is this: In the areas of participation, it is assumed that action is required of the board in the form of decision making or decision ratification; in the areas of evaluation, it is assumed that no action will be required of the board unless there has been a relative failure of performance.

The term "relative failure of performance" is used very deliberately here. While it can mean a decline in performance from past periods, it need not mean this. It can also mean a failure of performance against plans and projections, or performance that is poor relative to that of competitors or other entities in the industry. In these cases, I have found that effective boards involve themselves in the situation to help the executives and themselves establish and maintain a mutual understanding of the business and its problems, and to develop an agreement between the executives and the directors on both the objectives and their achievability. Beyond this, two underlying assumptions seem to be implicit in the mutual exploration of problems, assumptions that seem to mitigate

the feeling of criticism. The first is that what is happening is "our" problem; the second, that the board members have a responsibility to contribute to the prevention and solution of problems.

THE ROLE OF THE BOARD

In saying that it is not the function of the board to lead an organization, I am not saying that the board has no role in leadership. It has two, both of which are critical to the success and control of a corporation. The first is in the selection of the chief executive officer, and, in those circumstances that make it necessary, the selection of his or her replacement.

Once again, it should be pointed out that most chief executives deal with this process with integrity and a reasonable degree of objectivity, but there is the potential for problems. The most common problems are picking a successor who will perpetuate the policies of the previous leadership, failing to provide for a successor as a form of personal protection, and, more rarely, the selection of a successor whose performance will not overshadow that of the present chief executive. The changing of the chief executives is one of the major impact points at which a board can refocus the direction of an organization with a minimum of disruption and conflict. To fail to keep control of this process is to give away one of its most valuable opportunities to lead the organization.

The second key to leadership and control on the part of the board is to control, preferably through the use of a nominating committee made up exclusively of outside directors, the selection of board members. Even chief executives who are willing to accept the challenge of a strong board at one point in time, have the potential to change over time and start weakening the board through the director selection process.

My conclusion is this: Boards should not lead, but they should manage. To do the first defeats the purpose of developing management; to fail to do the second defeats the purpose of having a board of directors. □

Jeanne Lynch, D.B.A., is an associate professor of strategy and policy at Rensselaer Polytechnic Institute in Troy, New York.



*financial
activities*

The Role of the Board of Directors

Set Policy

Hire / Fire the Executive Director

Evaluate the Organization's Effectiveness

**Represent the Organization in the
Community**

Give and Raise Money

TABLE OF CONTENTS

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WHAT IS MARKETING?

Marketing and advertising are not two terms for the same activity. Advertising is only one part of a marketing function.

MARKETING DEFINED

At its most basic level, marketing refers to the efforts of a producer to convince potential consumers to buy a product. At a more sophisticated level, marketing consists of all those activities that direct a flow of products or services from individual or organized producers to consumers or users, for either commercial or noncommercial objectives.

HIGHLIGHTS

- Marketing involves performing activities.
- Marketing directs the flow of products, services and information.
- Marketing is performed by both individuals and organizations.
- Marketing is intended to meet either commercial or noncommercial objectives.
- Marketing should be a systematic method of communications to both internal and external audiences.

THE THREE TYPES OF MARKETING

There are basically three different marketing approaches. One is called a product-oriented approach to marketing. With this, you might say, "We will design a good medical school. We know what makes a medical school good. People will recognize its inherent merit. We will not have to promote it. After all, a good product sells itself."

This product-oriented thinking will work for some of our most outstanding institutions. If you have a Cadillac, it's going to draw a lot of buyers because of its well-known quality. But even Cadillacs may lose their market if they're insensitive to changing customer needs.

Another kind of marketing is what we call the hard-sell approach. The organization becomes highly "sales-oriented." Even faculty and staff members are enlisted to go out and "sell" the organization to its various constituencies. Success is not left to chance. It's a real drive of the kind we might see in some evangelical movements.

A third kind of marketing, professional marketing, focuses on building satisfaction in a long-term clientele. It entails quite consciously doing a good job of consumer and market research, market definition and cultivation, product and service design and development, distribution, planning, pricing and promotion.

HIGHLIGHTS

- Product-oriented approach
- Hard-sell approach
- Professional marketing

A SHORT HISTORY OF MARKETING

The term is a problem. To many, marketing means hard selling and manipulation. This image of marketing comes from its most visible expression--the selling of consumer packaged goods. Every time we watch television or read magazines, we see the commercials and think that marketing is always hard sell. Actually, marketing started out as a contrast to the idea of pure selling.

In the old days, someone would manufacture a product and then ask a sales force to sell it. No matter how good or bad the product was, the sales force was rated on how many customers it found.

Then the idea arose that we should make a product that doesn't require hard selling because it sells itself. If we figure out what people really want, then there'll be a natural market for the product and selling would be easy. In fact the sales staff would be taking orders rather than selling.

So, marketing and sales are opposites in some ways. A good job of marketing can make hard selling redundant. Marketing calls upon the provider to do a good job of studying the buyer's needs, perceptions, motivations, and preferences.

HOW DOES MARKETING WORK?

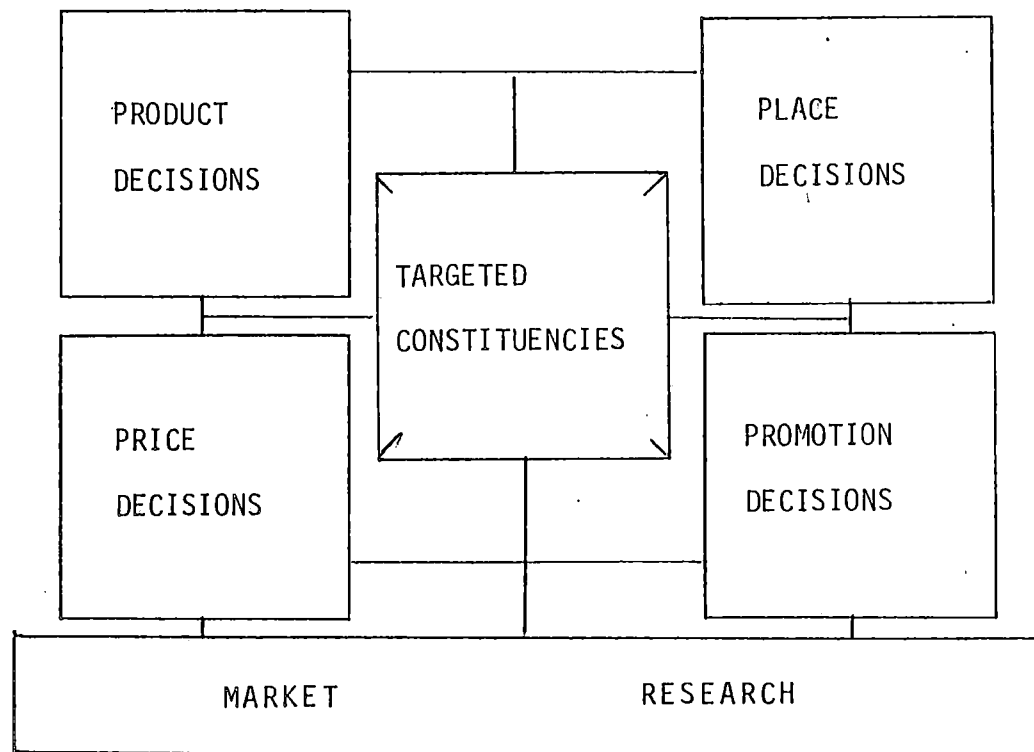
The process of marketing can be broken down into at least seven major steps:

1. Listen to your constituency.
2. Segment your market.
3. Strategically target those segments with the highest potential.
4. Position the institution relative to others.
5. Write the marketing plan.
6. Communicate the services and programs in terms that matter to the target group.
7. Finally, use the technology of marketing to show the targeted group (s) why it is in their best interest to use the services of this particular institution.

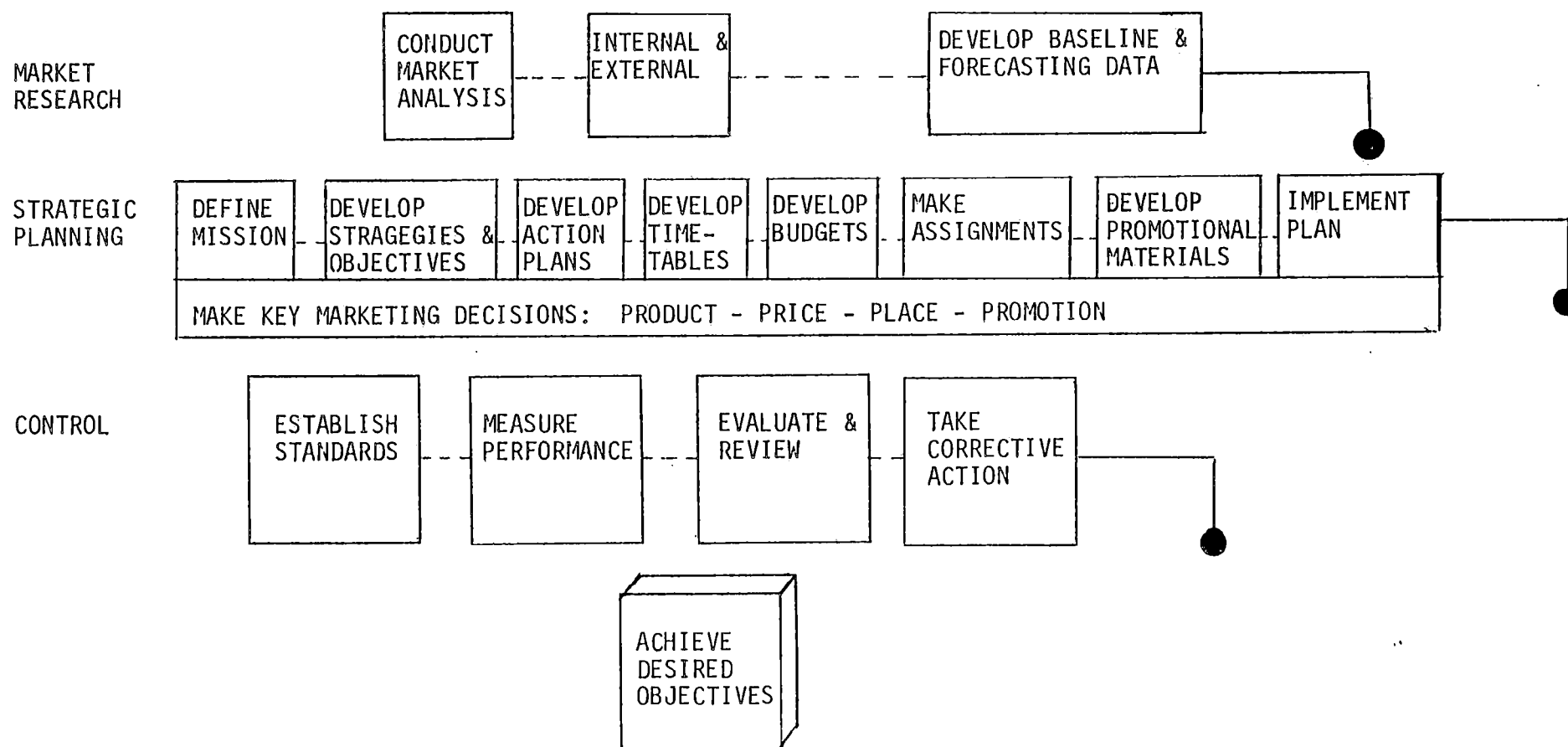
KEY MARKETING DECISION AREAS

Marketing involves much more than selling and advertising. Unquestionably, selling and advertising are two key ingredients in marketing many products and services. But marketing includes much more.

A convenient way to understand marketing is to separate the various activities involved in four key decision areas or marketing variables. All decisions should be based on "formal" and "informal" market research.



PUTTING IT ALL TOGETHER -- THE MARKETING PLAN



THE BENEFITS OF PLANNING

An organization that commits itself to strategic planning has made a decision to stand up and take charge of its future, to get ahead of the problems before they occur, and to put itself in an initiating rather than a reactive position.

Four major benefits are likely to accrue. They are a better balancing of conflicting interests, a better monitoring of important changes in the environment, a more relevant product, and greater communication effectiveness.

Keeping an identity program fresh

Companies should designate a key executive to act as watchdog, assuring that the program's objectives aren't diluted and that it is kept up to date despite such changes as diversification and growth.

Most of the literature on the benefits of corporate identity offers little guidance to management on maintaining the viability of an identity program after it is in place.

Like any corporate investment, an identity program deserves the ongoing attention that will assure continuing effective performance. Too often, top management regards the introduction of an identity program as the conclusion of the activity.

Keeping an identity program alive and well is a management function of no less importance than preventive maintenance and labor relations. It requires regular review and periodic modification or adaptation to encompass new developments while continuing to further its original objectives.

In maintaining an effective program, few companies can match the commitment and diligence of Westinghouse. Since Paul Rand developed the program and created the familiar Westinghouse "W" some 19 years ago, management has devoted time and resources to keeping the identity strong and vital. Westinghouse's attitude toward identity is well expressed by J. P. Andrews, director of corporate design, when he states: "A successful corporate identity program is only as good as its implementation." Andrews notes that many decisions throughout the corporation have an impact on Westinghouse's identity, and he stresses the role of a "watchdog" authority to assure that the objectives of the program aren't dissipated.

Obtaining effective results from a corporate identity program requires an understanding that corporate identity is a living process that only begins with the public launching. It is always changing as the company and the world change.

For example, a logotype or corporate symbol may begin to look old-fashioned or incompatible with a company's growth and diversification. Stationery may have become too costly, and a redesign would achieve substantial savings. New materials or fabricating methods may require modification of the design for internal or external signage. Government regulations may require changes in the design of packages or advertising layouts. Expansion into overseas markets can create language and other marketing and identification problems.

Feedback can measure effect

Feedback from internal and external audiences can be important in helping management determine how effectively its corporate identity program is working. The type of feedback can even indicate the direction for remedial action.

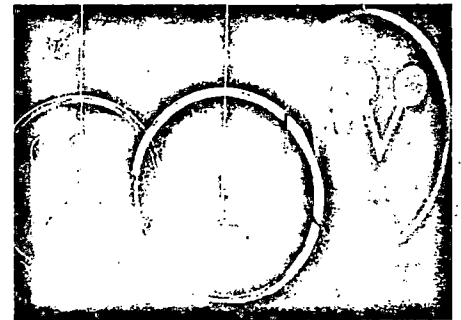
For example, do industry spokesmen and design organizations request comments from your company on important issues in corporate communications? Does your firm attract bright, talented graduates for career opportunities? Do suppliers or customers offer favorable, unsolicited comments on your product or packages? How do your products and packaging fare in consumer market research tests?

If feedback is primarily positive and constant, you are entitled to a pat on the back, but poor or infrequent feedback may indicate that your identity program is fading into anonymity. New creative stimuli, including ideas for fresh visibility, are called for. If feedback is more negative than positive, a partial or complete overhaul of your identity is probably in order.

To obtain feedback on an organized basis, you may wish to institute annual or biennial surveys. Whether carried out by your own staff or with the assistance of a consulting firm, such studies will provide an objective evaluation of the effectiveness of your program. The surveys should cover pertinent external and internal audiences and include a review of corporate and sub-corporate signatures, graphics, publications and so on, to insure that these are uniform



Westinghouse logo gets a boost...



...from items such as this mobile

meet changing or new needs. This individual must have sufficient rank to have access to the required resources for carrying out these responsibilities. No less important, he or she must have enough clout to enforce the program's mandates. It will be difficult if not impossible for a third or fourth level manager to inform the president of a principal subsidiary that the business cards he personally designed cannot be used because they deviate from company policy.

The executive in charge must have an adequate staff and be able to call on outside professional assistance for specific projects requiring research, analysis and planning. She or he will also need to keep external lines of communication open, to be alert to new developments in the industry and among the competition and to maintain contacts with outside professionals to be sure the program continues to be effectively coordinated and implemented and to promote a healthy, competitive environment internally and externally.

The executive should have broad exposure to all the company's operations. In larger companies this may require designation of divisional representatives for liaison and the transmission of recommendations. The executive must be in constant touch with the entire company, fully apprised of directions in which the company is moving and informed of all potential applications of the program.

The individual responsible must be able to communicate the program's objectives to top management, to line and staff executives and to all new executives. The primary tool for this significant task is the identity standards manual.

The manual should provide detailed guidelines on the proper use of the company's logotype, nomenclature system, typefaces, stationery, forms and brochure systems, advertising signatures, reproduction controls and, if applicable, vehicle, signage, packaging and product identification. The information should be presented in a clear, straightforward fashion, avoiding jargon, since it will be used by many individuals who lack a design background.

The identity standards manual created for Citibank by Anspach Grossman Portugal, for example, gives all measurements in both metric and English systems. It provides detailed instructions for the bank's offices around the world, recognizing that bank officers must deal directly with local suppliers. As reported by I.D., the physical

AMERICAN EXPRESS

Older corporate logo . . .



. . . updated with minor change

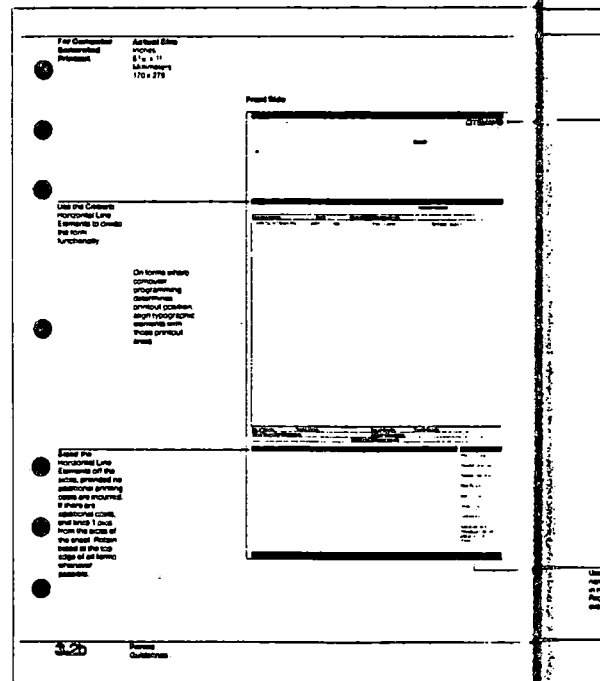
in quality and compatible with the program's image objectives.

Any corporate identity program, regardless of how good it is, can benefit from creative boosters from time to time. These provide an opportunity to renew the evocation of the important qualities the original program sought to express and to keep everyone involved and informed.

Boosters can range from posters to special promotional items, even to apparel. The major airlines have done an excellent job in the area of creative boosters. Attire and luggage for flight personnel, menus, schedules, dinnerware and such are changed periodically to keep the airlines' colors, stripes and logos alive and exciting. For the traveler such creative uses of the company identification can provide a refreshing visual change while they still reinforce identity.

One executive responsible

Regardless of the size of the company, management should appoint a senior executive to provide the necessary leadership for maintaining the corporate identity program and adapting it to



A page from Citibank's identity manual

appearance of the manual established "... it as a document impossible to ignore."

In the past, identity manuals tended to be picture books of designs that soon proved useless to anyone attempting to implement the program. They were therefore left on the shelf. To be a working tool the identity manual must provide detailed visual and verbal instructions and specific "how-to" guidance for future applications of the program.

The standards manual developed for the new identity program at American Medical International (AMI) was designed to maintain the impact of the quality, professional image obtained at the program's launching. The manual offers numerous "how to" guidelines and specifications to aid AMI's staff in producing communications materials beyond those developed as part of the original program.

"For example, an expense report form is illustrated, then the essential design elements for an internal form are spelled out visually and verbally. Specific guidelines are given for layout, rules, typography, directional indicators and logotype position. By adhering to these

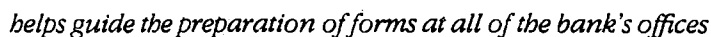
Improper use of the trademark in association with company products significantly diminishes the protection of the trademark registration. Frequent use of the identity standards manual will greatly reduce this and other legal risks.

The standards manual also has a role in creative planning and executive supervision when a company faces change and expansion. Newly acquired subsidiaries, divisions or product lines, joint ventures, divestitures, licensing: all these require planning and development of transitional programs. The executive in charge of the identity program must resolve the proper handling of the absorbed trademarks, brand names, etc. and supervise the introduction and use of the corporate name, brands and marks by the recently acquired activity.

By referring to the guidelines and recommendations in the standards manual, new subsidiaries and divisions will be prevented from creating (or continuing to use) a company look that is incompatible with the parent corporation's image objectives. Under no circumstances should management permit deviation from the guidelines set forth in the standards manual without solid, factual marketing research. Consistency is the keystone of a strong, vital corporate identity program.

To sum up, management should look upon its corporate identity program as a capital investment, essentially no different from a new plant, production line or piece of machinery. Maintained with the same vigilance as management gives to physical assets, it will continue to make an equally significant contribution to the bottom line. ●

The author, Frank Delano, has created and implemented identity programs for leading multinational corporations. He founded Frank Delano & Associates, Los Angeles, in 1974, and has been retained by such organizations as American Medical, International Foodservice, United California Bank, National Medical. He was previously vice president and creative director for Lippincott & Margulies, New York, where he was responsible for creating corporate identity programs.



Another page from the forms section provides guidelines for a bilingual invoice (English and Spanish). As AMI expands its operations world-wide, the need for bilingual forms will increase. In short, AMI developed an identity manual that fulfills the company's identity needs; it is no art director's catalog.

The identity standards manual is too important a corporate document to be sent to divisions and subsidiaries through the mails, accompanied by a covering note from top management. This procedure is almost a guarantee

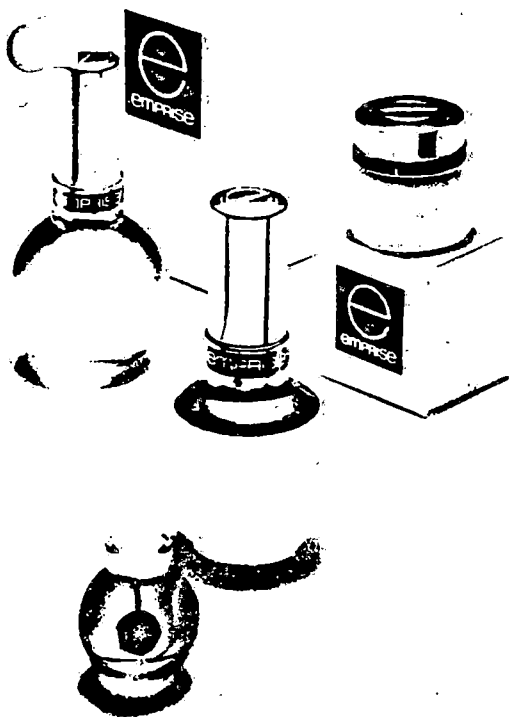
As new problems arise and require resolving, it may become necessary to revise the standards manual. At Westinghouse, management wanted a more cost-efficient source for signage and, at the same time, needed to add a series of signs to help operating units comply with employee-safety requirements. The answer was an expanded use of pressure sensitive graphics for signage.

The need for consistency in the implementation of the corporate identity system is not simply to protect design integrity. Legal matters must be taken into consideration. Westinghouse's Andrews explains the importance of trademark protection:

Avon: designing for door-to-door sales at the world's largest cosmetics maker

'The most impressive thing about Avon's [product & package] design,' says a competitor, 'is that it is so wholly integrated with all the other goals of the company. If you like little bunnies, they can do a hell of a job with little bunnies.'

Emprise fragrances sold best overseas



More than 1 million doorbell-ringing men and women in 26 countries brought Avon Products \$2 billion in net sales last year. That keeps the manufacturer at the peak of the extremely competitive cosmetics industry, topping Revlon's sales by \$500 million. But Avon's sales reps might not have done so well without the efforts of just 35 staffers at the company's New York headquarters—the in-house design group that creates every one of Avon's containers and packages, as well as gift items and costume jewelry. "Design is one of our real marketing tools," emphasizes Richard J. Gyde, vice president for new-product marketing.

Because of Avon's door-to-door sales method, unique in the cosmetics industry, design plays a somewhat different role in marketing than if the company were engaged in over-the-counter retailing. "Typically," Gyde notes, "the customer shops for Avon products from our brochure, which is our 'store'." She normally shops for competitive products in a real store where many different products from many different companies are competing for her eye. All the packages may be lined up in certain ways, to make eye-catching displays, just as Campbell's soup cans are lined up together to make red and white stripes. So our competitors' packaging must communicate brand name, appetite appeal and efficacy. It must also get the consumer's attention.

"In our 'store,' the brochure, we have a more captive audience. The customer must actually flip the pages to see the product. Our packages don't necessarily have to compete for attention the way they would have to in a store. So we can be a little more subtle in our approach." For instance, the brand name does not leap from Avon packages. Avon's containers, and their photos in the brochure, are intended to communicate

brand image—the quality of a high-priced line's container—or usefulness.

The products offered totally roughly 600 at any one time. But, "because the competition is so keen, there are new products coming out all the time," says Seymour M. Kent, corporate vice president of product and package design. His staff turns out as many as 250 new products every year.

Actually, Kent explains, "we quite possibly design about 1,000 products in a year's time, to allow for rejects and re-dos. We overdesign as far as quantity is concerned, to make sure that not only do we have our plans covered, but also have a goodly amount of contingency designs in case something we design does not make it." One, for instance, might cost too much to produce. Another might get onto the market, then be pulled because of feeble sales.

Some products offer surprises, too. In 1976, Avon sought to enhance its quality image with Emprise, a \$60-per-ounce fragrance in a classic package. It sold well among affluent customers in Europe and Latin America. But U.S. sales fell far below the \$13 million brought in for the year by the less expensive Timeless line.

In the U.S., Avon appeals to the unsophisticated suburban and rural housewife. Its strongest sales, Kent says, are in the Midwest, South, Southeast and West, and the company designs accordingly, with plenty of hearts, flowers and whimsy. One recent gift item, for example, was a handlotion dispenser shaped like an ear of corn. Avon has even made a perfume pomander resembling a piglet.

Admiration from peers

Nonetheless, the company's design effort elicits admiration from others in the field. "Avon is very good in design,"

comments John Beasley, vice president of operations, Mary Kay Cosmetics, Inc. This \$100-million Dallas company also sells direct, but through parties rather than door-to-door. Mary Kay goes after the same customer as Avon, but its products stress a skin care system. They cost more than Avon's, too.

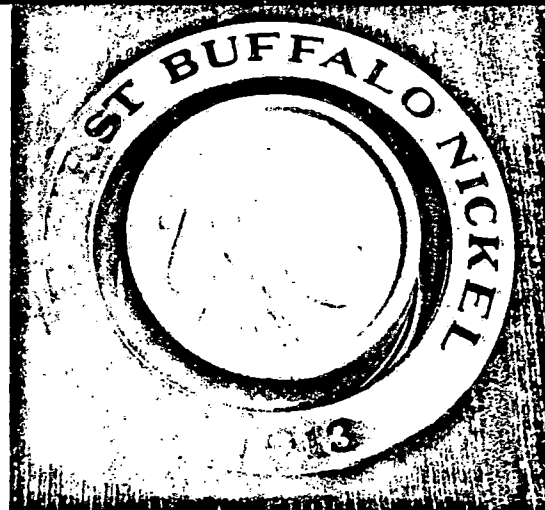
"The most impressive thing about Avon's design," Beasley continues, "is that it is so wholly integrated with all the other goals of the company. For instance, the designs are cost-effective; and they have a lot of aesthetics. If you like little bunnies, they can do a hell of a job with little bunnies. They really do

have a tremendous amount of imagination."

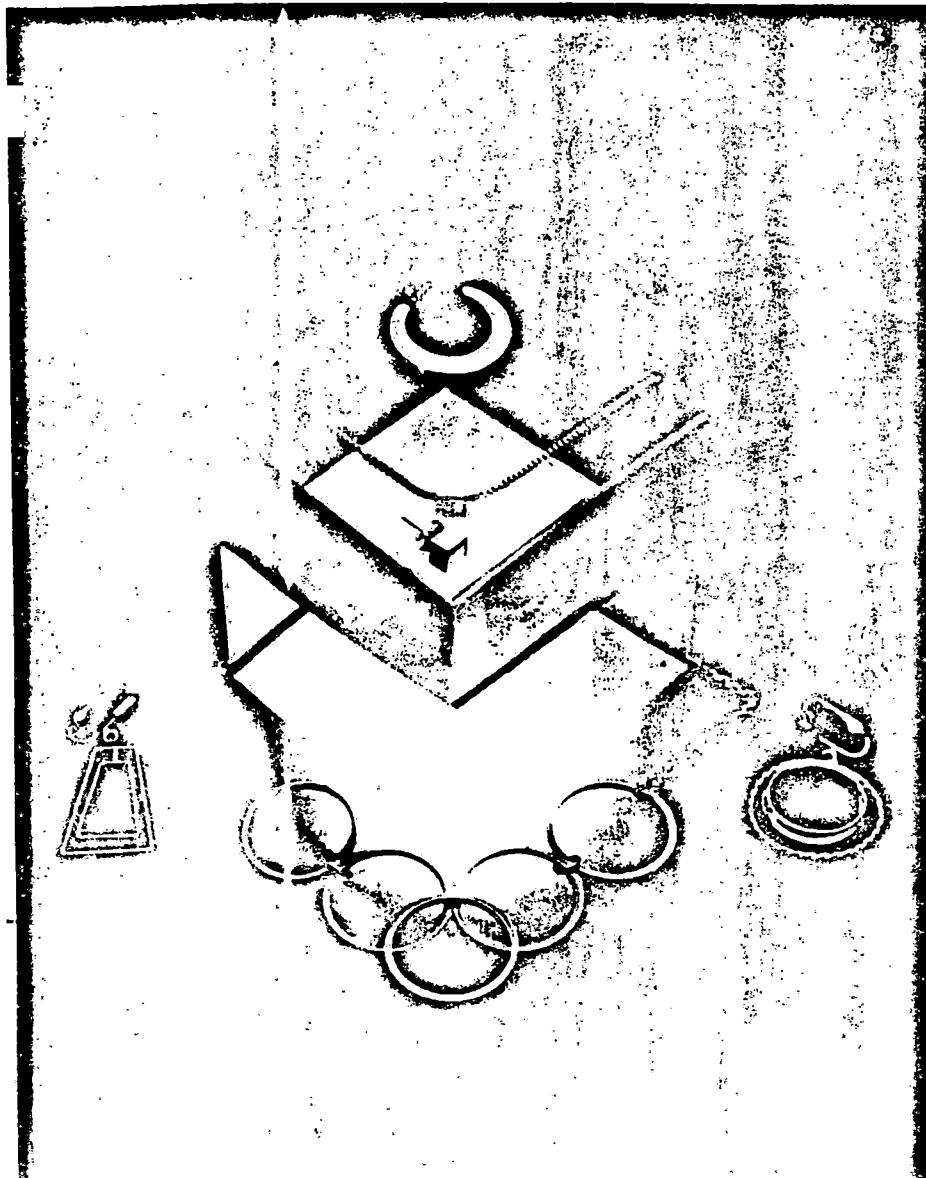
Beasley also applauds Avon's packaging from the engineering point of view. "If you know what it takes to have a package designed, priced and tested for use and stability, you realize they have an excellent quality line. They are very well engineered. We sometimes use them as standards."

Both Kent and Gyde attribute the quality and success of Avon's designs to the close relationship between the design and marketing divisions, which rank equally in the corporate structure. As Gyde puts it, "we need to work very

Avon's own jewelry lines are created by five in-house designers



Soap dish can be re-used as ash tray





Standard fare for hair care

closely because of the amount of work we're doing and because of the frequency with which we turn over some of our limited-life items, especially jewelry." That enormous amount of work, he claims, also provides a challenge that attracts "high quality people."

Gyde concedes, however, that the workload "may appear to be just a treadmill to an outsider. People wonder how we can keep quality designers when we have to turn out so many products. But that's really one of our prime attractions. When we get people here who understand what we're doing, they tend to stay because they can put their signatures on so many things and get pride of accomplishment."

'Absolutely fantastic'

Some designers support Gyde's assertions. Kent refused to let two design directors—who oversee five design managers, 13 package designers who work on gift and decorative items or standard merchandise and commodities, and five jewelry designers, plus support staff—be interviewed for this article. But two former Avon designers who both requested anonymity, suggest that there are a good many reasons to stay with the company.

One is the professional environment, says the source who calls Avon's designers "absolutely fantastic." And "you couldn't ask for better working conditions," says the other, who now holds a responsible position at a consulting firm. "I don't think I'd be where I am today," he notes, "were it not for what I learned at Avon" about materials and technology. Because Avon is considered a prestigious client and because it pays top dollar, he points out, vendors and suppliers offer the company the latest technology and top-quality materials.

Even so, like the first designer, he found some situations not to his liking.

They began cropping up around 1974, when Avon representatives started finding that many housewives had gone to work, leaving fewer and fewer buyers to answer their "ding-dongs." Sales and earnings plummeted. Avon stock dived from a peak of \$140 per share to under \$19. Right about then, says the designer, "I saw Avon go from a period of developing a lot of designs and then coming up with the concepts to market them by, to just the reverse. Marketing now has the last word." And that approach apparently has helped. Raising the marketing input to the same rank as design, along with cutting back on product volume and other cost-cutting measures, shot 1975 profits up 24 percent, to \$139 million, a record then.

Another thing that disaffected the designer is that "you tend to get labeled as a certain kind of designer at Avon, and are asked to do only cartons or decanters or compacts, for example." Then, too, "once you join Avon, your salary goes up and it's difficult to get another job at that high salary. People believe that after you've been at Avon a few years, you tend to lose your flair. You design things that are very obvious," he says.

Many customers covet some of those things, though. Many Avon containers, for instance, are made from molds that are destroyed after a production run. They are the objects around which Avon collectors' clubs have been built.

Whatever the reaction to the design, Kent acknowledges that the 93-year-old company keeps a tight rein over its design. Overseas, for instance, where packaging problems range from dual-language labels to the unavailability of hot-die stamping, Avon once allowed its various divisions to "come up with their own packaging," says Kent. "But when they sent them here for review, we found that their direction varied from

Corn-ear shape for hand lotion. . .

. . . and piglet pomander appeal to rural housewives in Avon's market





Avon to buy Tiffany's
Director of Avon and Tiffany & Co. the
president of New York City. The company
without execution of a merger
between the two companies. Tiffany's
could become a unit of the merged com-
pany. Avon, under the agreement of
Tiffany's, would design all
besides packaging of new designs with
inside the company. The final design ap-
proval will be left to the company. He
before the merger agreement. Seymour
M. Kent, Avon's vice president of
product and package design, con-
firmed that he did not anticipate work-
ing with Tiffany designers.

Trazzara: a line designed to compete with new packages for men's fragrances

the corporate image that we want to maintain worldwide." Headquarters handles foreign projects now.

Kent, who became a vice president in 1969 and reports to Avon's group vice president for product management, believes that he has helped guide the growth of the design staff from three persons to its present size in such a way as to trample down the concept that designers are poor business people, too. He feels that package designers in other industries still suffer from that reputation. "As far as industry in general is concerned," he says, "package designers have never got the recognition they deserved. Back in the post-World-War-II days, package design was really nothing. But a lot of corporate package designers like myself have devoted our lives to turning packaging from a non-exciting design concept into one of the most viable and far-reaching visual elements in graphic and dimensional design. All this has happened through the influence and work of designers. Today packages are very important. They have to sell."

For that to happen at Avon, the designers have to know what's going on

around them, Kent says. "We have to be aware of what's happening in the interior design world because of our gift and decorative area. We have to know what's happening in the general design world because of our container designs. And we have to know what's happening in the fashion world because of our jewelry. Where is the influence coming from this year? Is it going to be Paris again, or the Orient? Or is it going to be the all-American girl that's going to make the big fashion statement?"

"There has to be all that sort of constant in-put. It's an exciting, competitive world," Kent concludes. "And it never ends." ●

The author, Doreen Mangan, is a New York freelance writer who specializes in business and design.

Avon's design-market team

Seymour M. Kent, vice president of product and package design, came to Avon in 1965 from Revlon, where he had been director of package design. He had also worked on Dorothy Gray and Tussy Cosmetics, and was with

Helena Rubenstein Inc. He graduated from Pratt Institute of Fine and Applied Arts in 1942.

Richard Gyde, vice president for new product marketing, has been at Avon nearly 6 years. He was also a vice-presi-

dent at Grey Advertising in New York, handling General Foods and ITT accounts, manager of new products at Ralston-Purina, and product manager for baby foods and Great American Soups at Heinz. He graduated from Michigan State University.

Take note: a musical analogy helps in planning a design program

Like music, design in promotion and advertising sets the mood and influences attitudes better than it communicates ideas.

Thinking of design as music can be of great help to the marketing executive faced with making decisions on the use of design in promotion and advertising.

Any marketing or advertising textbook will tell you that the basic purpose of promotion is to reinforce present attitudes and behavior or to change them. In other words, the real objective of promotion is not to communicate ideas (although this is one of its principal devices), but to influence attitudes and behavior. Design, like music, isn't an effective medium for communicating ideas, but it can be a very effective medium for influencing attitude and behavior.

Unfortunately, not only the average consumer but also the average marketing executive is a design illiterate, in the sense that he or she has no great understanding of what makes one design effective and the other a failure. But the real confusion in marketing management is caused not by the lack of technical knowledge about or understanding of design. The marketing executive is both safe and justified if he leaves the how-to problems of design to his art director and trusts to his personal "I like what I see, though I don't know why" in his final marketing-management decisions. The real trouble arises when he tries to compensate for his lack of understanding by looking for conceptual values in the design. The simplest example of this, of course, is the Rorschach-test approach to abstract painting. E.g., "It reminds me of a horse with two heads." But the same underlying approach caused the problem of the designer whose client insisted on a red-white-and-blue package because his product was made in America.

The story goes that the product was toilet tissue, and the designer got the client to withdraw the red-white-and-blue approach by proposing that the television commercials use the "Star

Spangled Banner" for background music for the announcer's explanation of how soft the paper felt.

I report this undoubtedly apocryphal story because it highlights the usefulness of thinking of design as music when making marketing judgments. There are three basic similarities that any promotion or advertising director would do well to remember:

1. Like music in a television or radio commercial, design on a package or in an advertisement must always be secondary to the conceptual message. The music must not drown out the announcer, nor should the design obscure the product or make the printed message harder to read. Several of Levi's recent television spots, done in animation, are guilty of what I call design dominance. They sacrifice the impact of the commercial's basic message to distracting visual stunts.

2. Like music, the design must reinforce the conceptual message—usually by directly evoking a mood that contributes to the attitude or behavior the message is trying to reinforce or bring about. At the height of 7-Up's "un-Cola" campaign, the company used psychedelic designs and drawings to convey the youth-and-fun feeling the company hoped would turn a soft drink used largely as a mixer into an everyday alternative to Coca-Cola and Pepsi-Cola.

3. Like music, design can either be "theme" or "incidental." Both should reinforce the conceptual message, but "theme" also establishes identity. McDonald's yellow arches are theme design, just as much as its tune to "We do it all for you" is theme music.

Failure to recognize the manner in which design communicates is frequently the reason for failure in research done to pre-test design effectiveness. Whether it is the company president asking his wife (or his maid) how she likes the new design, or an advertising agency's exposing the design to a focus group of housewives, or a full-scale and expensive project by a professional research firm, nothing but confusion will result if the wrong questions are asked.

Since design communicates more



like music than words, and few consumers understand how it works, research in this area becomes self-defeating the moment it causes the respondent to consciously judge the design or express personal reaction to the design in conceptual terms. Unfortunately, there are more research professionals expert in statistical analysis and the techniques for obtaining demographically balanced samples than there are in developing methodologies for measuring the effectiveness of design in reinforcing or changing attitudes.

Of course, I am not speaking here of aspects of design other than communications. It is relatively easy to find out whether a housewife prefers butter in a round or square package, or whether a milk container fits the refrigerator. The difficulty under discussion is in re-searching the communications effects of design—design as a promotion tool. Does the fluted bottle convey a sense of luxury or quality more than the prism-shaped bottle? Is a scalloped border more effective in a nutmeg advertisement than a straight one, a heavy line than a light one?

Here again the music analogy is helpful. If you cannot find a research firm with successful experience in pre-testing the communications aspects of design, your next best bet should be a firm that has successfully pre-tested theme or background music. If you can find neither, have your most creative research people talk to someone who has done serious research on the effects of music (and/or physical surroundings) on human behavior and attitudes.

Finally, if you cannot find a psychologist with sufficient experience in this field, you might approach one of the top executives at Muzak, which has probably done more research on the psychological effects of background music than any company in the business world, including the big music companies. ●

The author, Jim Mann, is a media consultant and publisher of Media Management Monographs, a monthly service for magazine executives.

Schenkein|Associates

ROCKY MOUNTAIN POISON CENTER Discussion Agenda March 13, 1985

Following is a brief outline of the contribution that Schenkein/Associates would like to make to the Rocky Mountain Poison Center:

Phase I:

1. Development of a new logo and identity
2. Development of an overall creative concept for RMPC marketing efforts
3. Development of an overall public relations concept
4. Creation of a radio script treatment
5. Creation of a television script treatment (story boards would be created at cost)
6. Development of a brochure concept, editing of RMPC copy, and design and production of brochure through finished art
7. Overall public relations counsel, not to exceed 20 hours

The RMPC would be responsible for:

1. Payment for story board execution
2. Typography, printing and photography
3. All other buy-outs

Phase II:

1. Concept, design through finished art including copywriting and art direction of one print ad or a series of three ads
2. Scripting, production coordination and production supervision of one :30 television spot
3. Scripting, production coordination and supervision of one :30 public service radio announcement

The RMPC would be responsible for:

1. Payment of production of radio and television spots
2. Payment of media placement
3. All other buy-outs

Schenkein/Associates requests the following regarding these contributions:

1. Schenkein/Associates provide recommendations for donations of in-kind services and reserves right to final approval so that the quality of the product will be assured. The agency will not be expected to solicit our vendors or any others for in-kind services.

2. Schenkein/Associates' name appear on all printed materials and print advertisements.

3. RMPC utilize every opportunity to communicate Schenkein/Associates' support to any foundations or corporations that the Poison Center works with.

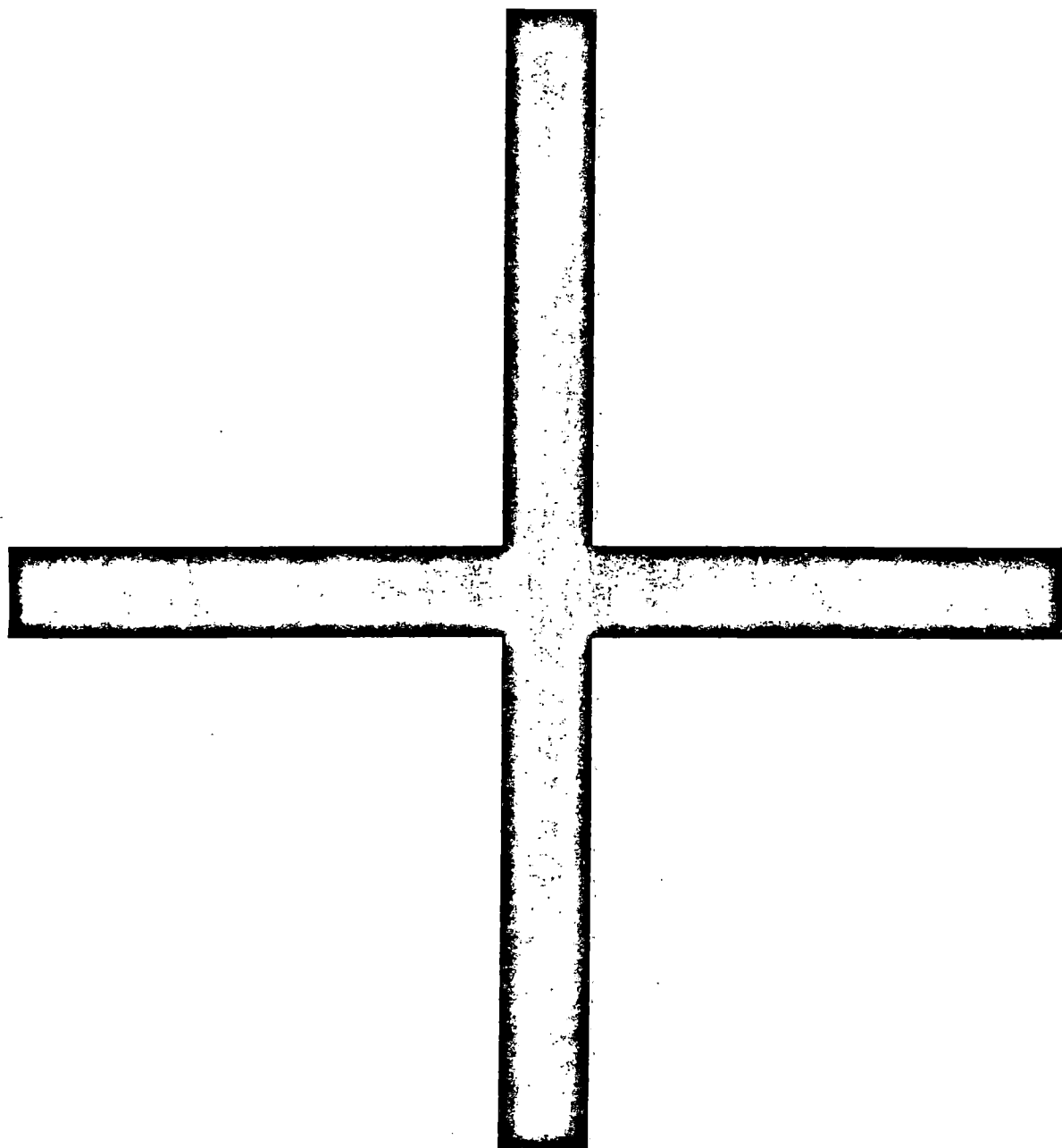
4. Schenkein/Associates be recognized in RMPC annual report.

5. Schenkein/Associates has the right to publicize their involvement with RMPC with any media.

6. Schenkein/Associates is absolved from any liability for damages resulting from materials the agency produced or contributed to.

7. Schenkein/Associates is given the opportunity to design and produce materials which are the joint effort of the RMPC and any other corporations or entities.

8. Planning meetings be held at Schenkein/Associates' offices.



PRODUCT

FEATURES
ACCESSORIES
INSTALLATION
INSTRUCTIONS
SERVICE
WARRANTY
PRODUCT LINES
PACKAGE
BRAND NAME

PLACE

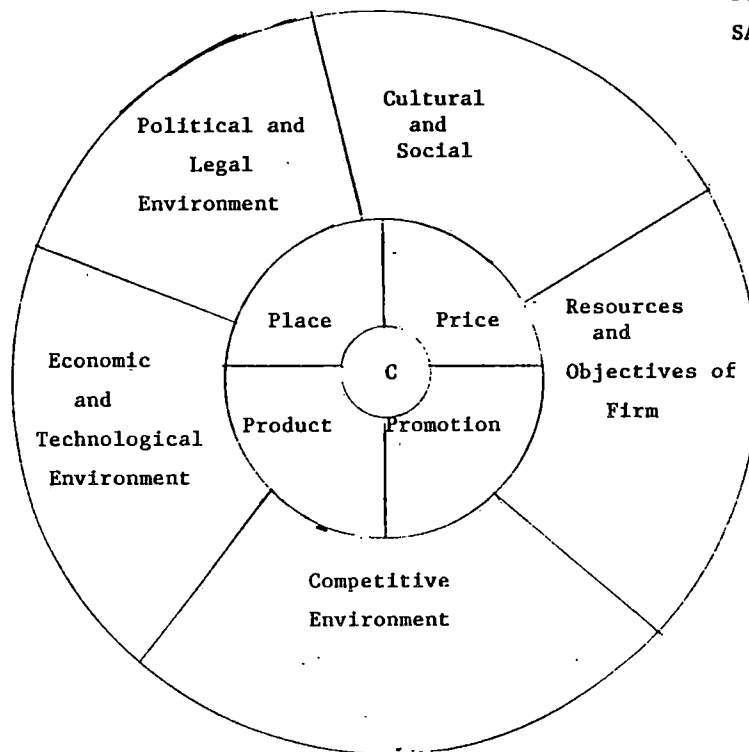
CHANNELS OF DISTRIBUTION
TYPES OF MIDDLEMEN
TRANSPORTATION
STORING
SITE ANALYSIS
Demographics
Traffic Flow
Area of Dominance

PROMOTION

PROMOTION MIX
SALES METHOD
Personal
Mail
On Site
ADVERTISING
Media Type
Message
PUBLICITY
SALES PROMOTION

PRICING

FLEXIBILITY
LEVEL
INTRODUCTORY PRICING
DISCOUNTS
ALLOWANCES
TERMS



ELASTICITY

If total revenue would increase
If price lowered - Demand is elastic
If total revenue would decrease
If price lowered - Price is inelastic

MARKET SEGMENTATION

POSITIONS OF PRODUCT/SERVICE

PRICING DECISIONS

PROMOTION DECISIONS

MEDIA SELECTION

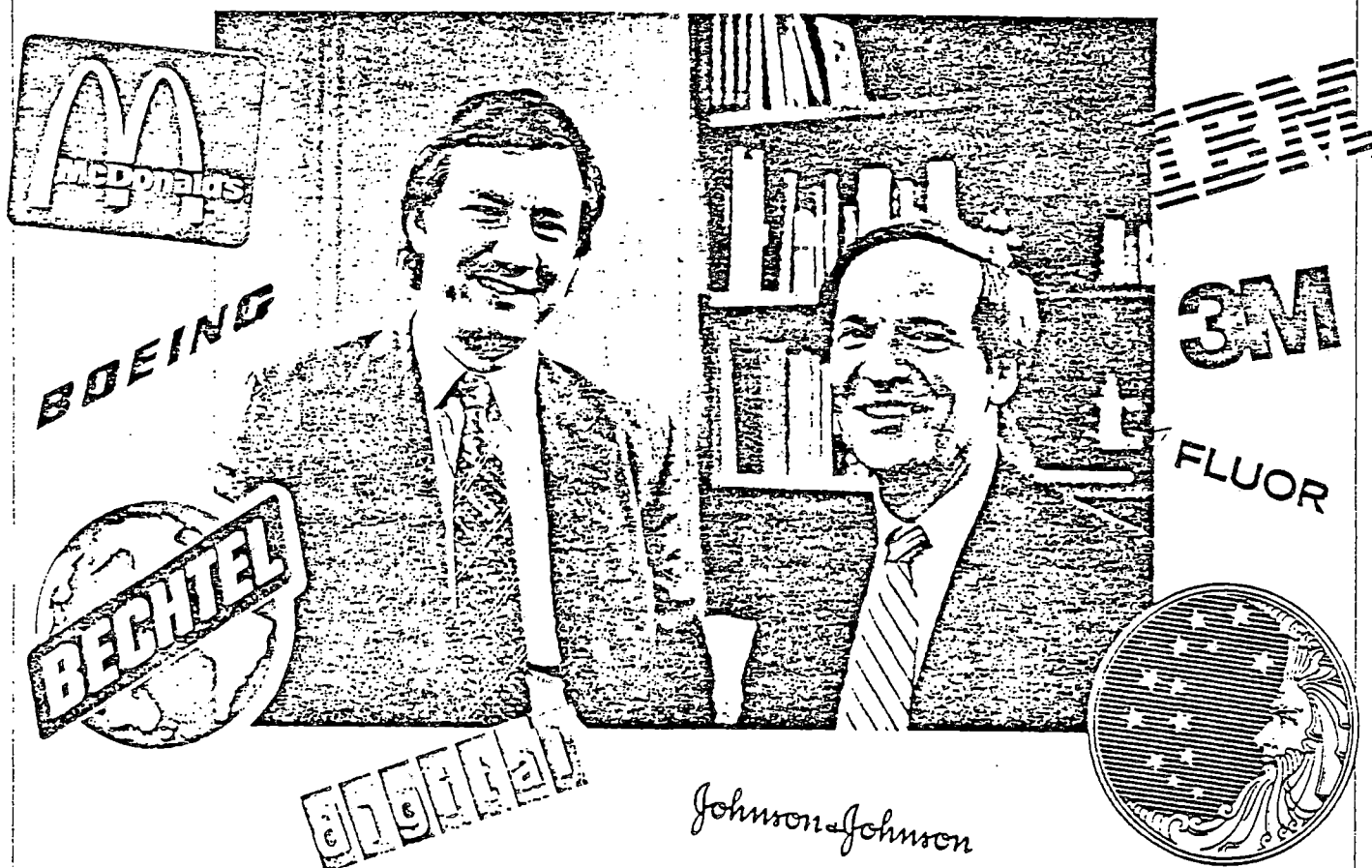
RESEARCH

BUDGET

TRACKING

SECRETS OF SUCCESS

One important lesson from America's best-run companies is 'K.I.S.S.' (Keep It Simple, Stupid). By Glen Martin



No one expects haute cuisine in a McDonald's. What one does expect are clean facilities, prompt service, and palatable fast food at a reasonable price. One also expects a certain degree of professionalism and enthusiasm from the staff. One knows that the tables will be clean, the oil in the deep fryer will be fresh (even Julia Child likes McDonald's french fries), and the cashiers will be smiling and courteous. Regardless of how one may view the idea of purveying hamburgers under the aegis of a crazed-looking clown, the fact remains that McDonald's does work: for the customers, for the corporation, and for the stockholders.

The reason why McDonald's and other particularly successful companies

do indeed work (while other firms belly-up) is the preoccupation of two San Francisco Bay Area business consultants, Thomas J. Peters and Frank H. Waterman, Jr., the authors of *In Search of Excellence* (Harper & Row; \$19.95), which aims to show why some corporations succeed while others founder.

Peters and Waterman eschew the methodology favored by many of their peers. Most top-flight consultants are, first and foremost, analysts of corporate structuring. They generally arrive at their conclusions via *negativa*: they determine what is right for a firm by first concluding what is wrong with it. They are rationalists from the Frederick Taylor school of business. Taylor, an early-twentieth-century

management pioneer, maintained that everything in a business can be analyzed and made to conform to an ideal model. For determining precisely what those models are and how their client companies can best conform to them, such consultants are rewarded handsomely: fees in the substantial six figures are not uncommon for projects executed by top consultants for America's larger firms.

Peters and Waterman, however, are mavericks as far as business consultants go. It's not that they charge less. Nor are their backgrounds different from those of their fellows. Both took their graduate degrees from Stanford, which vies with Harvard for the titular position as the nation's top business school. Peters and Waterman are dif-

ferent, however, because they feel the traditional approach to business isn't enough to assure success; and if that view isn't sacrifice in America's business community, it is certainly wildly unorthodox.

"When we were doing the work which later formed the basis for our book, we discovered that the best companies shared a certain set of common values which made them successful," reminisces Waterman. "But the odd thing was that those values weren't what the business community has traditionally considered sound. We had a situation of the reality being dichotomous from the ideal."

To put it simply, Peters and Waterman found that America's best and brightest companies often employed policies that went directly against the rationalist grain.

"For example, rationalists are very big on devising grand plans," says Peters. "Admittedly, it's very seductive. In an ideal world, things will work better if everything is analyzed and the whole is tailored to conform to the most efficient managerial mode you can work out on the computer. But we've found that the attempted implementation of any grand scheme is often the very thing that works against it. People are not computer models. And people are what business is all about. If the human factor is ignored, any plan is doomed to failure. That's what hard-core rationalists fail to take into account."

"We've found that the excellent companies we reviewed—McDonald's, Caterpillar Tractor, Hewlett-Packard, IBM, and Frito-Lay among them—esteemed the human factor and used it to the advantage of the firm. The fact of the matter is that men and women do not live by bread alone. They also live—read that as 'work'—out of pride in their product, out of loyalty, and out of a basic desire to produce well for a company they believe in. The successful companies do what they can to encourage and channel the human element of business rather than stifle it."

Peters and Waterman take none of the old tenets for granted, and they look for what works rather than for what doesn't work. This isn't simple-minded searching for silver linings while ignoring the clouds; rather, they feel that nothing succeeds like success, and that what goes into success

is considerably more complicated than mere structural analysis.

According to Peters, many of today's top managers seem to think that both the customer and the employee are factors to be somehow endured rather than cultivated. On the other hand, he says, "The companies which are truly excellent do it on their customers and evince genuine concern for their employees. The best companies groom a management staff which becomes genuinely anxious if much customer complaint is evident while simultaneously striving for good employee relations. A lot of companies operating

*Business isn't
abstruse theory—
it's the daily
affairs of people
dealing with
each other.*

along the rationalist lines tend to view the employee as either a gross incompetent or a potential saboteur. Well, people resent that. They may resent it to a point where they do become incompetents or saboteurs. But the companies that respect their employees, who treat them as responsible adults and valuable resources, inevitably find that their trust and concern is more than reciprocated. These companies treat their employees as important members of the team. They inculcate product quality rather than demand it. The upshot of all this is that their product quality is invariably higher than that of their less enlightened competitors. That means that the quality companies can charge more for their stuff, since the superiority of their production means that they're specialty rather than commodity producers."

Another aspect of American corporate-management structuring which Peters and Waterman challenge is the unquestioned policy of rigid organizational levels. "Traditionally, there has always been an unyielding vertical hierarchy in most American businesses, and that was considered desirable," notes Waterman. "It's always been assumed that that kind of model is the most effective from a managerial standpoint. But we've found that the

most successful companies encourage informality among their various levels. In short, they treat their employees as adults."

"The excellent companies encourage mutual access between their different organizational levels," Peters adds. "There isn't that zealous guarding of turf or empire building that you see in other companies."

To illustrate his point, Peters cites the way things are done at Wal-Mart, a company which has been able to maintain its rank as the number-four retailer in the country in spite of the current economic sluggishness. "Wal-Mart's top executive is Sam Walton. He's known to the employees of the company as 'Mr. Sam.' Walton habitually refers to his people as 'associates' rather than 'employees.' He is continually quoted as saying that his best ideas come from clerks and stockboys. And he believes that. At his insistence, his managers wear buttons that proclaim 'We Care About Our People.' He prowls his stores at all hours of the day or night, often surprising his startled employees with donuts and solicitations on their well-being and ideas relating to the firm. This may seem unusual in a man who runs a two billion-dollar enterprise, but Walton genuinely cares about his employees. And when his company is analyzed in-depth, it becomes apparent that his concern pays off. Wal-Mart works in large part because the employees feel appreciated and esteemed."

Peters and Waterman also feel that America's best companies habitually take risks. "Not outrageous risks, mind you, but moderate risks," Waterman notes. "This is a kind of an outgrowth from their concern for their people. Since they value their people, they also value their ideas. Many of the companies we've deemed as excellent place a lot of value in their 'champions' and 'skunk works.' Skunk works are essentially de facto idea committees comprised of each firm's most creative thinkers. They are most noteworthy for their informality and loose structure. Champions are people who latch on to these ideas and pitch them to management. Many of the top products now on the nation's retail shelves came from these kinds of sources rather than from expensive, heavily staffed engineering and research teams. At one of the companies we reviewed, three of their last five new-products introductions came from

SUCCESS

their skunk works. It's our opinion that the loose, informal relationship between skunk works, champions, and management functions more efficaciously than the structural rigidity which earmarks the way products are conceptualized and developed in companies designed around more rationalist lines."

One of Peters and Waterman's most controversial tenets is their contention that small is indeed beautiful, not only for appropriate, alternative technology, but also for corporate America. "We don't mean that excellent companies are small companies," says Waterman. "We just mean they act that way. They think small. Their top-level staffs are small and accessible to the lower levels. Take Emerson Electric, for example. It has fifty-four thousand employees, and it only has a hundred people at its corporate headquarters. Schlumberger, the six-billion-dollar diversified oil-service company, manages its global empire with a corporate staff of ninety. Ray Kroc of McDonald's has said that he believes that 'less is more' where corporate staffing is concerned. The excellent companies also favor the creation of new divisions—another manifestation of 'thinking small'—rather than continual consolidation. These companies thus combine the seemingly inimical qualities of centralization and decentralization in one matrix—a matrix which functions beautifully in spite of its inherent paradoxes."

"Not everyone is as convinced about this as we are," Peters adds with a slight touch of irony. "Adam Larsen chastised us mildly in the *Wall Street Journal* on this point. I think it may smack a bit too much of the counter-culture for some corporate tastes. Nevertheless, we stand behind our conclusions."

Another of Waterman and Peters' findings has to do with culture. Not the opera or ballet, of course; rather, the individual culture which each company develops over the years. "The best companies have strong cultures which are imbued with the companies' most esteemed values," says Peters. "The myths and legends which have grown up within the companies over the years serve to reinforce those values. At Hewlett-Packard, the culture's prime value is innovation. At Procter & Gamble it's product quality.

At Caterpillar Tractor, it's customer service. And we've also found that strong company cultures are a generative, ongoing process. The culture is strong because the values are maintained, and the values are maintained because the culture is strong."

The two consultants have determined that one of the primary ways in which excellent companies maintain morale is through the employment of hoopla: fêtes, parties, and rallies aimed at rewarding high production or the promotion of internal morale. "All the best companies use regular, positive peer review," notes Peters.

How to Succeed

Based on their study of how the best-run large corporations in America manage themselves, Waterman and Peters offer these eight lessons:

1. *Begin with a bias toward action.* The best companies encourage action over procrastination or extensive analysis.
2. *Stay close to the customer.* The best companies cultivate their customers, are fanatics about quality control, and use customer suggestions for product improvement and innovation.
3. *Encourage autonomy and entrepreneurship.* At the most successful companies, all employees are encouraged to practice creativity and practical risk-taking during the execution of their jobs.
4. *Understand that people are responsible for productivity.* Rank and file employees are treated as adults; they are viewed as coequals by management.
5. *Encourage "hands on," innovative values.* Winning companies have strong cultures. Values are maintained by personal and enthusiastic attention from top management.
6. *Stick to the knitting.* The best companies know the ins-and-outs and singular qualities of their particular businesses and don't diversify into unfamiliar fields.
7. *Keep the forms simple and the staffs lean.* Top staffs are kept small. The structures of the companies' organizations are kept simple and flexible.
8. *Employ "simultaneous loose-tight properties."* The best companies maintain a paradoxical combination of centralized and decentralized properties in their organizational structures. They are tight about the things that are truly important and extremely loose about the rest.

"Every Monday night at Tupperware, for instance, each distributorship hosts a rally. Everyone marches up on a stage, and if anyone has done anything at all, they receive a pin or badge. Caterpillar Tractor hosts events to introduce new equipment where the machines are dressed in costumes. I could list a multitude of similar examples. The point is that though it may all seem corny and a little banal, it still works. People respond to the hoopla and the razzle-dazzle. It makes them feel part of the team."

If this smacks of the Japanese way of doing things, it's because it is the way the Japanese do things. Which brings us to the question: is there a darker side to the hoopla, to all the evinced concern, to the seemingly benign paternalism? Are the employees of the excellent companies expected to dedicate themselves as blindly to their companies as the Japanese employees dedicate themselves to theirs? Do the excellent companies excel because they cultivate automatons? Happy automatons, true enough, but automatons, nevertheless?

"I don't think we'll ever go that route as completely as the Japanese have," Peters demurs. "There aren't the cultural imperatives for it. But we can learn from the Japanese. Just as companies which are less than incandescent can learn from the excellent companies."

"Look, we'll always need good management models and guys who are good with the spread sheets and computers," Waterman adds. "But we also need guys who know how to run the shop and deal with people. Business isn't abstruse theory—it's the daily affairs of people dealing with each other. It's nice to have extensive analysis, but you have to remember that you're analyzing human elements, not mechanical ones. And human beings are notoriously difficult to predict. There has to be enough flexibility in the systems to deal with spontaneous problems in a spontaneous fashion. In a human fashion. The excellent companies work along those principles, and that's why they've succeeded. They use what works, not what should work. And that's all the difference in the world."

It is, in short, the difference between success and failure. ■

Glen Martin is a free-lance writer based in Santa Rosa, California.

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Raising Money from Local Businesses

Developing a local fund-raising program has become a priority for many community groups in the 1980s. In past years, groups would avoid this effort because it is time consuming and requires a coordinated volunteer effort and board training. In response to diminished public funds and intense competition for foundation dollars, however, more groups are taking a fresh look at the local business sector as a source for funds.

Raising money from local businesses is still hard work, but it also offers several advantages: Contributions can be sought for operating costs. There is a greater likelihood that a donation will be renewed annually, and contributions may lead to a closer relationship with area businesses resulting in services and other in-kind contributions. Groups can establish diversified funding sources because most communities support several types of businesses, including merchants and retailers, manufacturers, service companies, financial institutions, utilities, commercial companies and downtown corporations.

Before conducting a local campaign, the group should determine how much money will be needed throughout the year, when it will be needed and for what activities. The group should also be incorporated in its state and designated as a tax-exempt, non-profit organization under Section 501(c)(3) of the Internal Revenue Code. For 501(c)(3) groups, all contributions are tax

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Passages: Organizational Life Cycles

Organizations move through distinguishable life cycles--or stages of development--as they mature and grow.* Each stage requires a different style of leadership and organizational structure; what works in one stage does not work in another. In fact, as this article will show, the management solutions of one phase often become the problems of the next.

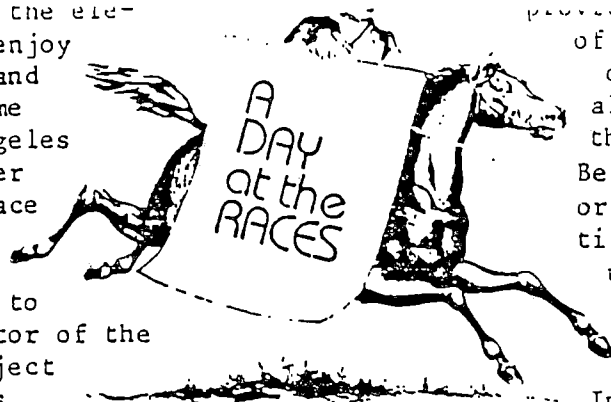
Nonprofit organizations are well aware of the need to adapt to changing external factors, such as funding cutbacks, new political realities, or shifting community needs. However, organizations generally do not realize that they must also make periodic adjustments in response to their own internal evolution. As organizations pass from one cycle to the next, they must reassess the way in which they operate and make organizational changes that suit their new stage of development.

It is useful to recognize what stage of development an organization is in for several reasons. First, it helps the group's staff and board of directors to understand why they may be experiencing tensions, communications breakdowns or other symptoms of internal malaise. Second, it helps the

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*The descriptions of life cycles in the for-profit world and the role of crisis in growth first appeared in an article by Larry E. Greiner, entitled "Evolution and Revolution as Organizations Grow" (*Harvard Business Review*, July-August 1972). The Planning and Management Assistance Project (PAMAP) has adapted Greiner's views to its experience in the nonprofit world.

Where can you combine the elements of family fun, enjoy a wonderful location and raise money at the same time? For the Los Angeles Conservancy, the answer was the Santa Anita Race Track where the group held its first Day at the Races. According to Ruthann Lehrer, director of the conservancy, this project was a whopping success, netting the group \$800 as well as some new members. The project required very little time or volunteer effort to organize.



Four months in advance of the event, the conservancy arranged with the Santa Anita Race Track to provide infield picnic space and box lunches for March 14. Santa Anita has a special program for local groups where these services are provided for a flat fee of \$5.60 per person. The group then set ticket prices at \$12 each, which

provided them with a net of \$6.40 per ticket. As part of admission, guests could also enjoy a guided tour of the historic Art Deco track. Because there is racing, rain or shine, the group sold all tickets in advance. To promote sales, flyers were sent to all members, and press releases were delivered to the local media. In addition, each conservancy board member was responsible for selling at least six tickets. When race day arrived, the group had sold 140 tickets.

The conservancy is planning to make the Day at the Races an annual event. Other groups might also find the project a good fund raiser. Because such an event means free publicity for the track and guaranteed admissions for a particular day, other community groups might check to see if similar arrangements can be made with a local track.

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deductible. Here are some tips to help get started:

Form a fund-raising committee

To start, the group should form a fund-raising committee composed of volunteers to research potential business donors, conduct fund-raising calls and keep records of contributions. By using a volunteer committee, the organization can demonstrate a broad base of support and minimize the diversion of time and energy from other on-going programs.

The fund-raising committee should contain a representative mix of officers, board members, residents, clergy, business people, beneficiaries of the organization's programs and other supporters. To distribute the work load evenly, there should be at least 12 volunteers. If available, a staff member can help coordinate the committee's efforts.

Research local businesses

Once established, the committee can identify potential business donors in the target neighborhood or community and begin researching each one.

An initial list of 15 to 20 businesses can be compiled through personal contacts, the

telephone book and Yellow Pages, the local Chamber of Commerce directory or by driving through the area. Sources of information for larger corporations and industrial plants are the state industrial directories (available from Manufacturer's News, Inc., 4 East Huron Street, Chicago, Ill. 60611), the Register of Corporations, Directors and Executives and the "reverse telephone directory", which lists telephone numbers by address. (The Polk Directory is one example.) These publications can be generally found in local libraries. A file or index card should be set up for each business with the name, address and telephone number of the firm listed, along with the name of the chief executive officer, the number of company employees, the company's product(s), the year established and the net worth. If possible, the file can also include a record of the business's charitable donations and the names of other nonprofit organizations that it has supported.

Prepare fund-raising literature

To acquaint potential donors with the organization, the committee can prepare a fund-raising flyer or brochure that describes the group's accomplishments, services and history. A list of supporters can also be included. Because most businesses and corporations consider contributions as community investments, the brochure should also contain a return

on investment statement, which translates the value of the organization's community projects into dollars and cents. To determine this amount, the committee can add up the total costs for community projects (including the value of volunteer time, in-kind services, grants and other contributions) and divide this amount by the organization's total budget for the previous year. The resulting figure will show how every dollar donated to the organization generated a specific amount of money in community improvements.

Schedule meetings with potential donors

Meetings can be arranged with a business by writing a personal letter to the chief executive officer or business owner. The letter should introduce the organization, include a summary of its accomplishments and request an appointment for a specific date and time. The letter should not contain a request for money because this may lead to a quick refusal. A fund-raising brochure can be included with the letter.

When the business agrees to a meeting, the committee should send a confirmation letter and also call ahead on the day of the meeting. On the other hand, if there is no response to the request, a committee member may call the company or send another letter at a later date. If a meeting is still not scheduled, the committee should put that firm's name in the hold file and approach them again in six months.

Timing is important when planning fund-raising calls. Morning meetings on Tuesdays and Thursdays are usually good times. Because retail sales are highest during Thanksgiving and Christmas holidays, these are also good times to approach retailers and merchants. Meetings scheduled before January 1 can be beneficial because contributions can be deducted on that year's tax return. As a rule of thumb, it is best to avoid planning meetings when taxes are due or when there is a tax referendum on the ballot.

Make the presentation

A team of three to five committee members should plan to attend the meeting. In advance, each member can be assigned to discuss one facet of the organization's activities. A spokesperson should also be appointed to make the request for money and to handle any questions about the fund-raising campaign. When presenting the

group's request for funds, the spokesperson should be specific about the amount and how it will be spent. The fund-raising team should appeal to the business person's best interests by pointing out how a contribution will benefit the business (e.g. reduce crime in the area or improve the business's surroundings) and be an investment in community revitalization.

If no firm commitment for a donation is made, the committee should ask for a specific date when a decision can be expected. Although the committee should strive for the maximum donation, it should be prepared to offer a donor other options for giving, such as a corporate membership in the organization, a challenge grant that must be matched by other contributions, an installment plan for spreading the contribution over a year or the donation of a service or product that the organization needs. The committee should be sure to point out that donations are tax deductible. (Eight states-- Pennsylvania, Missouri, Virginia, Indiana, Delaware, Florida, Wisconsin and Michigan-- now have either state tax credits or other incentives for corporations and businesses that donate to community improvement projects.)

Follow up

Whether or not the meeting has resulted in a contribution, the committee should send a letter thanking the business executive for the appointment. The committee can also place the firm on the organization's mailing list. If a contribution has been received, the committee should keep an accurate record of the amount, from whom it was received and its designated purpose, if any.

Providing periodic updates on the organization's programs and accomplishments is an important courtesy to business and corporate contributors. The organization can also show its appreciation to contributors by listing their names prominently on newsletters and promotional materials, sponsoring an awards dinner and in other ways. By maintaining good relations with contributors, an organization can continue to build a solid and diversified fund-raising program.

This article has been adapted with permission from "Grass Roots Fund-Raising from the Business Sector," written by Bud Kanitz, Deputy Director of the Neighborhood Coalition in Washington, D.C. Kanitz has been involved with community organizing and fund raising since 1967. For more information, please write Bud Kanitz, P.O. Box 3410, Washington, D.C. 20010.

organization's managers to see what adjustments might be appropriate, given where the organization is on the evolutionary scale, and to anticipate and prepare for the next developmental stage. Third, it allows the organization to know that much of the stress it is experiencing is a normal--and inevitable--concomitant of organizational growth, not a sign of incompetence or pathology.

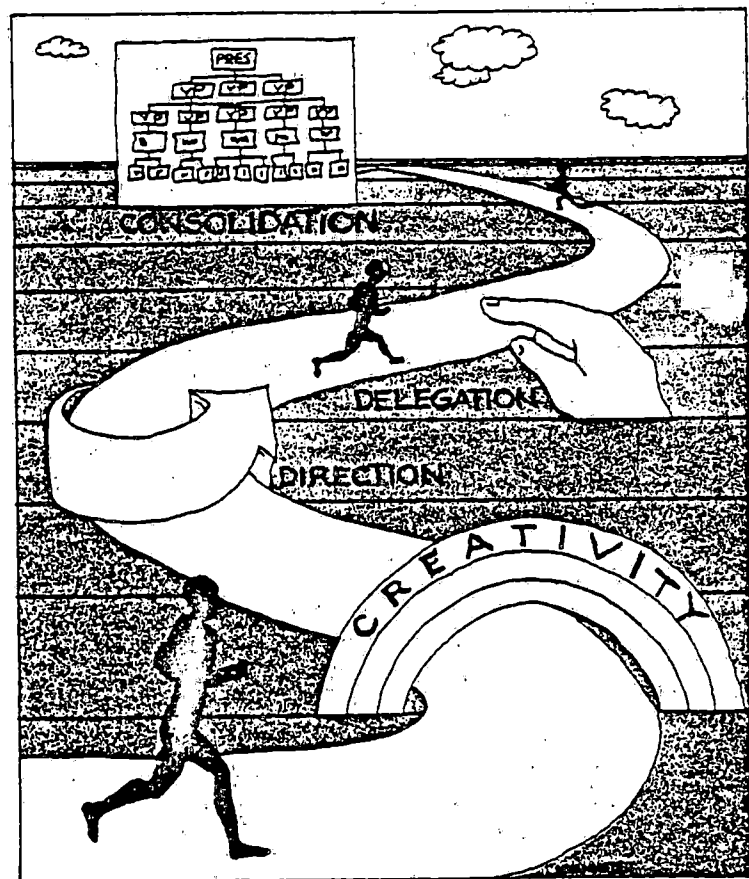
There are four typical stages that most nonprofit organizations pass through as they age and develop. Each state contains a relatively calm period of growth that typically ends with a management crisis when the organization finds it has outgrown its old mode of operating. For example, a group that has operated in an informal, family style hits that crisis when it becomes impossible to coordinate the efforts of its burgeoning staff. It responds by instituting a centralized management with more formalized procedures. That solution, however, can eventually lead to new crisis: a reaction against the constrictions of top-down management, which results in demands for more delegation of authority and decentralization of tasks. Each new stage is thus influenced by the previous one. Management's response to each crisis period will largely determine how successfully the group moves forward into the next phase.

Described below are the typical developmental stages of nonprofit organizations. These stages describe groups with paid staffs, but small, all-volunteer organizations may also see similarities in their own evolution.

Phase I: Creativity

In their early days, nonprofit citizen organizations are characterized by intense creativity and commitment. The founder, or founders, are usually highly creative entrepreneurs who are very committed to the organization's goals. They attract a few other highly committed people and jump into long hours of work rewarded by the importance of the cause and a modest salary. Thus, the management's focus is the cause; the organizational structure is informal; top management style is highly individualistic; communication among employees is frequent and informal; control systems are limited to

	PHASE 1 CREATIVITY	
MANAGEMENT FOCUS	Cause	DI
ORGANIZATIONAL STRUCTURE	Informal	El
TOP MANAGEMENT	Individualistic	C, F, D
CONTROL SYSTEM	Results	D
REWARD	Mission/meaning	Pr, Si, Pr



direct, often tangible results; and the rewards are primarily mission and meaning.

In fact, the flexibility that the informality and commitment permit is essential for the new organization to establish itself. Yet, these very features contain the seeds of future problems as the organization grows. As the number of employees increases, informal, sporadic communications become inadequate. New employees are rarely motivated with the same in-

	PHASE 3 DELEGATION	PHASE 4 CONSOLIDATION
Expansion of Services (Marketing)		Consolidation and Coordination
Decentralized		Line/staff
Delegation		Watchdog
Bottom-up Reporting/ Planning		Planning
Titles, Promotions, Local Autonomy		Sabbatical

tense dedication as those who were present at the creation, and informal accountability systems are no longer sufficient to document employee performance. The founders discover that charisma and cause are no longer sufficient to keep the organization running. They find themselves burdened with management responsibilities and demands for more structure. At the same time, fears of impending bureaucracy begin to surface, particularly among the founding staff, who long for the good old days when people seemed to work individually with little direction and yet were more effective.

At this point, the first organizational crisis often occurs. It is usually a crisis of leadership. Stronger management is necessary, but creative founders are often not interested in nor temperamentally suited to this kind of managerial direction. As a result, it is usually very difficult for them to let go of their "baby" and allow the organization to bring in more effective management staff.

Phase II. Direction

If an organization survives this crisis in leadership, the next phase is characterized by a management focus that emphasizes efficient operations. Frequently, job descriptions and employee evaluation standards are developed, and a variety of operations procedures are written and standardized. The organizational structure becomes more centralized, and tasks are divided in more restricted, functional ways. The day of the jack-of-all-trades employee ends. In

changes, the top management style becomes significantly more directive. Communication becomes more formal and impersonal as management is centralized.

Although these new, more efficient operations systems are a direct and useful response to Phase I's era of informality, they too bring with them the seeds of crisis that will lead to the next phase of development. The hierarchy becomes too centralized and cumbersome in ways that prevent lower-level staff from sharing in a sense of ownership, and this reduces the ability to carry out their responsibilities effectively. Procedures become rigid and stifle initiative. Eventually, a second crisis erupts with demands for greater autonomy and for greater staff participation in the organization's decision-making process. At this point, most groups move toward greater delegation of responsibility. This decision makes it difficult for top managers, who prefer directing not coordinating. Moreover, lower-level staff often find that managing and decision making is harder than they imagined.

Phase III. Delegation

Phase III is characterized by the organization's expansion into new projects, new areas of service or new communities. Most of the activity and decision making takes place at the staff level with top management intervening only when problems arise or changes are required. Thus, most management functions are now highly decentralized. Project or field staff have infrequent contact with top management, and in fact, rarely see them. This delegation stage is marked by rapid expansion and heightened motivation at the lower levels.

Again, the accommodations that led to successful growth within Phase III can lead to future problems. Top management soon sees that it is losing control over a highly diversified project and field operations. Fiefdoms develop, little communication occurs and coordination breaks down. "Projectitis" also becomes rampant with the overwhelming focus on individual project goals rather than on the overall purpose of the organization. As a result, calls begin to be heard for greater coordination and a renewed sense of overall direction.

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The People's Fair

The Capitol Hill People's Fair in Denver really knows how to throw a party! Sponsored each year by the Capitol Hill United Neighborhoods, the People's Fair provides two days of fun and community spirit for residents throughout the city. On the grounds of a local high school, fairgoers can wander through nearly 400 different booths displaying arts and crafts, information about social service agencies, environmental technology and, of course, plenty of food and beer. A Saturday night dance, continuous music, a Renaissance fair and a parade round out the festivities. "The fair normally attracts 100,000 or more people," says Linda Devine, fair coordinator, "but the atmosphere remains warm and close knit like a neighborhood party."

Now 11 years old, the fair is still eagerly anticipated each year. Much of the fair's success stems from the corps of enthusiastic volunteers who make it all happen. Although Capitol Hill United Neighborhoods provides support, it is the volunteers who set the policies for the fair, handle many of the booths and ensure that everything runs smoothly. Organizing for the May event begins in January, when the group begins recruiting the nearly 300 volunteers through public service announcements and word of mouth. As the event draws closer, distribution of fair guides at local stores and other locations around the city brings in more volunteers and provides publicity. To recognize the volunteers' long hours and



Photographs by John Schoenwalter



dedication, the group hosts potluck suppers periodically as well as a special party before the fair. Volunteers receive a badge entitling them to free beer at the fair.

As the People's Fair has grown from a small neighborhood event into a citywide festival, it has also become a major fund raiser for the group. The vendor fees cover expenses for the fair, but proceeds from beer sales provide a \$20,000 boost to the group's treasury. The organization uses 75 percent of the proceeds for operating cost and neighborhood improvement projects. The rest is recycled into other community groups and projects such as school beautification. The People's Fair has clearly won the hearts of Denver residents. As one resident described it, "It's hard not to enjoy 100,000 friendly faces all gathered for the same fun time."

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Phase IV. Consolidation

This final phase is marked by more formal and time-consuming planning procedures to provide the organization with greater coherence, consolidation and coordination. The organizational structure is redefined to integrate programs and implement a team approach. Top management uses a watchdog style in which control is accomplished through a detailed, intensive planning system and frequent staff reporting.

This greater emphasis on coordination through planning can lead to a red tape

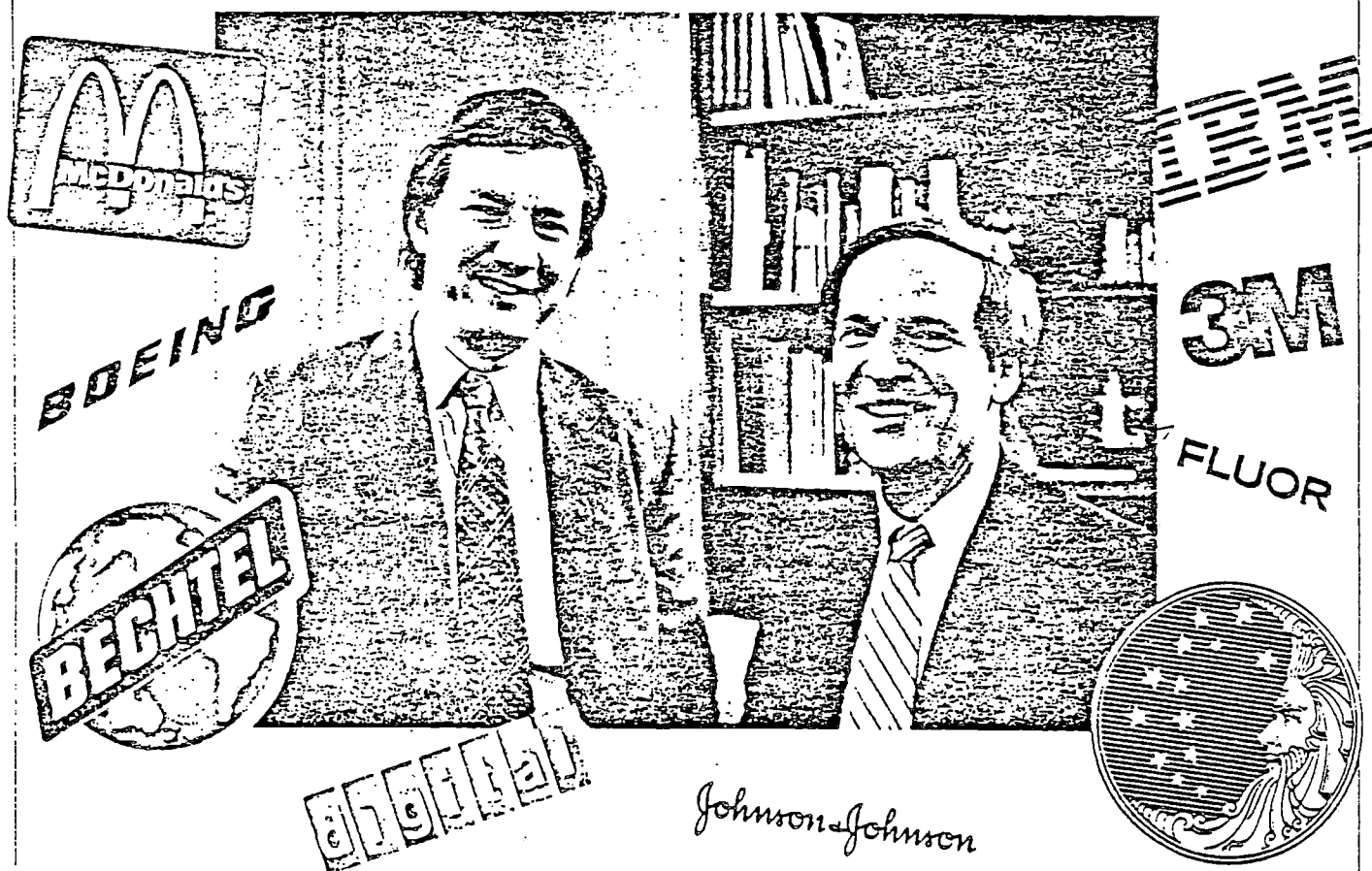
crisis, which occurs when the proliferation of planning and accountability systems begins to exceed their utility. Many large public agencies and private corporations are experiencing a red-tape crisis.

Which stage describes your organization?

This is the first in a series of four articles prepared by the Planning and Management Assistance Project (PAMAP) on nonprofit management. The second article will appear in the September-October issue of Conservation. Since 1972, PAMAP has provided assistance to nonprofit organizations in negotiating difficult organizational transitions through its national office at 1705 DeSales Street, N.W., Suite 401, Washington, D.C. 20036 (202/659-1963) and through its Western Office at 1725 San Andres Street, Santa Barbara, Calif. 93101 (805/569-0364).

SECRETS OF SUCCESS

One important lesson from America's best-run companies is 'K.I.S.S.' (Keep It Simple, Stupid). By Glen Martin



No one expects haute cuisine in a McDonald's. What one does expect are clean facilities, prompt service, and palatable fast food at a reasonable price. One also expects a certain degree of professionalism and enthusiasm from the staff. One knows that the tables will be clean, the oil in the deep fryer will be fresh (even Julia Child likes McDonald's french fries), and the cashiers will be smiling and courteous. Regardless of how one may view the idea of purveying hamburgers under the aegis of a crazed-looking clown, the fact remains that McDonald's does work: for the customers, for the corporation, and for the stockholders.

The reason why McDonald's and other particularly successful compan-

ies do indeed work (while other firms belly-up) is the preoccupation of two San Francisco Bay Area business consultants, Thomas J. Peters and Frank H. Waterman, Jr., the authors of *In Search of Excellence* (Harper & Row; \$19.95), which aims to show why some corporations succeed while others founder.

Peters and Waterman eschew the methodology favored by many of their peers. Most top-flight consultants are, first and foremost, analysts of corporate structuring. They generally arrive at their conclusions via *negativa*: they determine what is right for a firm by first concluding what is wrong with it. They are rationalists from the Frederick Taylor school of business. Taylor, an early-twentieth-century

management pioneer, maintained that everything in a business can be analyzed and made to conform to an ideal model. For determining precisely what those models are and how their client companies can best conform to them, such consultants are rewarded handsomely: fees in the substantial six figures are not uncommon for projects executed by top consultants for America's larger firms.

Peters and Waterman, however, are mavericks as far as business consultants go. It's not that they charge less. Nor are their backgrounds different from those of their fellows. Both took their graduate degrees from Stanford, which vies with Harvard for the titular position as the nation's top business school. Peters and Waterman are dif-

ferent, however, because they feel the traditional approach to business isn't enough to assure success; and if that view isn't sacrilege in America's business community, it is certainly wildly unorthodox.

"When we were doing the work which later formed the basis for our book, we discovered that the best companies shared a certain set of common values which made them successful," reminisces Waterman. "But the odd thing was that those values weren't what the business community has traditionally considered sound. We had a situation of the reality being dichotomous from the ideal."

To put it simply, Peters and Waterman found that America's best and brightest companies often employed policies that went directly against the rationalist grain.

"For example, rationalists are very big on devising grand plans," says Peters. "Admittedly, it's very seductive. In an ideal world, things will work better if everything is analyzed and the whole is tailored to conform to the most efficient managerial mode you can work out on the computer. But we've found that the attempted implementation of any grand scheme is often the very thing that works against it. People are not computer models. And people are what business is all about. If the human factor is ignored, any plan is doomed to failure. That's what hard-core rationalists fail to take into account."

"We've found that the excellent companies we reviewed—McDonald's, Caterpillar Tractor, Hewlett-Packard, IBM, and Frito-Lay among them—esteemed the human factor and used it to the advantage of the firm. The fact of the matter is that men and women do not live by bread alone. They also live—read that as 'work'—out of pride in their product, out of loyalty, and out of a basic desire to produce well for a company they believe in. The successful companies do what they can to encourage and channel the human element of business rather than stifle it."

Peters and Waterman take none of the old tenets for granted, and they look for what works rather than for what doesn't work. This isn't simple-minded searching for silver linings while ignoring the clouds; rather, they feel that nothing succeeds like success, and that what goes into success

is considerably more complicated than mere structural analysis.

According to Peters, many of today's top managers seem to think that both the customer and the employee are factors to be somehow endured rather than cultivated. On the other hand, he says, "The companies which are truly excellent do on their customers and evince genuine concern for their employees. The best companies groom a management staff which becomes genuinely anxious if much customer complaint is evident while simultaneously striving for good employee relations. A lot of companies operating

*Business isn't
abstruse theory—
it's the daily
affairs of people
dealing with
each other.*

along the rationalist lines tend to view the employee as either a gross incompetent or a potential saboteur. Well, people resent that. They may resent it to a point where they do become incompetents or saboteurs. But the companies that respect their employees, who treat them as responsible adults and valuable resources, inevitably find that their trust and concern is more than reciprocated. These companies treat their employees as important members of the team. They inculcate product quality rather than demand it. The upshot of all this is that their product quality is invariably higher than that of their less enlightened competitors. That means that the quality companies can charge more for their stuff, since the superiority of their production means that they're specialty rather than commodity producers."

Another aspect of American corporate-management structuring which Peters and Waterman challenge is the unquestioned policy of rigid organizational levels. "Traditionally, there has always been an unyielding vertical hierarchy in most American businesses, and that was considered desirable," notes Waterman. "It's always been assumed that that kind of model is the most effective from a managerial standpoint. But we've found that the

most successful companies encourage informality among their various levels. In short, they treat their employees as adults."

"The excellent companies encourage mutual access between their different organizational levels," Peters adds. "There isn't that zealous guarding of turf or empire building that you see in other companies."

To illustrate his point, Peters cites the way things are done at Wal-Mart, a company which has been able to maintain its rank as the number-four retailer in the country in spite of the current economic sluggishness. "Wal-Mart's top executive is Sam Walton. He's known to the employees of the company as 'Mr. Sam.' Walton habitually refers to his people as 'associates' rather than 'employees.' He is continually quoted as saying that his best ideas come from clerks and stockboys. And he believes that. At his insistence, his managers wear buttons that proclaim 'We Care About Our People.' He prowls his stores at all hours of the day or night, often surprising his startled employees with donuts and solicitations on their well-being and ideas relating to the firm. This may seem unusual in a man who runs a two billion-dollar enterprise, but Walton genuinely cares about his employees. And when his company is analyzed in depth, it becomes apparent that his concern pays off. Wal-Mart works in large part because the employees feel appreciated and esteemed."

Peters and Waterman also feel that America's best companies habitually take risks. "Not outrageous risks, mind you, but moderate risks," Waterman notes. "This is a kind of an outgrowth from their concern for their people. Since they value their people, they also value their ideas. Many of the companies we've deemed as excellent place a lot of value in their 'champions' and 'skunk works.' Skunk works are essentially de facto idea committees comprised of each firm's most creative thinkers. They are most noteworthy for their informality and loose structure. Champions are people who latch on to these ideas and pitch them to management. Many of the top products now on the nation's retail shelves came from these kinds of sources rather than from expensive, heavily staffed engineering and research teams. At one of the companies we reviewed, three of their last five new products introductions came from

Effective Communication Could Mean Survival For Nonprofit Organizations

By Margaret Booth and Susan Nall Bales

"In times of crisis, we must all choose again and again whom we love," wrote the late Frank O'Hara, poet and associate curator of the Museum of Modern Art. Faced with the dilemma of fewer dollars and graver social and economic problems, supporters of nonprofit organizations—contributors, members, subscribers, constituents—must decide "again and again whom they love."

That decision will involve an assessment of the efficacy of an organization, of the importance and relevance of its issues, and of the vitality of its programs and services. Supporters will be forced to evaluate which organizations spend their dollars judiciously, represent members visibly, and serve subscribers thoroughly.

Underlying this evaluation process is the assumption that organizations are communicating effectively, that they are successfully articulating their position on issues, the range of their programs, and the variety of products and ser-

vices they offer.

For the nonprofit organization, successful communications is key to survival. Those nonprofit organizations believing that quality programs alone are sufficient to generate needed support act as if word of mouth were an effective delivery system for stimulating debate in the marketplace of issues and ideas.

In the 1980s, sophisticated public relations programs do not belong solely to business and industry. They are fast becoming an integral part of the innovative nonprofit manager's thinking and planning. In fact, many foundations and individual donors are beginning to put high priority on the communications elements of a grantee's program.

"There was a time when public relations had a bad name—that a public relations practitioner was seen as a con man," says Madeline Lee, executive director of the New York Foundation. "But . . . it isn't that at all. Public relations is important for generating client

flow, gaining support for an issue, and educating a public constituency. It's absolutely critical for organizations which want to affect a political organizing strategy."

Jack Coleman, president of The Edna McConnell Clark Foundation, agrees, adding, "Some grantees believe that because they have a good program, the world will come to them. When we evaluate a proposal, we look at the grant's potential impact. To have an effective grant, the organization must reach out and tell its story. We believe in being partners with our grantees and helping them tell their stories."

Evaluating Communications Programs

As consultants to foundations, nonprofit organizations, and arts groups nationwide, Public Interest Public Relations is often asked to evaluate the effectiveness of an organization's communications program. This is a

two-step process. First, an assessment of the organization's current public relations-public information effort is undertaken. Second, if required, a communications audit is conducted to determine how an organization might tailor its public relations efforts to the specific audiences it wishes to reach.

The questions comprised by a standard assessment are ones virtually every nonprofit organization should be posing to ensure its survival. These are also questions the wise foundation executive should keep in mind when evaluating an organization's ability to have an impact.

IS THE ORGANIZATION POSITIONED FOR SURVIVAL?

The term "positioning," discussed in a recent book by advertising executives Al Ries and Jack Trout, means a way of transforming marketing from a sales to a consumer orientation. Effective positioning takes into consideration not only an organization's own strengths, weaknesses, and potential, but those of its competitors as well.

The nonprofit sector may take a dim view of competition; nonetheless, it is vitally important that organizations understand they must compete for a prominent position in their relationship to specific issues. Whether an organization is working for the renewal of the Voting Rights Act, the repeal of the Endangered Species Act, or a change in public attitudes toward defense spending, how it is perceived or "positioned" will determine the role it is invited to play in the future development of the issue.

If an old perception of an organization persists, the organization will be invited to play a role no longer appropriate to it. If the organization is highly visible in only one aspect of a problem, it will be asked to contribute information that applies only to that area. The fact is that the public's perception of an organization often becomes its reality.

The Association of Junior Leagues

(AJL), a national organization comprising 247 member leagues in the United States, Canada, and Mexico, recently realized the need to reposition itself. For years the AJL had battled the perception of being merely a social club, when in fact its member leagues are in the forefront of community improvement, spearheading innovative programs in such areas as child care, education, and crime prevention.

To help correct the public's misperception, the AJL has begun to describe itself differently through new materials and training programs: its annual report now highlights the myriad community activities undertaken by local leagues, clearly demonstrating its vast contributions to the quality of community life; its newly launched newsletter gives members and other "publics" a greater sense of the depth of AJL member-league activities; and a special slide show heightens the members' understanding of the role they themselves play in shaping public awareness of the organization.

Another good example of repositioning is the case of Ford's Theatre, a Washington, D.C.-based cultural institution that reopened in 1968 as a "revived" theater. Its first big problem was to contend with a reputation as "a monument to tragedy"—the site of Lincoln's assassination—a reputation reinforced by the existence of the National Park Service museum in the basement of the theater.

Through a carefully orchestrated public education campaign, the theater was repositioned as "a monument to President Lincoln's love for the performing arts." From its first brochure to its fundraising materials, Ford's positioning stressed the living Lincoln legend. The four-color informational pamphlet developed for Ford's Theatre, with funding from the Sun Company, used excerpts from the Gettysburg Address ("of the people, by the people, for the people") to describe

the work of the theater. A successful ad campaign used a drawing of Lincoln with the line, "The only thing more exciting than the evening you spend at Ford's is who you might spend it with."

Not all organizations are as "salable" as Ford's Theatre, and not all issues make for "hot" discussion in the social policy arena. Those that don't are often the toughest to position in the public marketplace.

"Most people can't see sludge or the effects of toxics on the environment," says Craig Kennedy, program associate of the Joyce Foundation in Chicago, whose Fund for Conservation Education is putting \$1 million into public education programs concerning three invaluable resources of the Midwest: soil, ground water, and the Great Lakes. To help bring these resources to the attention of Midwest citizens, the foundation has funded programs ranging from a film cooperatively by farmers and businessmen about the soil erosion problem in Illinois to Citizen Leadership Education projects undertaken by Great Lakes Tomorrow and The Lake Michigan Federation, two local groups.

IS THERE STILL A "FIT" BETWEEN THE ORGANIZATION AND ITS MEMBERSHIP?

When organizations develop membership-based programs, their aim is to fulfill the perceived needs of potential constituents.

Take, for example, the Sierra Club's current effort to identify and represent the interests of a specific constituency, environmentalists, and a specific issue, defense of environmental protection laws. Using Interior Secretary James Watt as the personification of the threat to these laws, the Sierra Club initiated a strong direct-mail program and a petition drive to remove Watt from office. In just under a year, the Club membership has risen 40 percent because of its ability

to link the opportunity afforded by the current political situation to the concerns and needs of potential members.

At some time, however, every organization reaches the point where its members' needs may not be what they were at the outset. Are the expectations of the Sierra Club's old members the same as those of the new members? Aware of the potential for differences among its 285,000 constituents, the Sierra Club has developed a poll to ascertain their current interests and expectations, so that a public education program can speak directly to their concerns.

IS THE ORGANIZATION MAKING THE MOST CREATIVE USE OF AVAILABLE MEDIA?

New uses for established media and innovative communication technologies promise to revolutionize the non-profit community, just as they have changed the private sector.

For years, nonprofit organizations made public service advertising (free time provided by radio, TV, and print) a major focus of their public relations programming. Recently, however, more creative media-wise organizations have realized that they can influence public opinion, and in some cases raise big dollars, by developing paid advertising campaigns to promote specific issues.

Planned Parenthood of New York City (PPNYC), for example, is waging an aggressive paid advertising campaign to keep abortion safe and legal. Since 1980, PPNYC has budgeted \$800,000 toward its advertising efforts. According to Doug Gould, PPNYC's associate executive director, "The ads we've developed—17 to date—are run when our position on the issue needs reinforcement. Not only have they helped us expand our donor base and develop a broader constituency, but they have themselves been the focus of extensive media coverage." The ads have been so successful that 25 to 30 Planned Parenthood affiliates have picked them

up for use in their own regions.

Paid media were recently used creatively by the Natural Resources Defense Council (NRDC), a national organization of approximately 40,000 members involved in litigation and education on environmental issues. NRDC paid for the placement of an open letter to EPA employees, urging them not to quit their jobs (as some 600 had done from October to December) in protest against the directives of EPA Administrator Anne Gorsuch. The \$5,000 announcement was paid for as a part of a \$25,000 public education grant from the Field Foundation.

"The announcement was very successful," says Anne Sweazey, NRDC's director of development. "We brought national attention to how bad the situation had become at EPA, received many supportive letters from EPA employees, and raised some money, although the announcement was never intended as a fundraiser."

Among the most innovative media techniques is the use of satellites to create customized "cable networks" for membership organizing and teleconferences. One of the first to take advantage of cable communications was the American Cancer Society (ACS). As early as 1980, the ACS created a "network" to teleconference a seminar on breast cancer to other ACS affiliates in cities across the country. The two-hour program was videotaped, edited to one hour, and broadcast via satellite to local stations. During a second hour, a two-way communication hookup enabled viewers across the country to ask questions of conference speakers. The cost of the ACS teleconference was \$20,000.

"Economically, we reached far more people for the dollars than what we would have had to pay for advertising," says Irving I. Rimer, ACS vice president for public information. Rimer adds that ACS is now working with Cable News Network's Ted Turner on a 90-minute special, "Cancer: The Human Side." The program, sponsored by the National Cable Tel-

evision Association, will be offered free to all cable systems in the country as a public service.

Another use of cable is greater exposure for products and services. The Guthrie Theatre, in Minneapolis, is one of many regional theaters producing for cable to reach larger audiences. Recently, the Guthrie taped its production of "A Christmas Carol" for RCTV, Rockefeller Center, Inc.'s cable company, which plans to air the production several years running during the Christmas season.

"Not only will many more people be able to see our production of 'A Christmas Carol,' but it will also acquaint new theatergoers and potential supporters with the high quality of the Guthrie's productions," notes Donald Schoenbaum, managing director of the theater.

HOW DOES THE ORGANIZATION'S PUBLIC RELATIONS EFFORT DOVETAIL WITH ITS FUNDRAISING NEEDS?

For a fundraising campaign to work well, it must have the backing of a strong public relations effort. The more a potential donor knows and thinks of an organization, the more likely he or she is to support it.

Recently, the Cathedral of Saint John the Divine, located in upper Manhattan, launched a \$35 million capital drive to complete the building of the Cathedral and support its programs. To obtain national attention for and interest in the campaign, a comprehensive public relations effort is being mounted. It includes sophisticated slide-tape materials and a targeted national television and radio tour. Its purpose: to provide added visibility for capital campaign chairman Moorhead Kennedy as he speaks with potential donors around the country.

Another good example of the dovetailing of public relations and fundraising are the efforts of the Mexican American Legal Defense and Educational Fund (MALDEF). MALDEF's fundraising and public relations functions are both handled by one de-

partment, headed by Jane Couch, vice president for research and development and public affairs.

"It was quite clear to us that we needed to raise public consciousness about the Hispanic community and Mexican Americans before we could successfully fundraise for MALDEF. The more aware the public is of our constituency and their legal and constitutional rights, the more successful our fundraising efforts become. There's no doubt that effective public relations help to raise dollars for our programs," states Couch.

WHAT IS THE ORGANIZATION'S COMMITMENT TO PUBLIC RELATIONS IN TERMS OF BUDGET AND PERSONNEL?

Everything an organization does, from programming to budgeting, must be communicated internally or externally to a variety of concerned audiences. One of the biggest management errors nonprofit organizations and foundations make is to assume that communication will take place by itself. This attitude often causes the public relations function to be isolated from management, and generally results in the organization's giving out double or mixed messages.

An organization that wants to have effective communications must make its commitment to public relations at the highest management level. The person in charge of public relations should be part of the management team, working closely with the chief executive on how the organization will communicate its programs and policies to staff and the outside world.

In addition, although there is no real rule of thumb, an organization should commit a minimum of 10 percent of its budget to public relations—and even more, if it's in the business of public education. The allocation of these dollars will depend on the organization's information and staff needs. If very few dollars are available for public relations, these should be allocated first to underwrite the production of comprehensive information

New uses for established media and innovative communication technologies promise to revolutionize the nonprofit community, just as they have changed the private sector.

tion materials and, later, to build staff.

Developing a Communications Audit

After the assessment is completed, an organization might want to consider a communications audit. The purpose of an audit is to assess the organization's communications efforts, to determine how accurately the organization is being perceived by its key audiences and whether its tools (materials) and internal systems (staff functions) are working as well as they should be. The result of a communications audit is a solid information base from which to build a public relations program that identifies long-term communications objectives and outlines appropriate activities to meet those objectives.

The elements of a communications audit are really quite simple. They should include:

- interviews with members of the organization's board of directors—to learn their opinions of current communications efforts and what they believe the communications needs of the organization are;
- interviews with local directors, if the organization is member- or chapter-based—to gain their perceptions of communications needs and how the national organization can

help develop public relations efforts on a local level;

- interviews with executive and administrative staff—to acquire a broader understanding of how the staff members view communication needs;
- interviews with representatives from key media—to determine their knowledge and impressions of and interest in the organization;
- interviews with the leaders of similar organizations and representatives of foundations and corporations that fund the organization—to gather independent, nonpartisan data that reflect "outsider" opinions of the organization and the work it is doing.

A questionnaire should be developed for these interviews. Questions should probe perceptions of the organization: what those interviewed think is unique about the organization, what are its strengths and weaknesses; what they believe are the greatest misconceptions about it, the cause of these misconceptions; the role they think the organization should play in specific issues, and so forth.

In addition to the interviews, a review of the organization's material and staff functions should also be conducted to see if they are indeed meeting the needs they were originally designed to serve.

Although a staff member can conduct a communications audit, it is preferable to have a volunteer or outsider do the actual interviewing, because the answers to the questions will be much freer if the interviewee is not talking to an insider.

The data collected from a communications audit will enable an organization to structure a realistic public relations program that will position accurately, take the judgments of outsiders in hand, and create delivery systems for reaching constituents and supporters.

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Chapter 1

Nonprofit Accounting and Financial Reporting

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HISTORICAL OVERVIEW

Inadequacies in Financial Reports

Until recent years, financial reporting by nonprofit organizations has been of relatively little interest to nonmanagement board members and the general public. An attitude of permissiveness, which focused on good works and a desire to minimize administrative costs, has permitted the issuance of financial statements that were often incomplete and misleading. Fund raisers, in an effort to build a climate responsive to their appeal, have tended to influence reporting in a way that emphasizes financial need. The accounting profession has either ignored the area entirely or has made excuses for inadequate reporting, often specifically excluding nonprofits when accounting principles were promulgated.

Expansion of State Regulation

Some recognition that this state of affairs was not in the public interest developed in the late 1950s. At that time, one particularly well-publicized charity fraud led to the expanded requirement in several states that specified financial data be filed annually with a branch of state government. This has since expanded to the point where more than thirty states now impose some type of reporting requirement.

Health and Welfare Standards

Since voluntary health and welfare organizations were among the most vulnerable to the adverse public reaction resulting from public charges of incomplete, incon-

sistent, and misleading financial reports, this sector of the nonprofit field reacted. A broadly representative committee was formed under the sponsorship of the National Health Council and the National Social Welfare Assembly to attempt to develop industry standards. The result was publication in 1964 of *Standards of Accounting and Financial Reporting for Voluntary Health and Welfare Organizations*.¹

This book, for the first time, attempted to deal with the broad range of accounting principles applicable to these organizations and to illustrate financial presentations that might serve as standards. The member agencies of the National Health Council, including most of the nation's largest voluntary health and welfare organizations, agreed to follow voluntarily the recommendations of the *Standards*.

Hospital Developments

During the 1960s the hospital sector, spurred in part by the growth of third parties as the principal providers of hospital revenues, recognized the need for more consistent and improved financial reports. The American Hospital Association issued a number of publications² designed to move the hospital industry toward such uniformity.

University Guidelines

Similarly, the nation's colleges developed accounting guidelines. Industry groups working with the American Council on Education issued a number of publications over the years, including, in 1968, the second edition of *College and University Business Administration*.³ This provided significant guidance in a number of business and related areas, including financial reporting.

Other Developments

By comparison, almost nothing was happening to deal with the problems of the thousands of other organizations. However, among the more significant of the industry-type efforts, the Catholic Bishops did issue *Diocesan Accounting and Financial Reporting*⁴ in 1971; the Club Managers Association of America updated *Uniform System of Accounts for Clubs*⁵ in 1967; the National Association of Independent Schools published *Accounting for Independent Schools*⁶ in 1969 and updated it in 1977; and the Association of Science-Technology Centers developed *Museum Accounting Guidelines*⁷ in 1976.

Lack of Accounting Profession Involvement

Notably absent in these activities was the American Institute of Certified Public Accountants (AICPA). Although accounting principles may become "generally accepted" by usage, they normally are not binding unless officially sanctioned by the accounting profession. The Accounting Principles Committee and later the Accounting Principles Board of the AICPA almost entirely ignored the needs of nonprofit organizations.

Initial Audit Guides

Nevertheless, the AICPA did begin to move haltingly in the mid-1960s to provide limited direction through the issuance of "audit guides." These booklets, although not carrying the weight of official pronouncements, do represent the best thought of the profession and practitioners may be called upon to justify departures.

The first of these was issued in 1967 and dealt with voluntary health and welfare organizations.⁸ Although it provided useful information regarding approaches to auditing, the guide did little to narrow the wide range of alternative accounting principles being followed.

Thus, for all practical purposes, the nonprofit sector entered the 1970s with no official guidance from the accounting profession. In fact, what little guidance did exist could be interpreted to say that nonprofit organizations were not covered by generally accepted accounting principles and that their financial statements could be viewed as "special-purpose reports."

Pressure for Improvement

However, the pressures had been building during the 1960s for more meaningful financial reports from the nonprofit sector. Government was spending an ever-increasing amount for health, education, and welfare services being delivered by these organizations. Government was also having difficulty in later determining from the financial reports how the funds had been used. The general public was becoming considerably more sophisticated and concerned about both the cost and the quality of services being delivered. Probably of greatest importance, however, was the fact that members sitting on the boards of exempt organizations no longer were satisfied to ignore their fiscal responsibilities. These developments, coupled with ever-increasing calls for action from within the accounting profession, finally moved the AICPA to take action.

Authoritative Literature

Early in the 1970s, several AICPA committees began work on definitive audit guides. As might be expected, the areas to receive first attention were those where the industry had already initiated its own efforts. The first result of this work was the publication in 1972 of the *Hospital Audit Guide*.⁹ Next was *Audits of Colleges and Universities*¹⁰ in 1973 and, finally, *Audits of Voluntary Health and Welfare Organizations*¹¹ in 1974. In each of these projects, the AICPA committees consulted extensively with industry representatives. However, certain differences in basic accounting principles between the AICPA guides and the existing industry literature developed. These and other needs for modification resulted in the issuance in 1974 of a revised edition of *College and University Business Administration*¹² and an AICPA *Statement of Position* to amend the 1973 university audit guide.¹³ In addition, a 1974 revision of *Standards of Accounting and Financial Reporting for Voluntary Health and Welfare Organizations*¹⁴ was issued. At the same time, United Way of America published its *Accounting and Financial Reporting—A Guide for United Ways and Not-for-Profit Human Service Organizations*.¹⁵

Filer Commission Study

These audit guides were significant in helping to standardize accounting and financial reporting, at least for the types of organizations specifically covered. Unfortunately, a broad spectrum of nonprofit organizations was still left to its own devices in selecting accounting principles and reporting formats. This was clearly illustrated in the *Accounting Advisory Committee Report to the Commission on Private Philanthropy and Public Needs*¹⁶ (Filer Commission) in 1974.

This survey of then-current nonprofit accounting practices demonstrated the

existing chaos in financial reporting both among and within segments of the industry. In addition, it pointed out the seemingly illogical differences in accounting for certain transactions and in recommended reporting principles among the three audit guides.

Nonprofit Accounting Statement

Partially in response to the interest generated by the report of the Accounting Advisory Committee, the AICPA Accounting Standards Executive Committee (AcSEC) formed a Subcommittee on Accounting for Nonprofit Organizations in 1975. This group was charged with the task of developing a statement of position on nonprofit accounting principles for organizations *not* covered by existing AICPA literature. Early in 1977, the Subcommittee issued a discussion draft for public comment containing a tentative set of accounting principles and reporting practices. This draft generated considerable response, with a wide divergence of opinion in several areas. The Subcommittee reviewed the results of the public exposure in the latter part of 1977 and issued a final draft statement of position for public comment in 1978. After approval by AcSEC the statement¹⁷ was presented to the Financial Accounting Standards Board (FASB). Until such time as the FASB acts on these issues, the statement of position will officially present the best accounting thought for guidance of practitioners, although no effective date was set pending further FASB action.

Financial Accounting Standards Board

In 1977 the Financial Accounting Standards Board, which is presently the official rule-making body of the profession, commissioned an exploratory research study of the conceptual issues relating to financial accounting in nonbusiness organizations. The results of this research, "Financial Accounting In Nonbusiness Organizations,"¹⁸ was published in May, 1978, and identified basic issues and the principal matters to consider in their resolution. At the same time, the FASB added to its agenda a project to determine the objectives of financial reporting by organizations other than business enterprises. A discussion memorandum entitled "An Analysis of Issues Related to Conceptual Framework for Financial Accounting and Reporting: Objectives of Financial Reporting by Nonbusiness Organizations"¹⁹ was issued in June, 1978, requesting public comment on the matters covered in the research report. The FASB also scheduled a series of hearings late in 1978 to permit additional views to be expressed. The ability of the FASB to satisfactorily resolve the inherent conflicts associated with these issues will ultimately determine the degree to which solutions are achieved to the long-standing problems of lack of credibility and consistency in nonprofit financial reporting.

Future Reconciliation

With the completion of the nonprofit statement of position, the AICPA now has four guides for nongovernmental, nonprofit organizations. As previously noted, the existing guides differ with respect to certain basic issues (e.g., health and welfare organizations and hospitals record depreciation; colleges and universities do not). The new statement differs in some ways from each of the other three. Accordingly, it is anticipated that one final effort will be made by an ongoing AICPA committee to reconcile the differences so that the underlying

logic and accounting principles will be both sound and consistent. This potentially could result in modifications to each of the guides. However, it is unlikely that this project will be initiated until the FASB conceptual framework has been established. At that time, it is expected that the AICPA documents, as amended, will provide the "standards" within the overall conceptual framework.

Focus on the Real Purposes

Although the record has not been good, it is clear that both the motivation and skills needed to provide the nonprofit sector with adequate techniques for reporting on its financial affairs are now in place. Although the outcome of the individual issues may be debated, it is universally recognized that the nonprofit sector cannot survive without fiscal credibility. The ability to report the financial record in a clear and understandable way will permit the development of fund-raising appeals based on financial facts. It will also permit the first steps in qualitative cost/benefit determinations which may be critical to the long-term survival of nonprofit organizations as a viable "third-sector" alternative to government and business in our society.

KEY ACCOUNTING CONCEPTS

Purpose of Financial Reports

Underlying any decisions regarding the techniques to be employed in preparation of an organization's financial statements is the need to focus on the purposes for which they are prepared. Normally, the management and active board members have access to detailed financial data needed to measure progress against stated goals. However, others outside of this group also have a legitimate interest in the affairs of the entity. It is for this latter group—contributors, third-party payers, members, beneficiaries, regulators, the general public—as well as for board members, that generally accepted accounting principles are needed to permit preparation of comparable and understandable annual financial statements.

Income Recognition

Earnings Concept The development of nonprofit financial reports is significantly impacted by the view taken of the process of income recognition. One approach considers that all receipts, with the exception of unrestricted contributions, must be "earned" in order to be retained. This concept most parallels that of commercial enterprises and provides a rationale for matching of income and expense as well as for considering certain contributions to have been made directly to the "capital" of the entity. Under this approach, which is essentially followed by hospitals and by universities, restricted expendable contributions are not reflected in the operating statement until spent.

Proponents of this concept note that since the operating statement most parallels that of a commercial business entity, it is more readily understood by businessmen and the public generally. Critics point out the difficulty of relating fund-raising costs to results, since restricted contributions are not shown in the operating statement until spent. Dispute also exists regarding the bypassing of the operating statement entirely for property and endowment gifts, which are reported directly in fund balances.

Stewardship Concept An alternative approach followed by voluntary health and welfare organizations focuses on the stewardship responsibility of the entity. Under this approach, the operating statement is designed to reflect the changes in assets made available to the organization to conduct its programs. Although certain revenues under this concept are matched with related costs (such as ticket sales and special event expenses), public support, whether restricted or not, is reported when available to the organization. Program and supporting service costs are reflected in the period incurred. This technique also requires that *all* support, including property and endowment gifts, be included in the determination of the net change in stewardship responsibility for the year.

Proponents of this approach point out the ability of the reader of the financial statements to focus on the entire activity of the entity in the operating statement, rather than on selected transactions. They believe that contributions are not "earned." Accordingly, restricted contributions and costs of operation are related only in that total contributions limit the scope of programs that may be conducted. Critics focus on the possible misunderstanding that may result by reporting an excess for the year, however labeled, which includes amounts that must be retained for permanent investment, property additions, or specified restricted purposes.

Compromise Revenue Concept The 1978 AICPA statement of nonprofit accounting principles suggests a third alternative. It would require reporting property and endowment gifts in the determination of the net change in stewardship for the year with appropriate segregation and disclosure of the "capital" nature of these gifts. However, gifts restricted for operating purposes by contributors would be reflected as deferred liabilities until spent, at which time "support" in amounts equal to the restricted activity expenses would be reported in the operating statement. A related and highly significant rule would necessitate that donor restrictions be considered to have been met whenever *any* costs are incurred that would legally satisfy the restriction. Thus, management would lose some flexibility in this area.

Those who favor this approach consider it to be a best representation of the economic facts, since it is possible that restricted gifts might be returned to the contributors if not spent. In addition, the requirement that restricted gifts be considered to have been spent whenever any costs are incurred that fall within the parameters of the restriction helps avoid possible "window dressing." This might be considered to have occurred when an organization would elect to charge unrestricted funds with all operating costs, even to the point of creating a deficit, while restricted funds are retained that might have been used for these purposes.

Critics maintain that the board of directors has the legal obligation to determine the proper uses for the funds entrusted to it and that this accounting rule may infringe on the ability to do so. Some would also argue that a concept of "capital" is as valid for a nonprofit entity as it is for a commercial one. Accordingly, at least property and endowment gifts are the equivalent of contributions of capital to a corporation by its stockholders, thereby justifying reporting of the receipt of these amounts directly in fund balances.

Need for Resolution The ultimate resolution of this issue is critical to the development of an underlying conceptual framework that will provide a basis for consistent financial presentation of the same facts by different types of nonprofit organizations. In the meantime, it is particularly important that the footnotes to the financial statements adequately disclose which principles have been employed.

Fund Accounting

To help assure that restrictions imposed by contributors are met, nonprofit organizations have traditionally employed fund accounting. This is a bookkeeping technique whereby separate self-balancing sets of asset, liability, income, expense, and fund balance accounts are maintained for each restricted gift or type of restriction. In addition, to help track compliance with self-imposed restrictions established by boards of directors, additional funds have often been set up or, in some cases, board-designated assets have been added to donor-restricted funds.

Reporting of Funds in Financial Statements Depending on the view taken of the nature of funds, as well as the purposes of financial reporting, nonprofit organizations have prepared financial statements with varying degrees of fund detail. Prior to the development of industry guidelines, some universities issued financial statements reporting on the activity in all funds—well over 100 in some cases. Although factual and informative, at least in a technical sense, such forms of financial reporting defied comprehension in terms of the overall activities and status of the organization.

With the development of accounting principles for at least some portion of the nonprofit sector, it has been acknowledged that grouping of funds with similar restrictions is essential for financial statement purposes. However, there continue to be differences regarding the propriety of presenting combined fund data as well as in the degree to which it is appropriate to combine third-party and internally restricted assets. However, agreement does exist with respect to the basic fund groupings.

Unrestricted funds: those available for use at the full discretion of the board.

Restricted funds: those over which third-party restrictions exist, but that are available for expenditure when the restricted activity is conducted.

Property funds: those that are restricted for or already invested in fixed assets.

Endowment funds: those that by third-party restriction must be invested for a specified period or in perpetuity to generate income for general or specific purposes.

Annuity funds: those required to be maintained with amounts contributed for this purpose to provide income to a beneficiary and ultimately make a remainder available for the organization.

Loan funds: those required by agreement to be maintained on a revolving basis for loan to others.

Custodial funds: those for which bookkeeping and custodial services are provided for another entity which controls the use of the funds.

Combined Fund Reporting The form of financial reporting presently followed by universities treats the separate funds as entities in themselves. Accordingly, total data for all funds are not shown and it is somewhat difficult to determine the overall status and operating results, particularly since certain interfund transfers are reported with support and expenses in the respective funds.

Hospitals generally report on a basis whereby a single-column operating statement is used (restricted contributions are included in this statement only when spent). However, fully separate balance sheets and statements of changes in fund balances for each fund group are illustrated in the industry audit guide.

Voluntary health and welfare organizations typically use columnar operating

statements, which show the activity for each fund as well as a total column. Either layered (fully separate) or columnar balance sheets are used.

The nonprofit accounting statement indicates a strong preference for total all-funds data. In addition, illustrative financial statements include examples that reflect combined expendable and combined nonexpendable data.

Impact on Contributors The current controversy regarding the best technique for reporting information regarding respective funds is fueled by a perception that simplistic overviews may be misleading. In order for nonprofit organizations to survive, they must look to parties outside the organization for support. These sources must understand that although endowment and fixed assets may create large fund balances, the organization may nevertheless be legitimately in need of current operating support. At the same time, adequate understanding requires that the data be presented in a way in which the overall operation and status are clear. To some extent this issue involves many of the same considerations involved in the development of techniques for reporting consolidated financial statements for business entities. The trend appears to be toward statements that will provide an overview as well as disclosure of restrictions imposed by third parties.

Combined Entity Reporting

Of probably even greater significance to many nonprofit organizations is the issue of combined financial reporting with related entities. Often control over these entities is clear and complete. However, unlike commercial organizations for which relationships may be more readily determined by stock ownership, many nonprofit organizations maintain loose affiliations or are serviced by auxiliaries over which they exercise little control. Nevertheless, these relationships must be probed in order to determine if an organization's financial statements are complete without including those of the affiliate. To date, the accounting profession has provided little guidance with respect to this issue.

Hospital Foundations Hospitals are particularly concerned with this issue. Developments in this industry over the last 10 years have shifted hospital revenue sources from private patients to third parties. Government, through Medicare and Medicaid programs, and insurance, through Blue Cross and other plans, have increasingly established hospital operating costs as the basis for reimbursement. Due to the significant escalation in health care costs caused by inflation, upgrading of compensation levels to attract and retain competent personnel, and technological advances, the third parties have also increasingly attempted to limit increases in reimbursement. For example, Medicare regulations require that the first possible qualifying costs be charged to funds restricted by contributors for specific operating purposes, so that the remaining cost pool to be reimbursed will be lower. Effectively, this has the result of using contributors' gifts to underwrite governmental programs rather than to enhance the quality of health care.

In view of this erosion of the giving base and the more significant threat to require offset of all gifts in the future, some hospitals have established foundations to solicit contributions on their behalf. Similarly, university foundations are often established to solicit and hold funds for ultimate use by state-owned universities. In these instances also, direct contributions to the institutions might simply result in reduced governmental appropriations.

Criteria for Combination The nonprofit accounting statement proposes criteria

along the following lines as an aid in determining when financial statements of significant affiliates should be combined for fair presentation.

The "parent" organization controls the affiliate; i.e., the "parent" has the ability, directly or indirectly, to cause the direction of the management and policies of the affiliate, whether through ownership or by contract or otherwise, and one of the following circumstances exists:

1. The affiliate raises funds in the name of the "parent" and substantially all proceeds are transferred to or used at the discretion of the "parent."
2. The "parent" transfers some of its resources to a separate entity whose resources are held for the benefit of the "parent."
3. The "parent" assigns functions to an affiliate whose funding is primarily derived from sources other than public contributions.

This requirement would have the effect of presenting financial statements that include all assets ultimately available to the organization and would eliminate misleading reporting. For example, a case of abuse in this area was cited in a recent Congressional investigation of charitable activities. In this instance, an organization in one state incurred high fund-raising costs as compared with amounts collected. The organization avoided the problem by obtaining a contribution from a related organization in another state, which resulted in an overall favorable relationship between total reported contributions and total fund-raising costs. Combined financial statements would have eliminated this opportunity and presented a fairer picture of the activities of the entity as a whole.

Probable Solution Establishing separate legal entities to house a portion of the assets will in the long run not stand the test of fair financial presentation, nor is it likely that such action will effectively shield these funds from third-party consideration. The underlying issue regarding financing of services must be dealt with on its merits rather than through the presentation of incomplete financial data. Similarly, agencies that use a common name to appeal for funds through a series of entities must face the issue of presenting combined data. The ultimate use of amounts transferred internally must be adequately reported and the costs of fund raising at all levels must be shown in a way that permits a determination of the results of the combined effort. Accordingly, it is likely that the accounting profession will move to require combined financial reporting in those circumstances where the control criteria noted above exist, whether exercised or not.

Property Accounting

Accounting for fixed assets has historically been one of the most controversial areas of nonprofit accounting. Extensive and conflicting hypotheses have been developed to relate the flow of capital in a nonprofit entity to funding and replacement concepts that differ from commercial entities. As a result, every possible combination of accounting techniques is presently in use by one nonprofit organization or another.

Capitalization of Assets Some organizations have capitalized fixed assets at their acquisition cost (or fair market value if received as a gift). Others have consistently charged all fixed assets to expense when acquired. Clearly the trend is in favor of capitalization—the audit guides for hospitals, universities, and volun-

tary health and welfare organizations as well as the nonprofit accounting statement all provide for this accounting. Omission of the cost of significant fixed assets from the balance sheet understates stewardship responsibility and misstates financial position.

Depreciation The theories regarding the propriety of depreciating fixed assets are many and varied. Some hold that a depreciation charge is appropriate only if an actual cash replacement fund is established in a like amount. Others indicate that since contributors paid for the assets to begin with, reporting of depreciation would somehow constitute a double "charge" to the contributor. Still others focus on the problems caused by inflation and the inadequacies of a cost-based accounting process, thereby concluding that depreciation for such entities may be unnecessary and impractical.

Present Practice The motivation to give recognition to depreciation increases when the organization is reimbursed for these costs. Accordingly, with the advent of Medicare in the 1960s, hospitals readily accepted and adopted depreciation accounting. Voluntary health and welfare organizations also have adopted depreciation accounting. However, their focus was more on the accounting concepts involved than the immediate promise of additional funding. Essentially, this concept focuses on the need to report all costs associated with the conduct of the exempt activity and identifies the use of fixed assets as one of these costs. Fully expensing the cost of fixed assets in the year of acquisition overstates the costs of that period, understates those of succeeding periods, and never reports how the assets are used to accomplish the exempt purpose. Capitalization without depreciation understates the costs of operation, as illustrated by statements of organizations that differ only in that one owns its building while the other rents. University financial statements would differ from each other in this way since depreciation is not presently required, although as a practical matter, almost all own their property.

Trends Depreciation accounting is proposed by the nonprofit accounting statement. Again the trend seems clear. It is relevant to determine the cost of providing services as an essential part of reporting on the stewardship process. Whenever fixed assets are significant in amount, their cost should be allocated in a systematic and rational manner over their useful lives. This is neither a process of funding or replacement, which are budgeting and financing issues, but simply a matter of associating the costs of facilities and equipment with the programs for which they are used.

Investments

To some extent, nonprofit organizations have been ahead of the business sector in developing meaningful techniques for reporting investment activity. Traditional generally accepted accounting principles have been based on an underlying rule learned by all accountants in their first week of basic accounting study, that is, "anticipate no profits and provide for all losses." Accordingly, commercial accounting requires carrying investments at values no higher than cost and writing them down to market in certain instances. This accounting gives no recognition to the fact that a decision to hold a security is as much an investment decision as is a decision to buy or sell. Thus, at least in the case of readily marketable securities, a better measure of stewardship is attained by relating investment income to the market value of the portfolio rather than to its original cost.

Cost-or-Market Alternative Present accounting for universities, for voluntary health and welfare organizations, and that proposed by the nonprofit accounting statement, permits carrying investments at cost or at market, provided only that the option chosen is followed consistently. The hospital audit guide provides only for traditional cost-based accounting.

Clarification Needed Although the use of market as a basis for reporting investments should provide a better measure of management effectiveness and of the current financial status of the organization, the fact that cost may also be elected results in inconsistency and confusion. Again, organizations with exactly the same financial situation might report vastly different status and results due solely to the basis used for reporting investments.

Receivables

Since the accrual basis of accounting has been or will shortly be the only acceptable basis of accounting for nonprofit organizations, income should be recorded when earned, even if not yet received. Accordingly, receivables must be recorded, some of which, such as legacies, pledges, and grants, are unique to these types of entities.

Legacies Problems are often encountered in determining the time at which recognition should be given in the financial statements to legacies and bequests. Although income from this source is often significant, uncertainties exist regarding possible other claims against the estate as well as potential market value changes while the assets are under control of the executor. As a result, it has been generally acknowledged that legacies receivable should be recorded at the time that an unassailable right has been established in favor of the organization and the proceeds are measurable in amount. Normally, this is late in the legal process. Prior to this time, the organization should disclose in a footnote the existence of such contingent assets.

Pledges Pledges of future support are solicited by many organizations, ranging from local United Way campaigns to university building-fund drives. However, guidance from the AICPA regarding accounting for this source of income is also conflicting at present. Universities are permitted the option of recording such pledges or of simply disclosing their existence in a footnote. Hospitals and health and welfare organizations are required to recognize written pledges as assets, subject to normal evaluation procedures needed to provide for estimated uncollected amounts. Since the nonprofit accounting statement also would require recording pledges, it appears clear that this technique will ultimately prevail.

A related issue involves the time at which recorded pledges receivable should be recognized as income. The nonprofit accounting statement would permit deferral in the liability section of the balance sheet of pledges containing a payment schedule until each scheduled payment date arrives. This gives recognition to the effective restriction imposed by the contributor in establishing the payment schedule; that is, in the absence of language to the contrary, the support is restricted for future use.

Grants Grants receivable are simply a type of pledge receivable, although the term is normally associated with institutions, foundations, and government agencies rather than individual givers. The *University Audit Guide* takes the position that grants not yet funded should not be recorded until services are provided. However, the nonprofit accounting statement provides that grants which

are the equivalent of contributions should be recorded at the time the recipient receives notification. Income should be recognized during the periods to which the grant applies. If silent, the payment schedule will determine the proper period.

Some grants, however, take the form of contracts requiring performance on the part of the recipient before entitlement to the grant is established. In these cases, percentage of completion accounting is normally appropriate.

Grants Payable

The nonprofit accounting statement provides that recognition should be given to the liability for grants awarded to others at the time that written notification is sent to the recipient. Even though the grant may contain a payment schedule, the liability of the granting organization is established at this point and expense should be recorded for the full amount. The fact that the recipient organization may consider future scheduled payments to be an effective restriction and therefore treat such amounts as a deferred liability does *not* impact the accounting on the part of the granting entity. If the liability is fixed, subject only to the passage of time, the granting entity should give full and immediate recognition to the grant.

Contributed Services

In order to report adequately on the full scope of operations of a nonprofit entity, the financial statements should reflect accountability for all gifts received, regardless of their nature. This includes gifts of money, securities, inventory, fixed assets, use of facilities, professional or other services. Practical problems are encountered, however, in assigning values to less liquid assets, and questions are raised regarding the purpose and benefit of attempting to value volunteer services. The existing authoritative literature requires that contributions in forms other than money be recorded at their market value at date of gift. In certain cases, this requires that independent appraisals be obtained, that professionals be requested to advise the organization of the contribution element in their services, or that the rental value of comparable facilities be determined.

Criteria for Recognition Valuing contributed services involves unique problems due both to the assignment of monetary values and to the determination that productive services have been received. Accordingly, the practical application of this concept has evolved to the point where the value of such services should be recorded only if it can be clearly demonstrated that all three of the following exist.

1. The organization exercises employee-like control over the volunteer. This involves determining what work shall be done, who shall do it, how, when, and where.
2. The work is within the mainstream of the organization's program or supporting service activities. This means that peripheral but unnecessary volunteer effort would not qualify for recording. In addition, a determination must be made that the organization would hire someone to do the work if the funds were available and the volunteer was not.
3. There is a clearly measurable basis for assigning values. This requires that a reasonably objective technique exist for determining how much would have to be paid in the local community to employ someone with the skills

needed to perform the required tasks. This also requires that a record be maintained of hours worked by the volunteer.

The services of nuns as nurses in a hospital operated by a religious order would normally clearly qualify under these criteria, and the value of services provided in excess of stipends paid would be recorded as a contribution. The services of volunteer fund raisers in a door-to-door fund-raising effort would normally not qualify for recording because of the lack of the employer/employee-type relationship required under the first criterion. In those instances where volunteer services are significant but do not qualify for recording, footnote disclosure should be made of this fact together with commentary regarding the scope and impact of the unrecorded volunteer effort.

Functional Expense Reporting

Unlike for-profit entities, whose "bottom line" provides some indication of success in the goal of accumulation of wealth, exempt organizations may be most successful when they use their income promptly and effectively. Accordingly, although it is important to determine whether more has been spent than received during a period, the real measure of success must be found in the degree to which the organization accomplishes its stated objectives. An important step in this evaluation process should be a determination of the costs of each program. As a result, increasing requirements have evolved for reporting of expenses in "functional" categories. This is most highly developed in the voluntary health and welfare field, where expenses are allocated into three basic categories, as follows:

1. **Program services** the costs of carrying out the activities that accomplish the organization's goals. Normally expenses are reported in several program categories covering each major area of effort.
2. **Management and general** the costs associated with the basic stewardship and management effort needed to have the corporate vehicle to deliver the program services. These costs include bookkeeping, auditing, overall direction, general board activities, and similar necessary expenses which provide an overall general benefit.
3. **Fund raising** costs associated with obtaining the resources needed to conduct the program. Grant solicitations, contract proposals, and membership development fall in this general area of effort, although normally identified separately from public fund raising, if significant.

Both hospitals and universities employ techniques that provide for partial allocation of costs into functional categories. The nonprofit accounting statement proposes expense reporting employing the health and welfare approach if public support is significant. The trend in this area appears to be in the direction of functional-type reporting which seeks to determine not simply the amounts paid for salaries, rent, and so on, but how the employees utilized their time and available facilities. Ultimately, related statistical data useful in determining unit cost where applicable, as well as measures of quality of effort must be developed to fully accomplish this objective.

Generally Accepted Accounting Principles

As indicated previously, the accounting profession has often specified that accounting principles applicable to commercial entities do not apply to nonprofit

organizations. The hospital audit guide dealt with this issue unequivocally by indicating that such principles do apply unless they are inapplicable. Although a number of differences remain to be resolved among existing authoritative literature in the nonprofit field, the evolution is in the direction of acceptance of existing commercial accounting principles for all applicable issues and the adoption of an underlying set of concepts applicable to those areas that are unique to nonprofits. This resolution is sorely needed.

Other Issues

This review of key accounting and reporting concepts has been limited to those issues that have broadest applicability and greatest impact on the form and content of financial reports. Other issues exist and must be resolved, particularly as they relate to individual types of nonprofit entities. For example, with few exceptions, museums issue financial statements that do not report the collection as an asset. Although arguments are strong in support of this practice, a basic question exists as to whether or not this technique deals adequately with the organization's full stewardship responsibility. The resolution of these matters must also result in the consistent application of a sound underlying logic if the procedures are to be adopted by those affected.

Form of Financial Statements

The form of financial reporting employed by an organization significantly impacts the effectiveness of communication of its financial message. As previously noted, current practice varies widely. Even the financial statement illustrations included in the AICPA audit guides differ significantly from each other in several important respects. Nevertheless, they illustrate acceptable ways of complying with the recommended accounting principles for the types of organizations involved. The nonprofit accounting statement illustrates several possible ways of preparing financial statements; each would be acceptable in appropriate circumstances.

As an aid to those who are preparing financial statements, the illustrations included in the hospital, university, and voluntary health and welfare audit guides are reproduced herein. Those of an independent school included in the nonprofit accounting statement appear as Appendix 2 following Section 6.

The Future

The elements needed to resolve the long-standing problems associated with nonprofit financial reporting are now in place. Although much has been done, a great deal remains. In addition to guidance for accountants, both in and out of public practice, education is needed for financial statement users, both in and out of the organizations themselves. Readers must be in a position to understand the data presented, and to make comparisons with other organizations. They also must understand the inherent limitations that exist in communicating goals accomplishment as well as the needs for continued support. This is a challenging and exciting opportunity. The degree to which it is accomplished will significantly shape the future role of this third sector of our society.

NOTES

¹ National Health Council and National Social Welfare Assembly, *Standards of Accounting and Financial Reporting for Voluntary Health and Welfare Organizations*, New York, 1964.

² American Hospital Association, *Accounting Manual for Long-Term Care Institutions*, Chicago, 1968; *Chart of Accounts for Hospitals*, Chicago, 1966; *Uniform Hospital Definitions*, Chicago, 1960.

³ American Council on Education, *College and University Business Administration*, rev. ed., Washington, D.C., 1968.

⁴ National Conference of Catholic Bishops, *Diocesan Accounting and Financial Reporting*, Washington, D.C., 1971.

⁵ Club Managers Association of America, *Uniform System of Accounts for Clubs*, 2nd ed., rev., Washington, D.C., 1967.

⁶ National Association of Independent Schools, *Accounting for Independent Schools*, 2nd ed., Boston, 1977.

⁷ Association of Science-Technology Centers, *Museum Accounting Guidelines*, Washington, D.C., 1976.

⁸ American Institute of Certified Public Accountants, *Audits of Voluntary Health and Welfare Organizations*, New York, 1967.

⁹ American Institute of Certified Public Accountants, *Hospital Audit Guide*, New York, 1972.

¹⁰ American Institute of Certified Public Accountants, *Audits of Colleges and Universities*, New York, 1973.

¹¹ American Institute of Certified Public Accountants, *Audits of Voluntary Health and Welfare Organizations*, New York, 1974.

¹² National Association of College and University Business Officers, *College and University Business Administration*, 3rd ed., Washington, D.C., 1974.

¹³ American Institute of Certified Public Accountants, *Statement of Position 74-8 on Financial Accounting and Reporting by Colleges and Universities*, New York, 1974.

¹⁴ National Health Council, Inc., National Assembly of National Voluntary Health and Social Welfare Organizations, Inc., and United Way of America, *Standards of Accounting and Financial Reporting for Voluntary Health and Welfare Organizations*, rev. ed., New York, 1974.

¹⁵ United Way of America, *Accounting and Financial Reporting—A Guide for United Ways and Not-for-Profit Human Service Organizations*, Alexandria, Va., 1974.

¹⁶ Commission on Private Philanthropy and Public Needs, *Accounting Advisory Committee Report to the Commission on Private Philanthropy and Public Needs*, Washington, D.C., 1974.

¹⁷ American Institute of Certified Public Accountants, *Statement of Position 78-10 on Accounting Principles and Reporting Practices for Certain Nonprofit Organizations*, New York, 1979.

¹⁸ Financial Accounting Standards Board, *Financial Accounting in Nonbusiness Organizations*, Stamford, Conn., 1978.

¹⁹ Financial Accounting Standards Board, *FASB Discussion Memorandum—An Analysis of Issues Related to Conceptual Framework for Financial Accounting and Reporting: Objectives of Financial Reporting by Nonbusiness Organizations*, Stamford, Conn., 1978.

ILLUSTRATIVE FINANCIAL STATEMENTS

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Sample Hospital
Balance Sheet
December 31, 19__

Comparative Figures for 19__

<i>Assets</i>	<i>Current Year</i>	<i>Prior Year</i>	<i>Liabilities and Fund Balances</i>	<i>Current Year</i>	<i>Prior Year</i>
<i>Unrestricted Funds</i>					
Current:			Current:		
Cash	\$ 133,000	\$ 33,000	Notes payable to banks	\$ 227,000	\$ 300,000
Receivables (Note 3)	1,382,000	1,269,000	Current installments of long-term debt (Note 5)	90,000	90,000
Less—Estimated uncollectibles and allowances	(160,000)	(105,000)	Accounts payable	450,000	463,000
	1,222,000	1,164,000	Accrued expenses	150,000	147,000
Due from restricted funds	215,000	—	Advances from third-party payors	300,000	200,000
Inventories (if material, state basis)	176,000	183,000	Deferred revenue	10,000	10,000
Prepaid expenses	68,000	73,000	Total current liabilities	1,227,000	1,210,000
Total current assets	1,814,000	1,453,000	Deferred revenue—third-party reimbursement (Note 4)	200,000	90,000
Other:			Long-term debt (Note 5):		
Cash (Note 2)	143,000	40,000	Housing bonds	500,000	520,000
Investments (Notes 1 and 2)	1,427,000	1,740,000	Mortgage note	1,200,000	1,270,000
Property, plant, and equipment (Notes 4 and 5)	11,028,000	10,375,000	Total long-term debt	1,700,000	1,790,000
Less—Accumulated depreciation	(3,885,000)	(3,600,000)	Fund balance*	7,400,000	6,918,000
Net property, plant, and equipment	7,143,000	6,775,000			
Total (Note 2)	\$10,527,000	\$10,008,000	Total	\$10,527,000	\$10,008,000

Restricted Funds

Specific purpose funds:			Specific purpose funds:		
Cash	\$ 1,260	\$ 1,000	Due to unrestricted funds	\$ 215,000	\$ —
Investments (Note 1)	200,000	70,000	Fund balances:		
Grants receivable	90,000	—	Research grants	15,000	30,000
			Other	61,260	41,000
Total specific purpose funds	\$ 291,260	\$ 71,000		76,260	71,000
Plant replacement and expansion funds:			Total specific purpose funds	\$ 291,260	\$ 71,000
Cash	\$ 10,000	\$ 450,000	Plant replacement and expansion funds:		
Investments (Note 1)	800,000	290,000	Fund balances:		
Pledges receivable, net of estimated uncollectible	20,000	360,000	Restricted by third-party payors	\$ 380,000	\$ 150,000
Total plant replacement and expansion funds	\$ 830,000	\$ 1,100,000	Other	450,000	950,000
Endowment funds:			Total plant replacement and expansion funds	\$ 830,000	\$ 1,100,000
Cash	\$ 50,000	\$ 33,000	Endowment funds:		
Investments (Note 1)	6,100,000	3,942,000	Fund balances:		
Total endowment funds	\$ 6,150,000	\$ 3,975,000	Permanent endowment	\$ 4,850,000	\$ 2,675,000
			Term endowment	1,300,000	1,300,000
			Total endowment funds	\$ 6,150,000	\$ 3,975,000

See accompanying Notes to Financial Statements.

* Composition of the fund balance may be shown here, on the Statement of Changes in Fund Balance (such as illustrated in Exhibit D), or in a footnote.

Sample Hospital
Statement of Revenues and Expenses
 Year Ended December 31, 19__
 With Comparative Figures for 19__

EXHIBIT B

	<i>Current Year</i>	<i>Prior Year</i>
Patient service revenue	\$8,500,000	\$8,000,000
Allowances and uncollectible accounts (after deduction of related gifts, grants, subsidies, and other income—\$55,000 and \$40,000) (Notes 3 and 4)	(1,777,000)	(1,700,000)
Net patient service revenue	6,723,000	6,300,000
Other operating revenue (including \$100,000 and \$80,000 from specific purpose funds)	184,000	173,000
Total operating revenue	6,907,000	6,473,000
Operating expenses:		
Nursing services	2,200,000	2,000,000
Other professional services	1,900,000	1,700,000
General services	2,100,000	2,000,000
Fiscal services	375,000	360,000
Administrative services (including interest expense of \$50,000 and \$40,000)	400,000	375,000
Provision for depreciation	300,000	250,000
Total operating expenses	7,275,000	6,685,000
Loss from operations	(368,000)	(212,000)
Nonoperating revenue:		
Unrestricted gifts and bequests	228,000	205,000
Unrestricted income from endowment funds	170,000	80,000
Income and gains from board-designated funds	54,000	41,000
Total nonoperating revenue	452,000	326,000
Excess of revenues over expenses	\$ 84,000	\$ 114,000

See accompanying Notes to Financial Statements.

Sample Hospital
Statement of Changes in Fund Balances
 Year Ended December 31, 19__
 With Comparative Figures for 19__

EXHIBIT C

	<i>Current Year</i>	<i>Prior Year</i>
<i>Unrestricted Funds</i>		
Balance at beginning of year	\$6,918,000	\$6,242,000
Excess of revenues over expenses	84,000	114,000
Transferred from plant replacement and expansion funds to finance property, plant, and equipment expenditures	628,000	762,000
Transferred to plant replacement and expansion funds to reflect third-party payor revenue restricted to property, plant, and equipment replacement	(230,000)	(200,000)
Balance at end of year	<u>\$7,400,000*</u>	<u>\$6,918,000</u>
<i>Restricted Funds</i>		
Specific purpose funds:		
Balance at beginning of year	\$ 71,000	\$ 50,000
Restricted gifts and bequests	35,000	20,000
Research grants	35,000	45,000
Income from investments	35,260	39,000
Gain on sale of investments	8,000	—
Transferred to:		
Other operating revenue	(100,000)	(80,000)
Allowances and uncollectible accounts	(8,000)	(3,000)
Balance at end of year	<u>\$ 76,260</u>	<u>\$ 71,000</u>
Plant replacement and expansion funds:		
Balance at beginning of year	\$1,100,000	\$1,494,000
Restricted gifts and bequests	113,000	150,000
Income from investments	15,000	18,000
Transferred to unrestricted funds (described above)	(628,000)	(762,000)
Transferred from unrestricted funds (described above)	230,000	200,000
Balance at end of year	<u>\$ 830,000</u>	<u>\$1,100,000</u>
Endowment funds:		
Balance at beginning of year	\$3,975,000	\$2,875,000
Restricted gifts and bequests	2,000,000	1,000,000
Net gain on sale of investments	175,000	100,000
Balance at end of year	<u>\$6,150,000</u>	<u>\$3,975,000</u>

See accompanying Notes to Financial Statements.

* Composition of the balance may be shown here, on the balance sheet, or in a footnote.

Sample Hospital
Statement of Changes in Financial Position of Unrestricted Fund
 With Comparative Figures for 19____
 Year Ended December 31, 19____

EXHIBIT E

	Current Year	Prior Year
Funds provided:		
Loss from operations	\$ (368,000)	\$ (212,000)
Deduct (add) items included in operations not requiring (providing) funds:		
Provision for depreciation	300,000	250,000
Increase in deferred third-party reimbursement	110,000	90,000
Revenue restricted to property, plant, and equipment replacement transferred to plant replacement and expansion fund	(230,000)	(200,000)
Funds required for operations	(188,000)	(72,000)
Nonoperating revenue	452,000	326,000
Funds derived from operations and nonoperating revenues	264,000	254,000
Decrease in board-designated funds	210,000	—
Property, plant, and equipment expenditures financed by plant replacement and expansion funds	628,000	762,000
Decrease in working capital	—	46,000
	<u>\$1,102,000</u>	<u>\$1,062,000</u>
	Current Year	Prior Year
Funds applied:		
Additions to property, plant, and equipment	\$ 668,000	\$ 762,000
Reduction of long-term debt	90,000	90,000
Increase in board-designated funds	—	210,000
Increase in working capital	344,000	—
	<u>\$1,102,000</u>	<u>\$1,062,000</u>
Changes in working capital:		
Increase (decrease) in current assets:		
Cash	\$ 100,000	\$ (50,000)
Receivables	58,000	75,000
Due from restricted funds	215,000	(100,000)
Inventories	(7,000)	16,000
Prepaid expenses	(5,000)	1,000
	<u>361,000</u>	<u>(58,000)</u>
Increase (decrease) in current liabilities:		
Note payable to banks	(73,000)	50,000
Accounts payable	(13,000)	10,000
Accrued expenses	3,000	2,000
Advances from third-party payors	100,000	40,000
Deferred revenue	—	2,000
	<u>17,000</u>	<u>104,000</u>
Increase (decrease) in working capital	<u>\$ 344,000</u>	<u>\$ (46,000)</u>

See accompanying Notes to Financial Statements.

Sample Hospital
Notes to Financial Statements
 December 31, 19____

Note 1 Investments are stated in the financial statements at cost. Cost and quoted market values at December 31, _____ are summarized as follows:

	Cost	Quoted Market
Board-designated funds	\$1,427,000	\$1,430,000
Specific-purpose funds	200,000	210,000
Plant replacement and expansion funds	800,000	838,000
Endowment funds	6,100,000	8,200,000

Note 2 Of total unrestricted assets of \$10,527,000, \$1,570,000 has been designated for expansion of outpatient facilities; these assets are shown as other assets because they are not expected to be expended during 19____.

Note 3 Revenues received under cost reimbursement agreements totaling \$4,000,000 for the current year and \$3,000,000 for the prior year are subject to audit and retroactive adjustment by third-party payors. Provisions for estimated retroactive adjustments under these agreements have been provided.

Note 4 Property, plant, and equipment is stated at cost. A summary of the accounts and the related accumulated depreciation follows:

	Cost	Accumulated Depreciation
Land	\$ 300,000	\$ —
Land improvements	140,000	100,000
Buildings	7,088,000	2,885,000
Fixed equipment	2,000,000	800,000
Movable equipment	1,500,000	100,000
	<u>\$11,028,000</u>	<u>\$3,885,000</u>

Depreciation is determined on a straight-line basis for financial statement purposes. The hospital uses accelerated depreciation to determine reimbursable costs under certain third-party reimbursement agreements. Cost reimbursement revenue in the amount of \$110,000 resulting from the difference in depreciation methods is deferred in the current year and will be taken into income in future years.

Note 5 The 3 percent housing bonds are payable in varying annual amounts to 19____ and are collateralized by a mortgage on a nurses' residence carried at \$800,000.

The mortgage note is payable in quarterly installments of \$17,500 with interest at 4 percent through 19____, and is collateralized by land and buildings carried at \$2,800,000.

Note 6 The hospital has a noncontributory pension plan covering substantially all employees. Total pension expense for the year was \$48,000, which includes amortization of prior service cost over a period of 20 years. The hospital's policy is to fund pension costs accrued. The actuarially computed value of vested benefits as of December 31, 19____ exceeds net assets of the pension fund and balance sheet accruals by approximately \$156,000.

Sar Educational Institution
Balance Sheet
June 30, 19—
with comparative figures at June 30, 19—

<i>Assets</i>			<i>Liabilities and Fund Balances</i>		
	<i>Current Year</i>	<i>Prior Year</i>		<i>Current Year</i>	<i>Prior Year</i>
<i>Current Funds</i>			<i>Current Funds</i>		
Unrestricted			Unrestricted		
Cash	\$ 210,000	\$ 110,000	Accounts payable	\$ 125,000	\$ 100,000
Investments	450,000	360,000	Accrued liabilities	20,000	15,000
Accounts receivable, less allowance			Students' deposits	30,000	35,000
of \$18,000 both years	228,000	175,000	Due to other funds	158,000	120,000
Inventories, at lower of cost (first-			Deferred credits	30,000	20,000
in, first-out basis) or market	90,000	80,000	Fund balance	643,000	455,000
Prepaid expenses and deferred					
charges	28,000	20,000	Total unrestricted	1,006,000	745,000
Total unrestricted	1,006,000	745,000			
Restricted			Restricted		
Cash	145,000	101,000	Accounts payable	14,000	5,000
Investments	175,000	165,000	Fund balances	446,000	421,000
Accounts receivable, less allowance					
of \$8,000 both years	68,000	160,000	Total restricted	460,000	426,000
Unbilled charges	72,000	—	Total current funds	\$ 1,466,000	\$ 1,171,000
Total restricted	460,000	426,000			
Total current funds	\$ 1,466,000	\$ 1,171,000			

<i>Loan Funds</i>		
Cash	\$ 30,000	\$ 20,000
Investments	100,000	100,000
Loans to students, faculty, and staff,		
less allowance of \$10,000 current		
year and \$9,000 prior year	550,000	382,000
Due from unrestricted funds	3,000	—
Total loan funds	\$ 683,000	\$ 502,000

<i>Endowment and Similar Funds</i>		
Cash	\$ 100,000	\$ 101,000
Investments	13,900,000	11,800,000
Total endowment and similar		
funds	\$14,000,000	\$11,901,000

<i>Annuity and Life Income Funds</i>		
<i>Annuity funds</i>		
Cash	\$ 55,000	\$ 45,000
Investments	3,260,000	3,010,000
Total annuity funds	3,315,000	3,055,000
<i>Life income funds</i>		
Cash	15,000	15,000
Investments	2,045,000	1,740,000
Total life income funds	2,060,000	1,755,000
Total annuity and life income		
funds	\$ 5,375,000	\$ 4,810,000

<i>Loan Funds</i>		
<i>Fund balances</i>		
U.S. government grants refundable	\$ 50,000	\$ 33,000
<i>University funds</i>		
Restricted	483,000	369,000
Unrestricted	150,000	100,000
Total loan funds	\$ 683,000	\$ 502,000

<i>Endowment and Similar Funds</i>		
<i>Fund balances</i>		
Endowment	\$ 7,800,000	\$ 6,740,000
Term endowment	3,840,000	3,420,000
Quasi-endowment—unrestricted	1,000,000	800,000
Quasi-endowment—restricted	1,360,000	941,000
Total endowment and similar		
funds	\$14,000,000	\$11,901,000

<i>Annuity and Life Income Funds</i>		
<i>Annuity funds</i>		
Annuities payable	\$ 2,150,000	\$ 2,300,000
Fund balances	1,165,000	755,000
Total annuity funds	3,315,000	3,055,000
<i>Life income funds</i>		
Income payable	5,000	5,000
Fund balances	2,055,000	1,750,000
Total life income funds	2,060,000	1,755,000
Total annuity and life income		
funds	\$ 5,375,000	\$ 4,810,000

Agency Funds			Agency Funds		
Cash	\$ 50,000	\$ 70,000	Deposits held in custody for others	\$ 110,000	\$ 90,000
Investments	60,000	20,000	Total agency funds	<u>\$ 110,000</u>	<u>\$ 90,000</u>
Total agency funds	<u>\$ 110,000</u>	<u>\$ 90,000</u>			

See accompanying Summary of Significant Accounting Policies and Notes to Financial Statements.

Sample Educational Institution Statement of Changes in Fund Balances
Year Ended June 30, 19__

		Plant Funds							
Current Funds		Loan Funds	Endowment and Similar Funds	Annuity and Life Income Funds	Unexpended	Renewals and Replacements	Retirement of Indebtedness	Investment in Plant	
Unrestricted	Restricted								
Revenues and Other Additions									
Unrestricted current fund revenues	\$7,540,000					\$ 50,000			
Expired term endowment—restricted						50,000			
State appropriations—restricted		\$ 500,000							
Federal grants and contracts—restricted									
Private gifts, grants, and contracts—restricted		370,000	\$100,000	\$ 1,500,000	\$ 800,000	115,000		\$ 65,000	\$ 15,000
Investment income—restricted		224,000	12,000	10,000		5,000	\$ 5,000	5,000	
Realized gains on investments—unrestricted				109,000					
Realized gains on investments—restricted			4,000	50,000		10,000	5,000	5,000	
Interest on loans receivable			7,000						
U.S. government advances			18,000						
Expended for plant facilities (including \$100,000 charged to current funds expenditures)									1,550,000
Retirement of indebtedness								3,000	220,000
Accrued interest on sale of bonds									
Matured annuity and life income restricted to endowment				10,000					
Total revenues and other additions	7,540,000	1,094,000	141,000	1,679,000	800,000	230,000	10,000	78,000	1,785,000
Expenditures and Other Deductions									
Educational and general expenditures	\$4,400,000	\$1,014,000							
Auxiliary enterprises expenditures	1,830,000								
Indirect costs recovered		35,000							
Refunded to grantors		20,000	\$ 10,000						
Loan cancellations and write-offs			1,000						
Administrative and collection costs			1,000						
Adjustment of actuarial liability for annuities payable								\$ 1,000	
Expended for plant facilities (including noncapitalized expenditures of \$50,000)					\$ 75,000				
Retirement of indebtedness						\$1,200,000	\$300,000		
Interest on indebtedness								220,000	
Disposal of plant facilities								190,000	
Expired term endowments (\$40,000 unrestricted, \$50,000 restricted to plant) ..				\$ 90,000					\$ 115,000
Matured annuity and life income funds restricted to endowment					10,000				
Total expenditures and other deductions	6,230,000	1,069,000	12,000	90,000	85,000	1,200,000	300,000	411,000	115,000
Transfers Among Funds—Additions/(Deductions)									
Mandatory:									
Principal and interest	\$ (340,000)								
Renewals and replacements	\$ (170,000)							\$340,000	
Loan fund matching grant	(2,000)		\$ 2,000				\$170,000		
Unrestricted gifts allocated	(650,000)		50,000	\$ 550,000		\$ 50,000			
Portion of unrestricted quasi-endowment funds investment gains appropriated	40,000			(40,000)					
Total transfers	(1,122,000)		52,000	510,000		50,000	170,000	\$340,000	
at increase/(decrease) for the year	188,000	\$ 25,000	181,000	2,099,000	\$ 715,000	(920,000)	(120,000)	7,000	\$ 1,670,000
Fund balance at beginning of year	455,000	421,000	502,000	11,901,000	2,505,000	2,120,000	380,000	293,000	36,540,000
Fund balance at end of year	\$ 643,000	\$ 446,000	\$683,000	\$14,000,000	\$3,220,000	\$1,200,000	\$260,000	\$300,000	\$38,210,000

See accompanying Summary of Significant Accounting Policies and Notes to Financial Statements.

Sample Educational Institution
Statement of Current Funds Revenues, Expenditures, and Other Changes
Year Ended June 30, 19__

EXHIBIT 3

	Current Year			Prior Year Total
	Un- restricted	Restricted	Total	
<i>Revenues</i>				
Tuition and fees	\$2,600,000		\$2,600,000	\$2,300,000
Federal appropriations	500,000		500,000	500,000
State appropriations	700,000		700,000	700,000
Local appropriations	100,000		100,000	100,000
Federal grants and contracts	20,000	\$ 375,000	395,000	350,000
State grants and contracts	10,000	25,000	35,000	200,000
Local grants and contracts	5,000	25,000	30,000	45,000
Private gifts, grants, and contracts	850,000	380,000	1,230,000	1,190,000
Endowment income	325,000	209,000	534,000	500,000
Sales and services of educational departments	190,000		190,000	195,000
Sales and services of auxiliary enterprises	2,200,000		2,200,000	2,100,000
Expired term endowment	40,000		40,000	
Other sources (if any)				
Total current revenues	<u>7,540,000</u>	<u>1,014,000</u>	<u>8,554,000</u>	<u>8,180,000</u>
<i>Expenditures and Mandatory Transfers</i>				
Educational and general:				
Instruction	\$2,960,000	\$ 489,000	\$3,449,000	\$3,300,000
Research	100,000	400,000	500,000	650,000
Public service	130,000	25,000	155,000	175,000
Academic support	250,000		250,000	225,000
Student services	200,000		200,000	195,000
Institutional support	450,000		450,000	445,000
Operation and maintenance of plant	220,000		220,000	
Scholarships and fellowships	90,000		90,000	200,000
Educational and general expenditures	4,400,000	100,000	190,000	180,000
Mandatory transfers for:		1,014,000	5,414,000	5,370,000
Principal and interest	90,000			
Renewals and replacements	100,000		90,000	50,000
Loan fund matching grant	2,000		100,000	80,000
Total educational and general	<u>4,592,000</u>		2,000	
Auxiliary enterprises:		1,014,000	5,606,000	5,500,000
Expenditures	1,830,000		1,830,000	1,730,000
Mandatory transfers for:				
Principal and interest	250,000		250,000	
Renewals and replacements	70,000		70,000	250,000
Total auxiliary enterprises	<u>2,150,000</u>		<u>70,000</u>	<u>70,000</u>
Total expenditures and mandatory transfers	<u>6,742,000</u>	<u>1,014,000</u>	<u>7,756,000</u>	<u>2,050,000</u>
<i>Other Transfers and Additions/(Deductions)</i>				
Excess of restricted receipts over transfers to revenues				
Refunded to grantors		\$ 45,000	\$ 45,000	\$ 40,000
Unrestricted gifts allocated to other funds		(20,000)	(20,000)	
Portion of quasi-endowment gains appropriated	\$ (650,000)		(650,000)	(510,000)
Net increase in fund balances	<u>40,000</u>		40,000	
	<u>\$ 188,000</u>	<u>\$ 25,000</u>	<u>\$ 213,000</u>	<u>\$ 160,000</u>
See accompanying Summary of Significant Accounting Policies and Notes to Financial Statements				

See accompanying Summary of Significant Accounting Policies and Notes to Financial Statements.

Sample Educational Institution Summary of Significant Accounting Policies June 30, 19__

The significant accounting policies followed by Sample Educational Institution are described below to enhance the usefulness of the financial statements to the reader:

Accrual Basis The financial statements of Sample Educational Institution have been prepared on the accrual basis except for depreciation accounting as explained in Notes 1 and 2 to the financial statements. The statement of current funds revenues, expenditures, and other changes is a statement of financial activities of current funds related to the current reporting period. It does not purport to present the results of operations or the net income or loss for the period as would a statement of income or a statement of revenues and expenses.

To the extent that current funds are used to finance plant assets, the amounts so provided are accounted for as: (1) expenditures, in the case of normal replacement of movable equipment and library books; (2) mandatory transfers, in the case of required provisions for debt amortization and interest and equipment renewal and replacement; and (3) transfers of a nonmandatory nature for all other cases.

Fund Accounting In order to ensure observance of limitations and restrictions placed on the use of the resources available to the Institution, the accounts of the Institution are maintained in accordance with the principles of "fund accounting." This is the procedure by which resources for various purposes are classified for accounting and reporting purposes into funds that are in accordance with activities or objectives specified. Separate accounts are maintained for each fund; however, in the accompanying financial statements, funds that have similar characteristics have been combined into fund groups. Accordingly, all financial transactions have been recorded and reported by fund group.

Within each fund group, fund balances restricted by outside sources are so indicated and are distinguished from unrestricted funds allocated to specific purposes by action of the governing board. Externally restricted funds may only be utilized in accordance with the purposes established by the source of such funds and are in contrast with unrestricted funds over which the governing board retains full control to use in achieving any of its institutional purposes.

Endowment funds are subject to the restrictions of gift instruments requiring in perpetuity that the principal be invested and the income only be utilized. Term endowment funds are similar to endowment funds except that upon the passage of a stated period of time or the occurrence of a particular event, all or part of the principal may be expended. While quasi-endowment funds have been established by the governing board for the same purposes as endowment funds, any portion of quasi-endowment funds may be expended.

All gains and losses arising from the sale, collection, or other disposition of investments and other noncash assets are accounted for in the fund which owned such assets. Ordinary income derived from investments, receivables, and the like is accounted for in the fund owning such assets, except for income derived from investments of endowment and similar funds, which income is accounted for in the fund to which it is restricted or, if unrestricted, as revenues in unrestricted current funds.

All other unrestricted revenue is accounted for in the unrestricted current fund.

Restricted gifts, grants, appropriations, endowment income, and other restricted resources are accounted for in the appropriate restricted funds. Restricted current funds are reported as revenues and expenditures when expended for current operating purposes.

Other Significant Accounting Policies Other significant accounting policies are set forth in the financial statements and the notes thereto.

Sample Educational Institution Notes to Financial Statements June 30, 19__

- Investments exclusive of physical plant are recorded at cost; investments received by gift are carried at market value at the date of acquisition. Quoted market values of investments (all marketable securities) of the funds indicated were as follows:

	Current Year	Prior Year
Unrestricted current funds	\$ 510,000	\$ 390,000
Restricted current funds	180,000	165,000
Loan funds	105,000	105,000
Unexpended plant funds	1,287,000	1,600,000
Renewal and replacement funds	145,000	285,000
Agency funds	60,000	20,000

Investments of endowment and similar funds and annuity and life income funds are composed of the following:

	Carrying Value	
	Current Year	Prior Year
Endowment and similar funds:		
Corporate stocks and bonds (approximate market, current year \$15,000,000, prior year \$10,900,000)	\$13,000,000	\$10,901,000
Rental properties—less accumulated depreciation, current year \$500,000, prior year \$400,000	900,000	899,000
	<u>\$13,900,000</u>	<u>\$11,800,000</u>
Annuity funds:		
U.S. bonds (approximate market, current year \$200,000, prior year \$100,000)	\$ 200,000	\$ 110,000
Corporate stocks and bonds (approximate market, current year \$3,070,000, prior year \$2,905,000)	3,060,000	2,900,000
	<u>\$ 3,260,000</u>	<u>\$ 3,010,000</u>

	Carrying Value	
	Current Year	Prior Year
Life income funds:		
Municipal bonds (approximate market, current year \$1,400,000, prior year \$1,340,000)	\$ 1,500,000	\$ 1,300,000
Corporate stocks and bonds (approximate market, current year \$650,000, prior year \$400,000)	545,000	440,000
	<u>\$ 2,045,000</u>	<u>\$ 1,740,000</u>

Assets of endowment funds, except nonmarketable investments of term endowment having a book value of \$200,000 and quasi-endowment having a book value of \$800,000, are pooled on a market value basis, with each individual fund subscribing to or disposing of units on the basis of the value per unit at market value at the beginning of the calendar quarter within which the transaction takes place. Of the total units each having a market value of \$15.00, 600,000 units were owned by endowment, 280,000 units by term endowment, and 120,000 units by quasi-endowment at June 30, 19____.

The following tabulation summarizes changes in relationships between cost and market values of the pooled assets:

	Pooled Assets		Net Gains (Losses)	Market Value per Unit
	Market	Cost		
End of year	\$15,000,000	\$13,000,000	\$2,000,000	\$15.00
Beginning of year	10,900,000	10,901,000	(1,000)	12.70
Unrealized net gains for year			2,001,000	
Realized net gains for year			159,000	
Total net gains for year			<u>\$2,160,000</u>	<u>\$ 2.30</u>

The average annual earnings per unit, exclusive of net gains, were \$0.56 for the year.

- 2. Physical plant and equipment are stated at cost at date of acquisition or fair value at date of donation in the case of gifts, except land acquired prior to 1940, which is valued at appraisal value in 1940 at \$300,000. Depreciation on physical plant and equipment is not recorded.
- 3. Long-term debt includes: bonds payable due in annual installments varying from \$45,000 to \$55,000 with interest at 5% %, the final installment being due in 19____, collateralized by trust indenture covering land, buildings, and equipment known as Smith dormitory carried in the accounts at

- \$2,500,000, and pledged net revenue from the operations of said dormitory; and mortgages payable due in varying amounts to 19____ with interest at 6%, collateralized by property carried in the accounts at \$800,000 and pledged revenue of the Student Union amounting to approximately \$65,000 per year.
- 4. The Institution has certain contributory pension plans for academic and nonacademic personnel. Total pension expense for the year was \$350,000, which includes amortization of prior service cost over a period of 20 years. The Institution's policy is to fund pension costs accrued, including periodic funding of prior years' accruals not previously funded. The actuarially computed value of vested benefits as of June 30, 19____ exceeded net assets of the pension fund by approximately \$300,000.
- 5. Contracts have been let for the construction of additional classroom buildings in the amount of \$3,000,000. Construction and equipment are estimated to aggregate \$5,000,000, which will be financed by available resources and an issue of bonds payable over a period of 40 years amounting to \$4,000,000.
- 6. All interfund borrowings have been made from unrestricted funds. The amounts due to plant funds from current unrestricted funds are payable within one year without interest. The amount due to loan funds from current unrestricted funds is payable currently.
- 7. Pledges totaling \$260,000, restricted to plant fund uses, are due to be collected over the next three fiscal years in the amounts of \$120,000, \$80,000, and \$60,000, respectively. It is not practicable to estimate the net realizable value of such pledges.

Voluntary Health and Welfare Service
Statement of Support, Revenue, and Expenses and Changes in Fund Balances
Year Ended December 31, 19X2
with Comparative Totals for 19X1

	19X2				Total All Funds	
	Current Funds		Land, Build- ing and Equip- ment Fund	Endowment Fund	19X2	19X1
	Unrestricted	Restricted				
Public support and revenue:						
Public support:						
Contributions (net of estimated uncollectible pledges of \$195,000 in 19X2 and \$150,000 in 19X1)	\$3,764,000	\$162,000	\$ —	\$ 2,000	\$3,928,000	\$3,976,000
Contributions to building fund	—	—	72,000	—	72,000	150,000
Special events (net of direct costs of \$181,000 in 19X2 and \$163,000 in 19X1)	104,000	—	—	—	104,000	92,000
Legacies and bequests	92,000	—	—	4,000	96,000	129,000
Received from federated and nonfederated campaigns (which incurred related fund-raising expenses of \$38,000 in 19X2 and \$29,000 in 19X1)	275,000	—	—	—	275,000	308,000
Total public support	<u>4,235,000</u>	<u>162,000</u>	<u>72,000</u>	<u>6,000</u>	<u>4,475,000</u>	<u>4,655,000</u>
Revenue:						
Membership dues	17,000	—	—	—	17,000	12,000
Investment income	98,000	10,000	—	—	108,000	94,000
Realized gain on investment transactions	200,000	—	—	25,000	225,000	275,000
Miscellaneous	42,000	—	—	—	42,000	47,000
Total revenue	<u>357,000</u>	<u>10,000</u>	<u>—</u>	<u>25,000</u>	<u>392,000</u>	<u>428,000</u>
Total support and revenue	<u>4,592,000</u>	<u>172,000</u>	<u>72,000</u>	<u>31,000</u>	<u>\$4,867,000</u>	<u>\$5,083,000</u>
Expenses:						
Program services:						
Research	1,257,000	155,000	2,000	—	\$1,414,000	\$1,365,000
Public health education	539,000	—	5,000	—	544,000	485,000
Professional education and training	612,000	—	6,000	—	618,000	516,000
Community services	568,000	—	10,000	—	578,000	486,000
Total program services	<u>2,976,000</u>	<u>155,000</u>	<u>23,000</u>	<u>—</u>	<u>3,154,000</u>	<u>2,852,000</u>
Supporting services:						
Management and general	567,000	—	7,000	—	574,000	638,000
Fund raising	642,000	—	12,000	—	654,000	546,000
Total supporting services	<u>1,209,000</u>	<u>—</u>	<u>19,000</u>	<u>—</u>	<u>1,228,000</u>	<u>1,184,000</u>
Total expenses	<u>4,185,000</u>	<u>155,000</u>	<u>42,000</u>	<u>—</u>	<u>\$4,382,000</u>	<u>\$4,036,000</u>
Excess (deficiency) of public support and revenue over expenses	407,000	17,000	30,000	31,000		
Other changes in fund balances:						
Property and equipment acquisitions from un- restricted funds	(17,000)	—	17,000	—		
Transfer of realized endowment fund appreciation	100,000	—	—	(100,000)		
Returned to donor	—	(8,000)	—	—		
Fund balances, beginning of year	<u>5,361,000</u>	<u>123,000</u>	<u>649,000</u>	<u>2,017,000</u>		
Fund balances, end of year	<u>\$5,851,000</u>	<u>\$132,000</u>	<u>\$696,000</u>	<u>\$1,948,000</u>		

See accompanying notes to financial statements.

Voluntary Health and Welfare Service
Statement of Functional Expenses
Year ended December 31, 19X2
with Comparative Totals for 19X1

19X2										
	Program Services					Supporting Services			Total Expenses	
	Research	Public Health Education	Professional Education and Training	Community Services	Total	Management and General	Fund Raising	Total	19X2	19X1
Salaries	\$ 45,000	\$291,000	\$251,000	\$269,000	\$ 856,000	\$331,000	\$368,000	\$ 699,000	\$1,555,000	\$1,433,000
Employee health and retirement benefits	4,000	14,000	14,000	14,000	46,000	22,000	15,000	37,000	83,000	75,000
Payroll taxes, etc.	2,000	16,000	13,000	14,000	45,000	18,000	18,000	36,000	81,000	75,000
Total salaries and related expenses	51,000	321,000	278,000	297,000	947,000	371,000	401,000	772,000	1,719,000	1,583,000
Professional fees and contract service payments	1,000	10,000	3,000	8,000	22,000	26,000	8,000	34,000	56,000	53,000
Supplies	2,000	13,000	13,000	13,000	41,000	18,000	17,000	35,000	76,000	71,000
Telephone and telegraph	2,000	13,000	10,000	11,000	36,000	15,000	23,000	38,000	74,000	68,000
Postage and shipping	2,000	17,000	13,000	9,000	41,000	13,000	30,000	43,000	84,000	80,000
Occupancy	5,000	26,000	22,000	25,000	78,000	30,000	27,000	57,000	135,000	126,000
Rental of equipment	1,000	24,000	14,000	4,000	43,000	3,000	16,000	19,000	62,000	58,000
Local transportation	3,000	22,000	20,000	22,000	67,000	23,000	30,000	53,000	120,000	113,000
Conferences, conventions, meetings	8,000	19,000	71,000	20,000	118,000	38,000	13,000	51,000	169,000	156,000
Printing and publications	4,000	56,000	43,000	11,000	114,000	14,000	64,000	78,000	192,000	184,000
Is and grants	1,332,000	14,000	119,000	144,000	1,609,000	—	—	—	1,609,000	1,448,000
Miscellaneous	1,000	4,000	6,000	4,000	15,000	16,000	21,000	37,000	52,000	64,000
Total expenses before depreciation	1,412,000	539,000	612,000	568,000	3,131,000	567,000	650,000	1,217,000	4,348,000	4,004,000
Depreciation of buildings and equipment	2,000	5,000	6,000	10,000	23,000	7,000	4,000	11,000	34,000	32,000
Total expenses	<u>\$1,414,000</u>	<u>\$544,000</u>	<u>\$618,000</u>	<u>\$578,000</u>	<u>\$3,154,000</u>	<u>\$574,000</u>	<u>\$654,000</u>	<u>\$1,228,000</u>	<u>\$4,382,000</u>	<u>\$4,036,000</u>

See accompanying notes to financial statements.

Voluntary Health and Welfare Service
Balance Sheets
December 31, 19X2 and 19X1

<i>Assets</i>	<i>19X2</i>	<i>19X1</i>	<i>Liabilities and Fund Balances</i>	<i>19X2</i>	<i>19X1</i>
<i>Current Funds</i>					
<i>Unrestricted</i>					
Cash	\$2,207,000	\$2,530,000	Accounts payable	\$ 148,000	\$ 139,000
Investments (Note 2):			Research grants payable	596,000	616,000
For long-term purposes	2,727,000	2,245,000	Contributions designated for future periods	245,000	219,000
Other	1,075,000	950,000	Total liabilities and deferred revenues	989,000	974,000
Pledges receivable less allowance for uncollectibles of \$105,000 and \$92,000	475,000	363,000	Fund balances:		
Inventories of educational materials, at cost	70,000	61,000	Designated by the governing board for:		
Accrued interest, other receivables and prepaid expenses	286,000	186,000	Long-term investments	2,800,000	2,300,000
			Purchases of new equipment	100,000	—
			Research purposes (Note 3)	1,152,000	1,748,000
			Undesignated, available for general activities (Note 4)	1,799,000	1,313,000
			Total fund balance	5,851,000	5,361,000
Total	<u>\$6,840,000</u>	<u>\$6,335,000</u>	Total	<u>\$6,840,000</u>	<u>\$6,335,000</u>
<i>Restricted</i>					
Cash	\$ 3,000	\$ 5,000	Fund balances:	\$ 84,000	\$ —
Investments (Note 2)	71,000	72,000	Professional education	48,000	123,000
Contributions receivable	58,000	46,000	Research grants	\$ 132,000	\$ 123,000
Total	<u>\$ 132,000</u>	<u>\$ 123,000</u>	Total	<u>\$ 132,000</u>	<u>\$ 123,000</u>
<i>Land, Building and Equipment Fund</i>					
Cash	\$ 3,000	\$ 2,000	Mortgage payable, 8% due 19XX	\$ 32,000	\$ 36,000
Investments (Note 2)	177,000	145,000	Fund balances:		
Pledges receivable less allowance for uncollectibles of \$7,500 and \$5,000	32,000	25,000	Expended	484,000	477,000
Land, buildings and equipment, at cost less accumulated depreciation of \$296,000 and \$262,000 (Note 5)	516,000	513,000	Unexpended—restricted	212,000	172,000
Total	<u>\$ 728,000</u>	<u>\$ 685,000</u>	Total fund balance	696,000	649,000
			Total	<u>\$ 728,000</u>	<u>\$ 685,000</u>
<i>Endowment Funds</i>					
Cash	\$ 4,000	\$ 10,000	Fund balance	\$1,948,000	\$2,017,000
Investments (Note 2)	1,944,000	2,007,000			
Total	<u>\$1,948,000</u>	<u>\$2,017,000</u>	Total	<u>\$1,948,000</u>	<u>\$2,017,000</u>

See accompanying notes to financial statements.

Voluntary Health and Welfare Service

Notes to Financial Statements

December 31, 19X2

- Summary of Significant Accounting Policies** The financial statements include the accounts of the Service and its affiliated chapters. The Service follows the practice of capitalizing all expenditures for land, buildings, and equipment in excess of \$100; the fair value of donated fixed assets is similarly capitalized. Depreciation is provided over the estimated useful lives of the assets. Investments are stated at cost. All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Pledges for contributions are recorded as received and allowances are provided for amounts estimated to be uncollectible. Policies concerning donated material and services are described in Note 6.
- Investments** Market values and unrealized appreciation (depreciation) at December 31, 19X2 and 19X1, are summarized as follows:

	(Thousands of Dollars)			
	December 31, 19X2		December 31, 19X1	
	Quoted Market Value	Unrealized Appreciation	Quoted Market Value	Unrealized Appreciation (Depreciation)
Current unrestricted fund:				
For long-term purposes	\$2,735	\$ 8	\$2,230	\$(15)
Other	1,100	25	941	(9)
Current restricted funds	73	2	73	1
Endowment funds	2,125	181	2,183	176
Land, building and equipment fund	184	7	153	8

Interfund transfers include \$100,000 for 19X2, which represents the portion of the realized appreciation (\$25,000 realized in the current year and \$75,000 realized in prior years) in endowment funds that, under the laws of (a state), were designated by the governing board for unrestricted operations. At December 31, 19X2, \$200,000 of realized appreciation was available in endowment funds, which the governing board may, if it deems prudent, also transfer to the unrestricted fund.

If the organization accounts for its investment on the market value basis, the first part of the above note might be worded as follows:

Cost and unrealized appreciation (depreciation) at December 31, 19X2 and 19X1, are summarized as follows:

	(Thousands of Dollars)			
	December 31, 19X2		December 31, 19X1	
	Cost	Unrealized Appreciation	Cost	Unrealized Appreciation (Depreciation)
Current unrestricted fund:				
For long-term purposes	\$2,727	\$ 8	\$2,245	\$(15)
Other	1,075	25	950	(9)
Current restricted funds	71	2	72	1
Endowment funds	1,944	181	2,007	176
Land, building and equipment fund	177	7	45	8

- Research Grants** The Service's awards for research grants-in-aid generally cover a period of one to three years, subject to annual renewals at the option of the governing board. At December 31, 19X2, \$1,748,000 had been designated by the board for research grants, of which \$596,000 had been awarded for research to be carried out within the next year.
- Proposed Research Center** The XYZ Foundation has contributed \$50,000 to the Service with the stipulations that it be used for the construction of a research center and that construction of the facilities begin within four years. The Service is considering the construction of a research center, the cost of which would approximate \$2,000,000. If the governing board approves the construction of these facilities, it is contemplated that its cost would be financed by a special fund drive.
- Land, Buildings and Equipment, and Depreciation** Depreciation of buildings and equipment is provided on a straight-line basis over the estimated useful lives of the assets. At December 31, 19X2 and 19X1, the costs of such assets were as follows:

	19X2	19X1
Land	\$ 76,000	\$ 76,000
Buildings	324,000	324,000
Medical research equipment	336,000	312,000
Office furniture and equipment	43,000	33,000
Automobiles and trucks	33,000	30,000
Total cost	812,000	775,000
Less accumulated depreciation	296,000	262,000
Net	\$516,000	\$513,000

6. **Donated Materials and Services** Donated materials and equipment are reflected as contributions in the accompanying statements at their estimated values at date of receipt. No amounts have been reflected in the statements for donated services inasmuch as no objective basis is available to measure the value of such services; however, a substantial number of volunteers have donated significant amounts of their time in the organization's program services and in its fund-raising campaigns.
7. **Pension Plans** The organization has a non-contributory pension and retirement plan covering substantially all of its employees. Pension expense for the current year and the prior year was \$_____ and \$_____, respectively, which includes amortization of prior service cost over _____ year period. The Service's policy is to fund pension cost accrued. At December 31, 19X2, the actuarially computed value of the vested benefits in the plan exceeded the fund balance of the plan by approximately \$_____.
8. **Leased Facilities** Most of the buildings used by the organization for its community services programs are leased on a year-to-year basis. At December 31, 19X2, fifteen such buildings were being leased for an annual cost of approximately \$12,000.

Chapter 2

Financial Management and Budgeting

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INTRODUCTION

These chapters consider the financial matters of the organization. You are probably reading this chapter because you recognize that your group will have to demonstrate an ability to be accountable and you feel compelled to learn how to "take care of the money." The reason that compels most of us to read this chapter is our desire to "cut the hassle." Funders, the Internal Revenue Service, and others seem to be constantly demanding this or that report. Our accountability responsibilities have increased dramatically in just the past few years.

But even more important than the issue of accountability is the need for management information. In order to accomplish your organizational goals it is necessary to know how well you are managing your resources. For that, you need feedback on everything you are doing and what it costs.

This chapter provides a general overview of financial management and administrative responsibilities. It will help you to understand what is going on, but you should be advised that on occasion you may still need the services of a business professional.

In this chapter we shall discuss the major fiscal responsibilities to make you aware of their existence—offering as many tips for satisfying these responsibilities as our experience has taught us you will need. We shall assume throughout that your organization is a small to medium-sized nonprofit group.

Since it is impossible to speak to both the skilled technician and the neophyte at the same time, I shall not attempt to do so. In this chapter I shall be speaking

to those members of the board and executive staff who are *not* professional accountants, nonprofit managers, bookkeepers, or otherwise specifically trained for the responsibility of administering the financial affairs of your group. In the interest of simplicity, imagine that I am speaking to the chairman of the board and/or the executive director of the organization.

Who Is Responsible

Every member of the board has a responsibility to act with due diligence in the exercise of his or her duties. This is particularly true as the board relates to the management responsibilities of the organization.

Some members of the board, however, have special duties derived from their leadership responsibilities. The chairperson and vice-chairperson have particular responsibility as the key officers and must be attuned to the financial condition of the group. Many of the decisions they need to make require consideration of financial matters. Without an understanding of the financial implications of any decision, it will be more difficult to make the right decision concerning what happens within your agency.

The treasurer, however, is the officer with the greatest responsibility in the financial area. The treasurer acts for the board and ensures that:

1. The books are properly kept;
2. Financial statements are presented as appropriate;
3. Appropriate attention is paid to planning the budget;
4. The assets of the organization have been afforded sufficient protection;
5. A public and/or internal audit is performed as necessitated by contractual obligation, government decree, or any other need of your organization.

It is the responsibility of the treasurer to sound the alarm if indicators point to possible financial troubles for the group. It should be the treasurer who meets with the managerial and bookkeeping staff to prepare reports to the board and other interested parties.

Because the treasurer's job is so important, be careful to elect the strongest person available. If your group has no one with these strengths, recruit someone. Remember, however, that *every member of the board is legally liable for any mistakes made by the organization*. It may be unwise to assume that the treasurer, no matter how skilled, is right all the time. Know enough about the fiscal concerns of your group to ask intelligent questions.

Form a committee (finance committee or other) of the board and charge them with the duties of helping the treasurer account for the economic resources of the group. Some or all of the three key officers should be appointed to this committee, and others from the board should be added as their skills and the needs of the organization dictate.

Consultants may also be included or used on an "as-needed" basis. If your board does not include an accountant, attorney, banker, or other business specialist, you may need to purchase such skills in order to supplement the committee.

The committee should attempt to solicit and receive information from others within the organization. Particularly in those situations where the input of a large number of people leads to a better end product (as with planning and

budgeting), care should be taken to involve other members of the board and staff.

Why Bother?

As we have already discussed, you (and the members of the finance committee) are reading this chapter because you find this a lesser evil than the hassle of inadequate or late reports, tax penalties, and lost opportunities. What we shall talk about in this chapter will allow you to answer all those who request information. It will minimize the anxiety to you and to your "tormentors."

Everyone will agree, at least in their rational moments, that the foundation executive or the Internal Revenue Service employee or the Attorney General who is pressuring you is just doing his or her job when demanding that you report on your activities. He or she is just responding to a board of trustees, a district director, or the citizens of your state. You have to be able to answer the questions, so make up your mind to develop a system that collects the necessary data and have it available when needed.

Turn the responsibility of accountability to your advantage. Since reasonable people are asking for reasonable information, you will eventually have to provide it. By being organized enough to get the answers quickly and accurately, you can demonstrate that you can be entrusted with their people's money. Accountability significantly enhances your chances for survival and growth.

There is, however, a much better reason for learning how to administer your financial matters properly. The data you collect regarding the use of your resources is invaluable information that will allow you to run your group better. It will also increase the probability that you will accomplish the goals of your group. If your group was worth forming, it is certainly worthwhile to spend the time to learn how to control and direct it.

You Are the Management

The management of General Motors has roughly the same responsibilities as you. Both you and they have organizational goals, and the success either of you achieves depends on how well your organizations are managed. To the extent that you have control over what you are doing, you will have success.

You and the rest of the management of your organization have to be concerned that what you do is going to lead to efficiency and effectiveness. You must be efficient to make the best use of your resources. You must be able to get the most out of every dollar available to you.

To be effective, you must accomplish your organizational goals. You have to be successful. Continued funding is predicated on such accomplishment, and if you are not effective you will eventually lose your support.

Like the management of General Motors, you must try to manage your organization as skillfully as possible. Since only the well managed will survive, you need to know as much about what you are doing as possible, and the collection of management information is invaluable.

But there is more to good management than just the collection of management information. You must plan, control, direct, and otherwise attempt to maximize your efforts. A systematic approach to running your organization demands a stronger commitment to what you are doing than most are willing to make. The

payoffs, however, provide an easier existence with less hassle and a much better chance of accomplishing your organizational goals.

BUDGETING

Everyone agrees that the budgeting process is essential to the successful operation of any organization, including nonprofit organizations. Some will even go so far as to say that an organization without an effective budget is doomed to failure. In this chapter we shall consider your responsibilities regarding planning and developing your budget.

We shall discuss budgeting in a general sense at first, but eventually we shall discuss some of the specific tools that are being used by well-managed nonprofit organizations.

Who Should Prepare the Budget?

Although the finance committee we have just formed will have the primary responsibility to budget, invite the entire board to participate. Within reason, the more help the better! Such broad-based input will also make it easier to attain eventual consensus.

Begin the process by establishing the goal of developing a budget that satisfies two basic functions:

1. Provides a *plan of action* for accomplishing your organizational goals and managing available resources. The budget is the organization's plan of action in numerical form.
2. Serves as the primary tool for *monitoring and controlling* the financial activities of the organization. Properly used, the budget can serve as a "compass" to keep the plan on target.

Developing a Plan of Action

If your organization has already developed such a plan, make sure you have considered the costs and benefits of that plan. It is important to do planning and budgeting simultaneously. To do one without the other is to ignore significant facts that relate to the accomplishment of either.

Note that this is the *planning* that any good manager must do. We have suggested a planning model that you may wish to follow which will help you come to a rational plan for your group.

Preparing the Budget: Collecting Historical Data

Before preparing your budget, there are a number of things to do. Specific schedules that detail past expenditures for all budget line items must be developed if the organization has historical data on which to draw. Your best bet is to study past budgets and expenditure records. How much did you spend last year on salaries, fringes, rent, insurance, and so on? You can make a reasonable estimation of this year's expenditures by adjusting last year's figures with new information such as increased/decreased costs due to the addition or deletion of old programs, personnel, equipment, and so on.

If you are developing your budget for the first time, attempt to secure necessary

information from organizations that do similar work or discuss it with people who might have experience in such matters, such as foundation people, government funding agencies, professional consultants, and others.

Selecting the Budgeting Period

Another preliminary concern, especially if you are writing your first budget, is to determine the period of time you wish to cover. The periods most often chosen are a calendar year or a fiscal year that begins July 1. Your budget period, however, can close at any month end. In any case you have a logical twelve-month duration. Funders and others who will be monitoring your financial activities will want to review these yearly figures.

You need to select a period that allows you to best present a full period of activity. If your organization offers its services from October to December and from March until August, you will want to choose a period whose month end falls during other than your peak times. (January, February, or September would be best.) The fluctuations from month to month will be easier to plan for and report if you select a period that reflects the activity periods for your group.

It may be wise to align your year end with that of your most significant funder. If a large percentage of your finances come from one source, it may be logical to be in line with it. Another concern is to finish your budget cycle when the auditors you may want or need to retain are least expensive. This probably would be some period that ends between May 1 and November 30. Check with your accountant for suggestions.

In preparing the budget you must also consider the nature of your "receipts." Are they unrestricted grants and donations, or are they contractually restricted to specific programs or other requirements? Greater detail is offered in Chapter 3 of this section under "Fund Accounting."

Also with regard to the nature of your receipts, it is important for you to consider the "liquidity" (the ease with which your resources can be converted to cash) of your resources. Be sure that you understand the nature of the endowments, annuities, and/or investments of the organization.

Other Budgets

It should also be noted that there is more than one type of budget. We are concerned here with the budget that the organization will use to guide itself. As stated, this budget will be the organizational plan in numerical terms and used to monitor the organization's activities. Although other budgets may be developed for specific purposes, such as for grant proposals to foundations and other funders, our concern is with the "real" budget that will be used as a management tool by the organization.

There are numerous budgeting models that you can follow. We shall discuss two: incremental and zero-based budgeting. These, or near deviations of these, are the models that are generally most valuable to nonprofit groups.

Incremental Budgets

Incremental budgets are used by most groups. Basically they call for the budget preparers to add or subtract a certain percentage to last year's budget. In good years, when it is expected that there will be more money available, one need only add that amount of money to last year's budget. The money is added, by

percentage, to all line items or selectively wherever it seems to make the most sense. In bad years, the budget is reduced by the amount of the shortfall.

Budgeting in this circumstance is accomplished by allocating the anticipated increment to last year's figures. A great deal of emphasis is given to making decisions based on past data.

This is generally a safe system of budgeting and is usually done by small nonprofit organizations in all but their first year of existence. This can be (but usually is not) done in conjunction with a planning exercise as described elsewhere. The advantage of this method is that it is generally orderly and mechanical. The process is fast and demands little effort on the part of the organization.

The disadvantage is that the budget makers focus all of their attention on how the extra money should be spent. Little attention is given to the worth of what was done in the past. The underlying assumption with incremental budgeting is that what has been done should be left as is without further consideration. The underlying assumption is that expenditures for past programs are fair and necessary and all that needs to be done is to find a place for the extra resources.

Zero-Based Budgets

In its simplest form, zero-based budgeting (ZBB) is the reevaluation of *all* of the programs your organization provides. Here the underlying assumption is that *everything* done in the past must periodically rejustify itself.

Nothing is taken for granted. Programs could be refunded at other than 100 percent (from zero to infinity). The foundation of the zero-based approach to budgeting is planning. Zero-based budgeting works because it allows you to manage your organization better. It requires a more serious commitment but leads to better results.

A conscientious effort at zero-based budgeting builds in work habits and disciplines that are healthy for a nonprofit organization. Since this reevaluation demands that attention be paid to the worth of present programs, you can determine, in a fresh light, whether what you are doing is what you really want to do.

Attention is given to such questions as whether these programs presently speak to the mission statement (purpose) of your group as you define it today. Do these programs accomplish your organizational goals? Are they efficient, effective, and worthwhile?

The basic disadvantage of zero-based budgeting is that it takes a lot more time and paperwork. Because it requires a more comprehensive look at the problem, it involves more work than the basic incremental budgeting to which most NPOs are accustomed. This extra effort, however, should be made anyway. To manage your organization properly, you want to examine your priorities, goals, and objectives on a periodic basis.

Since zero-based budgeting enlists the "survival of the fittest" concept, its application can be particularly painful when one considers the effects on personnel arising from the elimination (or cutback) of programs. The need, however, to allocate the organization's limited resources efficiently must ultimately prevail. The primary responsibility of your nonprofit organization is to accomplish your purpose as effectively and efficiently as possible.

Zero-based budgeting, then, helps you to reorient your thinking. Rather than concentrating on the small percentage of increase (or decrease) in your total budget, as with incremental budgeting, zero-based techniques force you to scrutinize just how you are going to manage your entire operation.

History of Zero-Based Budgeting Zero-based budgeting has taken various forms in industry and government for many years. It was refined, however, and successfully applied at Texas Instruments in 1969. Texas Instruments was even able to absorb significant budget cuts during a recession period and actually increase profits. Zero-based budgeting allowed the management of Texas Instruments to exercise better control of their business.

In the early 1970s the governor of Georgia instituted zero-based budgeting at the state level and met with sufficient success to cause him to suggest it in his new job. President Jimmy Carter now plans to institute zero-based budgeting in the federal government and believes that this will liberate funds for badly needed social problems. He also feels that zero-based budgeting will help balance the budget by 1981 as he has promised.

The 1970s has also seen a large number of companies institute zero-based budgeting with variable success. The Ford Motor Company figures that zero-based budgeting saved millions of dollars. Westinghouse thinks that it saved \$4.2 million in overhead alone in one year.

Many departments of the federal government already use zero-based budgeting. The Housing and Urban Development Department, Consumer Product Safety Commission, and the National Aeronautics and Space Administration, to name just a few, are involved in this budgeting process.

The potential of zero-based budgeting is recognized by many, and more companies, governmental agencies, and others will experiment or adopt zero-based budgeting in the near future. Even if it did not save money, many think that zero-based budgeting would be worthwhile because it ensures an efficient allocation of resources.

The use of this budgeting technique is not without some apparent drawbacks. The tremendous increase in time and paperwork has caused some to despair. Nevertheless, it is my thinking that its potential advantages outweigh the potential problems.

In order to apply zero-based budgeting to your organization, you must attempt to:

- Establish budgeting as the primary decision tool in the organization.
- Implement accepted business management tools and build them into the budgeting process. The identification of organizational objectives is the key here.
- Identify a program's flexibility at various assumed levels of funding. This allows you to pinpoint priorities and develop ways of measuring workload and performance.
- Gain the commitment of the committee, especially the chairperson and the executive director. If the key people in the organization are not strongly involved with the ZBB process, the rest of the staff and board may become indifferent or even antagonistic.

Allow sufficient time for the project (it cannot be done in a single meeting) and institute a systematic method reviewing all your alternatives.

PLANNING

Regardless of the budgeting technique used (incremental or zero based), there is no substitute for good planning. If you are to effectively and efficiently manage

the financial resources of your group, prepare the budget, and keep score, you will need a "plan of accomplishments."

In an earlier chapter, a planning model was proposed and a specific path was suggested that if followed, would lead you in an organized way toward the accomplishment of your goals. You may use the planning model offered in this chapter. Either model will enable you to develop a budget that represents the resource outlays necessary to accomplish your goals. Whatever you do, make note of the fact that planning and budgeting should be done simultaneously.

You will also have to decide how you are going to arrive at the cash cost of accomplishing your goals. There are many ways to accomplish (at least try to accomplish) almost any task. In writing the budget, you want to select the best ways and then quantify them. It may be presumptuous to assume you can arrive at the "best" plan, but that obviously is your target.

You will find it useful to set specific objectives as yardsticks for measuring and adjusting activity. These should be reduced to writing, time-phased, and, most important, should be measurable. This will allow you to monitor and control your organization.

The budget is the plan (for accomplishing your goal) in numerical terms. You cannot have a budget, one that helps you manage, unless you know what you plan to do. Earlier in this book a chapter was devoted to planning and its importance to the overall success of the organization. It is doubly important in the area of financial planning. Mistakes here can cause the organization to waste precious resources that are already too dear and too few.

My experience is that the best way to plan is to do so in a systematic and organized manner. The plan will be only as good as the effort that goes into it, so decide at the start that if you are going to bother at all, you will put in the little extra that makes for a good plan.

Be careful to collect data in as precise and objective a way as possible. Don't see what you want to see unless it's really there. If you build your plan on what "ought to be" instead of "what is," you will plan for a failure.

Be open minded and try to listen to as many alternatives as possible. Insist that others do the same.

At appropriate times, play the devil's advocate. Ask for proof. Generate discussion on all ideas and suppositions. This healthy attitude of "show me" will lead to a plan that is better understood by all. Learn to listen and contribute in non-threatening and supportive ways. Compromise; work for consensus.

A Planning Model

Define the Purpose Statement It will be impossible to develop the best plan to accomplish your organizational goals until your group has developed a consensus regarding your organization's mission. State your goal in a "purpose statement" and write it down. Until you know your purpose, there is little hope of accomplishing it.

Develop a statement that tells people what you want to accomplish. Make it specific enough to provide a limited scope. No community group will be able to "save the world and end hunger." But an organization that aims "to feed the poor" can expect some chance for success.

Be careful, however, not to be too specific. Make the purpose statement general enough to allow you to accomplish your goals through any of many alternatives. "To feed the poor" leaves room for developing numerous strategies.

The best way to evaluate your present purpose statement is to examine it as stated in your articles of incorporation, bylaws, brochure, and so on. Is it the same in each source? Does it clearly and concisely state your reason to exist? Can anyone who reads it know immediately why you are doing what you do? Unless you can answer yes to all of these questions, you might as well start over.

In determining your purpose statement, answer the following questions:

Why was this organization formed?

Have there been any significant changes in our responsibilities to funders, government, clientele, media, community, and others?

Has internal reorganization necessitated changing our direction?

Are there newly identified needs or service areas?

Has a significant gain or loss of resources occurred?

Reach a consensus among the planning committee members concerning your new statement and document it. Make sure this statement is short (one sentence if possible, but not more than one paragraph) and clear.

Aim the statement at your "significant" publics. Your clients, patients, customers, or other constituencies must be able to understand what you are about. So do funders, governmental agencies, members, friends, and others. Develop a purpose statement that they will all understand.

Avoid "buzz" word terminology completely. Words like synchronized, transitional, reciprocal, contingency, and other "in" words serve only to confuse the reader.

Be careful in developing your purpose statement not to end up with a "to provide" statement. The services you will provide to the community represent your objectives rather than your goals. Remember that the purpose statement is a statement of your organizational goals.

To best understand the difference between goals and objectives let us consider our previous examples of an objective:

Your goal is to feed the poor; your objective is to serve 200 meals a day to a target neighborhood.

The goal is general and the objective is more specific and measurable. We shall talk more about objectives later. For now, remember that the purpose statement in the suggested form can serve as a quick reference whenever new (or old) ideas arise. Measure every idea that is suggested against the statement of a purpose. If that idea (program) satisfies your purpose, it should be considered. If it does not, you will recognize that it should be disregarded.

Examine Your Options There are many means to an end. Different strategies can be employed in accomplishing your goal. The task is to decide the single best way.

Begin by examining in some organized way the "universe" of means available to you to accomplish your goals. A good technique is to "brainstorm" as a group. This is the most enjoyable part of the selection process. Everyone involved is encouraged to discuss any idea that might suit your purpose statement. No negative comments are allowed. Bring up *any* idea even if at first it seems frivolous or too expensive. The goal of this exercise is to bring ideas to the table. Write

them down as stated and keep it up until the group can no longer offer new ideas. At that point the committee (or subcommittee—to save time) should arrange similar suggestions together. You will then be able to reduce the brainstorming to a number of ideas, many of which may already be programs offered by your nonprofit organization.

By weeding and culling alternatives you will develop a manageable list of the programs you will want to evaluate more specifically. "Budgeting" begins as you examine both cost and benefits of each suggested program.

Cost-Benefit Analyses One of the most important but difficult steps in this analysis is determining the cost of each program. This is the basis for a great deal of the material discussed in this chapter. Zero-based budgeting, function classification of expenses, and other budgeting tools necessitate detailed information on the costs and benefits of alternative programs. An attempt must be made to assign dollar values to the various benefits and costs.

This may raise significant problems. Committee members will disagree on the worth of the historical data used in determining costs. Those who stand to lose projects in which they have a vested interest will strongly question everything about the decision.

Many people also will resist the notion that everything worthwhile can be measured in dollars. Certainly some attention must be given to weighing the value of particular programs in other than monetary terms. Determining the value of saving lives as opposed to feeding children would be difficult.

In the long run, even with expert consultative advice, cost-benefit analysis will not be a totally accurate process. Do the best you can to determine costs and take comfort in the fact that the exercise of evaluating costs and benefits results in a more informed decision, even if not an exact one.

Remember your "opportunity costs" as you assign costs to the various programs. Opportunity costs are the forgone revenues (advantages) that your organization sacrifices by putting your resources into a particular program rather than applying these same resources to their best use.

For instance, a new volunteer could be assigned an envelope-stuffing task, but if that volunteer has fund-raising skills, one must recognize the loss of a fund-raising skill measured by the cost of replacing it (or the cost of having it!). Also, be aware of the value of in-kind contributions. If someone gives you something you would otherwise have purchased, the item is as good as cash—maybe even better.

Determine if any of the alternative programs you are examining allow for significant amounts of in-kind resources, e.g., a number of employees subsidized by the government as in the Comprehensive Employment & Training Act (CETA) programs. "Free" resources are valuable and hard to find. Consider their worth as equal to their cash value.

Be careful, however, not to let the free resources alter your purpose. Examine any restrictions associated with their use. Be sure that your funders do not determine your purpose. Only if you are certain these in-kind contributions allow you to further your purpose should you seek to take advantage of them.

Finally, be sure to examine the costs of the programs you presently pursue as well as the proposed ideas. Zero-based budgeting insists on this.

Analyze Your Resources Very simply, this step calls for you to take a hard look at how much money you will have to spend during the budget period.

Determine the extent of both private and public support for your organization. Consider this to be the "pie" to be sliced later.

Be careful not to be overly optimistic. If you overestimate you will be faced with the painful responsibility of cutting back. Everyone loses and suffers in this case: clients, staff, members, and the board alike.

The other extreme is to underestimate your revenues. You will be providing lower-quality and/or fewer services to the community if you operate for very long below your service potential. This is, of course, a much less serious problem than an "across-the-board" cut. It is easier to adjust your spending upwards.

Be careful to examine all the resources available to you. Refer to the chapters of this book that discuss fund raising and list possible sources of funds.

You must think in terms of "resource development" in order to build your budget properly. Consider ways to develop resources other than cash. We have already mentioned CETAs, volunteers, and in-kind contribution of many kinds. Explore the possibilities of receiving endowments, grants, membership fees, interest on savings and investment accounts, and so on. No one is initially aware of the whole spectrum of funding opportunities available, so be creative and aggressive.

As you analyze your resources, it is important that you study them not only for their source and size, but for their duration and timing as well. This is discussed under "cash flow analysis" below.

Heretofore, you have determined your purpose, considered possible alternatives for accomplishing your purpose, assigned values to various programs, and made a serious analysis of resources. Now you need to consider how you will allocate these resources.

Making Plans At this point, it is necessary to set the specific objectives leading to goal accomplishment. The need for setting objectives was mentioned in discussing the difference between goals and objectives as contemplated by the purpose statement. Objectives define the various programs.

Referring to our example of feeding the poor, we determined that an objective could be "to feed 200 meals per day to the poor of a target community." Other objectives can also be imagined that would lead to other programs as well.

Objectives should be documented, precise, attainable, challenging, flexible, time-framed, and, most important, measurable. A basic textbook on "management by objectives" (MBO) will serve to help you make this objective-setting exercise effective. MBO is an effective way to practice planning.

We have learned that the budget is the plan in numerical terms; and it is at this time that we assign numbers. Do this by using the cost data prepared earlier and the techniques and tools developed in the following pages.

CONTINGENCY PLANNING AND ALTERNATIVE BUDGETS

Since it is unlikely that you can be exactly sure how much your revenues will be from year to year, it is necessary to have alternative or contingency plans. As a hedge against a decrease in revenue, unexpected increases in costs, or an unexpected expense, such contingency plans can help you defend against the unexpected.

The contingency plan can be built directly into the budget, but the opinions

of the experts are mixed. Some suggest that you build a little extra into every account. I feel that this should be avoided because of the distortion such misrepresentation could suggest. Other experts recommend that you add a contingency account as a final item in the budget. Although this is better than an "across-the-board" distortion, many foundation executives look with a critical eye at such "fudge factors." Many government agencies, in fact, forbid the use of "miscellaneous" or contingency items.

The best way to plan for contingencies is to plan for them as you do your budget planning. The planning exercise described in this chapter will, if applied properly, bring out enough information on possible shortfall, cost inflations, and/or expenses that they will naturally be considered. In most cases there will be sufficient total dollars in the budget to cover the unexpected. Conscientious attention to efficiency will build in savings on some budget items, thereby freeing some money to cover contingencies.

In those situations where a single factor (e.g., need for extra staff or greatly expanded facilities) can be foreseen, but not with exact accuracy, it may be wise to prepare several alternative budgets. File them away until needed. This also allows the budget preparer to plan ahead "in case" a large grant or contract should be secured.

For the growing, dynamic organization, it may be necessary to prepare more than one alternative budget.

CASH FLOW ANALYSIS

So far, we have discussed budgets primarily from the expenditures side. We have assumed that your or another committee of the board has determined your approximate receipts for the budget period under consideration. At this point let us look at how these receipts will come to the organization. Generally, the best way to do this is to follow cash as it comes into, through, and out of the organization with a cash flow analysis chart (Table 2-1). Across the top of the page are listed the months of the year with each month represented by two columns labeled "expected" and "actual." The vertical column asks for the beginning cash balance figure to which is added the amount of income for the month, resulting in a total figure. Next, the amount of expenses is subtracted from the total income figure, resulting in an ending cash figure. Although we have diagrammed the figures for a model quarter, you should attempt to determine the expected column as far out into the future as possible; 12 months is a logical

TABLE 2-1 Cash Flow Analysis Chart

	January		February		March	
	Expected	Actual	Expected	Actual	Expected	Actual
Beginning balance	\$10,000	\$10,000	\$ 8,000	\$ 7,500	\$11,000	\$12,000
Increase*	5,000	4,000	10,000	12,000	12,000	9,000
Total cash on hand	15,000	14,000	18,000	19,500	23,000	21,000
Monthly expenses	7,000	6,500	7,000	7,500	8,000	9,000
Ending balance	8,000	7,500	11,000	12,000	15,000	12,000

extension. In this way, you will be able to recognize significant deviations from the expected (both in revenues and expenses) in time to take the necessary action. A decrease in expenditures and/or increase in fund-raising activities can be instituted almost immediately.

To determine the "expected column" figures, you should look at the historical data available and at contracts and other documents that call for payments to the organization. The more predictable the organization's cash flow, the more accurate and valuable will be the cash flow analysis.

For those organizations that have many sources of income, many of whom are variable in payment or in schedule, I suggest the use of an expected value table to determine the "expected" column figures (see Table 2-2). List down the left side all potential contributors, in column 2, the amount of the probable contribution, and in column 3 your best guess of the probability of that contributor. Be realistic on the conservative side in determining this figure. Remember that it is easier to adjust up than to have to lower the level of expenditures by cutting staff or other valuable assets.

In the final column you can list the expected value of contributions by multiplying the probable donation by the probability of the donation. These figures can then be applied to the cash flow analysis chart reflecting the timing of the probable grant.

This system allows you to recognize the probability of expected funds and to plan for their use when you do your planning. Obviously this chart works only to the extent that you have been accurate in your estimations. You will improve with practice.

For those donations that are extremely large, we have determined that they should not be included in analysis except at extremely conservative estimates. If you are wrong with a \$100,000 grant in our example in Table 2-2, even at a 0.1 probability it is very difficult not to overestimate your probable receipts.

Several refinements to either of the tools can be made after you attain sufficient experience with their use. In the cash flow analysis chart it is best if the income figures are divided into several different spaces in order to monitor several types of income—such as grants, contracts, membership fees, service fees, and so on.

To the probability table can be added estimates of grants with alternative estimates of probability. For instance, one could determine the effect of a 0.5 probability of a \$10,000 or a 0.9 probability of a \$2,000 grant depending on circumstances.

TABLE 2-2 Expected Value Table

Donors/ contractors	Donation (P)	Expected Value
A	\$10,000 (0.8)	\$ 8,000
B	10,000 (0.8)	8,000
C	5,000 (0.8)	4,000
D	5,000 (0.8)	4,000
E	8,000 (0.7)	5,600
F	10,000 (0.7)	7,000
G	10,000 (0.3)	3,000
H	20,000 (0.1)	2,000
		<u>\$41,600</u>

Circumstances sometimes allow one to be reasonably sure that a special friend of the organization will give the \$2,000, but there is still a chance that he or she may give the larger gift of \$10,000. If there is an equal chance of either occurrence, compute both and divide by 2. For example,

$$\begin{aligned} 0.5 \times \$10,000 &= \$5,000 \\ 0.9 \times 2,000 &= 1,800 \\ \hline \$6,800 \div 2 &= \$3,400 \end{aligned}$$

The use of \$3,400 as an estimate is a better guess of the eventual donation because it applies all of the available information.

VARIANCE FROM BUDGET

In the next chapter are discussed the various financial statements your organization will want or need to prepare for the board of directors, funders, the general public, and others. Why they must be prepared accurately and in a timely fashion will be discussed. You will see how they summarize all of the financial activities of the organization. For now, however, let us speak of these statements as they relate to the budgeting process.

The statements are essentially the scorecards you should be keeping to help yourselves and others to know where you stand in terms of your financial resources. These scorecards will tell you and other readers how much money was received, where and how it was spent, and what you are doing with what is left.

We shall leave for later the specifics of what these statements should look like and how they can be tailored to present the information on your nonprofit group in the most meaningful way. For now let us look at the financial statement in Table 2-3 and begin to use it to facilitate the budgeting process.

You will note that this statement has several columns. (Only the expenditure side is shown, but receipts can be monitored similarly.) The first of which, titled "Budgeted," tells you what you have already allowed for each of the line items in your budget. This column, then, represents the amount of money you expected to spend on each of the essentials of your budget.

The second column represents what you have actually spent to date. This column is titled "Actual" and is figured at the end of each budget period by totaling the real expenditures made in each line item. This is probably the best "monitoring" tool you will have available to you.

To the extent that you have under- or overspent your budget, the first and second columns will differ. The amount of the difference will be reflected in column 3, "Variance." Negative variances (amounts spent over budget) will be printed inside parentheses to differentiate them from positive figures (amounts spent under budget). The total of column 3 will represent the amount of dollars you are under or (over) budget.

Although this is important information for outsiders (funders, public, etc.) it is most important to you, the leaders (board of directors and staff) of the organization. This system of presentation highlights the sort of management information that you need to manage and control your organization properly.

Each month you prepare (or have prepared) the financial scorecard for the

TABLE 2-3
Your Group Statement of Activities as of Month 31, 19__

	Budgeted	Actual	Variance: (Over) or Under Budget
Salaries			
Executive director	\$14,000	\$14,000	Ø
Program director	12,000	12,000	Ø
Social workers (2)	16,000	16,000	Ø
Secretary	5,000	7,000	(\$2,000)
Fringes	6,000	5,800	200
Office and equipment			
Office space	2,000	2,000	Ø
Office equipment	1,600	1,600	Ø
Telephone	1,600	3,200	(1,600)
Supplies			
Printing and postage	400	400	Ø
Office supplies	450	400	50
Other			
Travel	3,000	600	2,400
Parking	840	690	150
Insurance and bonding	900	900	Ø
	\$63,790	\$64,590	(\$ 800)

month (the statements) and examine the variance figures. Did you spend too much, too little, or exactly as budgeted?

You will probably be exactly on target with some items, the ones you can best predict, such as salaries and rent. But on many items you will be off by some amount at least. If you are within a few dollars (or a few percent), you need not worry. You will notice that you are close in most cases, and the overall variance will not be great.

Note in our example that there was a \$2,000 overexpenditure for secretarial help. If that represents a decision by the executive director to hire more of such assistance for a special project, then there is no problem as long as the cash is available. If, however, the \$2,000 represents an expenditure that was forgotten during the budget process and if the budget preparers misjudged the need for secretarial assistance, this variance may represent a problem. Noted early, however, you may still have time to correct it.

Notice also that travel is underspent and phone expense is overspent. This may represent a change in strategy or something more serious. This sort of presentation alerts you to ask "why"?

You will see the advantage of preparing statements with variance columns when you discover that you are able to see exactly where you are over- or underspent. With experience, you will be able to see problems as they develop and take the necessary adjusting action to correct the situation.

Adjusting action is relatively easy to accomplish when your "problem" is that you have underspent. You may have overestimated these items for any of many reasons. Put the excess cash flow in an interest-bearing account at the bank.

If the problem is that you have greatly overspent your budget, and there is no reserve fund from which to draw, you will need adjusting action that is more

HUMAN RESOURCE MANAGEMENT

Jean Carroccio
INPOM

Management Effectiveness Training
San Francisco, California

January 13 - 15, 1986

BASIC HUMAN NEEDS

1. PHYSIOLOGICAL (HOMEOSTATIC) NEEDS
2. SAFETY AND SECURITY NEEDS
3. LOVE AND BELONGING NEEDS
4. ESTEEM NEEDS
5. NEEDS FOR SELF-ACTUALIZATION (INNER MOTIVATION, TO
BECOME WHAT ONE IS CAPABLE OF BECOMING)
6. NEEDS TO KNOW AND TO UNDERSTAND
7. ESTHETIC NEEDS

ALLOWING MEANINGFUL PARTICIPATION

1. ANALYZE YOUR JOB AND THE EMPLOYEE'S JOB TO SEE WHAT DECISIONS CAN BE MOVED DOWNWARD.
2. BE WILLING TO RUN SOME RISK IN THE INTEREST OF MORE JOB INVOLVEMENT FOR YOUR PEOPLE.
3. BUILD IN EMPLOYEE CONTROLLED CHECKPOINTS.
4. DON'T CON EMPLOYEES WITH FALSE PARTICIPATION.
5. WHERE YOUR FINAL JUDGMENT HAS BEEN INFLUENCED BY EMPLOYEE IDEAS, BE SURE THEY KNOW IT.

PROVIDING PERFORMANCE FEEDBACK

1. DEVELOP A "SCORING SYSTEM" FOR YOUR PEOPLE'S JOBS.
2. BE SURE YOUR PEOPLE UNDERSTAND THE SYSTEM AND CAN KEEP TRACK OF WHERE THEY STAND.
3. PROVIDE AS MUCH COMPETITIVE INFORMATION AS POSSIBLE - RESULTS OF SIMILAR GROUPS WITHIN YOUR ORGANIZATION AND ELSEWHERE.
4. BE REALISTIC - ARE STANDARDS ATTAINABLE?
5. SET ASIDE TIME PERIODICALLY TO DISCUSS PERFORMANCE AND PLANS FOR DEVELOPMENT.

EXERCISING CONSISTENT DISCIPLINE

1. REVIEW RULES AND STANDARDS PERIODICALLY TO EVALUATE THEIR REALISM TO CURRENT REQUIREMENTS AND VALUES.
2. BE SURE YOUR PEOPLE KNOW THE RULES AND REGULATIONS.
3. REWARD OR PUNISH ON THE BASIS OF EMPLOYEE BEHAVIOR - NOT YOUR FEELINGS.
4. TAKE INTO ACCOUNT THE CIRCUMSTANCES SURROUNDING THE BEHAVIOR - FIT THE REWARD OR PUNISHMENT ACCORDINGLY.
5. DOCUMENT YOUR ACTION AND THE REASONING YOU USED.

CREATING AN ATMOSPHERE OF APPROVAL

1. RECOGNIZE THAT MUCH TIME AND THOUGHT HAVE GONE INTO AN EMPLOYEE'S SUGGESTION.
2. LISTEN! IF NOT POSSIBLE AT THE MOMENT, GET WITH THE EMPLOYEE AT A LATER SPECIFIED TIME.
3. AVOID "PROGRESS KILLERS".
4. IF THE IDEA IS NOT ACCEPTABLE, EXPLAIN FULLY THE REASONING BEHIND PRESENT PRACTICE.
5. IF THE IDEA IS ACCEPTABLE, ENCOURAGE AND SUPPORT RAPID IMPLEMENTATION.

FREQUENTLY HEARD PROGRESS KILLERS

"IT ISN'T IN THE BUDGET".

"WE TRIED THAT BEFORE".

"DON'T BE RIDICULOUS"!

"IT DOESN'T FIT OUR PROGRAM".

"LET'S GET BACK TO REALITY"!

"HAS ANYONE ELSE TRIED IT"?

"IT'S AGAINST OUR POLICY"!

COMMON WAYS ANGER EXPRESSED AT WORK

- | | |
|-------------------------|------------------------------|
| 1. DIRECT | "TAKE THAT" |
| 2. SABOTAGE | "LET'S GET BACK AT THEM" |
| 3. OVER COMPLIANCE | "IF THAT'S WHAT YOU WANT" |
| 4. EMOTIONAL WITHDRAWAL | "YOU ARE NOT THAT IMPORTANT" |
| 5. TURNING INWARD | "IT MUST BE ME" |

WORK FRUSTRATION PRODUCERS

1. RESTRICTIVE SUPERVISION
2. LACK OF RECOGNITION
3. MONOTONOUS WORK
4. LITTLE OPPORTUNITY TO TRY NEW IDEAS
5. POOR FIT BETWEEN ABILITIES AND JOB REQUIREMENTS
6. NO NEW SKILL GROWTH

WORKING WITH RIGHT OF APPEAL

1. YOU ARE NOT INFALLIBLE - HENCE OCCASIONALLY YOU WILL BE WRONG - APPEAL PROCEDURES PROTECT YOUR PEOPLE.
2. KNOW THE FORMAL GRIEVANCE PROCEDURE IN YOUR ORGANIZATION THOROUGHLY.
3. IF A FORMAL GRIEVANCE PROCEDURE DOES NOT EXIST - DISCUSS WITH YOUR BOSS HOW YOU MIGHT SET ONE UP FOR YOUR GROUP.
4. DO YOUR HOMEWORK ON GRIEVANCE ISSUES - HAVE DATA.
5. WELCOME THE GRIEVANCE PROCESS AS AN AID RATHER THAN A THREAT.

RESOURCE DEVELOPMENT

Burke Keegan
Independent Consultant

Management Effectiveness Training
San Francisco, California

January 13 - 15, 1986

Giving Statistics **1984**

Total giving: \$74.25 billion

Individuals	\$61.55 billion	82.9%	+11.6%
Bequests	4.89	6.6%	+8.1%
Foundations	4.36	5.8%	+9.8%
Corporations	3.45	4.7%	+7.8%

Religion	\$35.56 billion	47.9%
Health	10.44	14.
Education	10.08	13.5
Social Welfare	8.01	10.8
Arts	4.64	6.2
Civic & Public	2.08	2.8
Other	3.44	4.7

The Fundraising Plan

Evaluate

End

Thank

A*S*K

Prospects

Volunteers

Marketing

Feasibility Study

Case Statement

Agreement to Fundraise

The Grantmaking Process

It All Sounds So Obvious—Until You Start Tracing a Proposal's Fate Step by Step. When Both Grantseekers and Grantmakers Know the Route, Doubt and Mystery Evaporate, to the Benefit of All

By Teresa Odendahl and Elizabeth Boris

The grantmaking process is often a mystery to grantseekers. There are common characteristics, but no single grantmaking method. Each funding program has its own peculiar qualities. This is understandably frustrating to grantseekers and new foundation managers, but it is reflective of the diversity in the field. This article will focus on practical issues in an attempt to demystify the mechanics of funding for grantseekers and describe alternative methods for grantmakers.

The practices of one grantmaker are always slightly different from those of any other. Community, company-sponsored, and independent foundations are even treated separately under tax law. Yet while sources of income and management approaches do vary, giving programs are often comparable.

The primary activity of most foundations is grantmaking, and the mechanics of that process are fairly standard. Var-

iations in funding styles are generally due to a foundation's grant level, number of employees, board policies and program focus. In addition, some grantmakers are more rigorous than others. The largest grantmaking institutions tend to follow bureaucratic routines. Smaller foundations often operate in a free-flowing consensual manner. Whatever the size, a board has the responsibility for establishing grantmaking criteria.

The Review Process

The grantmaking process at staffed foundations usually involves a defined series of tasks. The traditional proposal review is sequential, including a planning phase, the initial inquiry, an investigation, formal proposal submission, possible requests for modifications or rewrites, staff evaluation and recommendation, and finally a board decision. At some foundations computers have aided in this process by keep-

This is the fourth in a series of "hands on" articles designed to help improve the management, operations and performance of organizations in the philanthropic sector. Each aims to serve grantmakers and grantseekers alike, in the knowledge that the entire sector increases its effectiveness as all participants increase their professionalism.

Subsequent articles in the series will cover deferred giving, communications programs, grants to individuals, PRI/technical assistance, post-grant evaluation, the use of computers by nonprofits, and other subjects.

ing track of the status of applications and by providing the means for prompt acknowledgements and declinations.

"The grant review process," says one foundation employee, "is simply the traffic in applications." After a proposal qualifies for consideration, however, the process becomes quite subjective. Successful methods in some foundations may not work for others, but there are many useful models that can be adapted or modified.

In addition, underlying grantmaking rationales should be reexamined from time to time. Corporate and foundation giving patterns and processes reflect basic philosophical orientations of board and management. Some foundations are a strict extension of a personal giving program—gifts are anonymous and donors do not desire publicity. Other foundations take their public trust very seriously and make every attempt to be accessible by publishing funding policies, grant lists and guides for grantseekers.



Even among these foundations, however, the actual decision-making process is rarely described. The importance of the process in terms of access to foundations and the efficient management of foundations is an issue that is too rarely discussed. Likewise the implications of leaving grantseekers in the dark about how their proposals will be handled. As many a grantseeker can attest, the unknown is always more ominous than reality could ever be.

A Mutual Dependence

In the broadest sense, grantmakers and grantseekers define a community of interest. They enable each other to fulfill their philanthropic purposes. Recognition of this fact leads to some basic precepts. The grantmaking process should be characterized by openness, mutual respect and trust. Grantmakers should be able to rely on the veracity of the proposals submitted, and grantseekers should be able to rely on the fairness of the processes that determine the fate of their proposals.

Material for this article was drawn from a recent study, "Career Patterns in Philanthropy," conducted by Teresa Odendahl, Elizabeth Troccoli Boris and Ariene Kaplan Daniels. The research was sponsored by Women and Foundations/Corporate Philanthropy with the cooperation of the Council on Foundations. It was funded by the Russell Sage and John Hay Whitney Foundations. Because confidentiality was assured to respondents in the research, specific foundations and individuals are not identified.

All the canons of thoughtful and considerate treatment should apply. For example, proposals should be acknowledged, given a thorough review, and decided upon in a timely fashion. Similarly, reports due to foundations should be accurate, timely and complete.

For many foundation observers, the emphasis on grantmaking procedures indicates a preoccupation with "professionalism," an issue on which there is limited consensus. To some the term implies rigidity and pseudo-governmental bureaucratic norms. For others, it means efficient operating methods and a well-planned approach to philanthropy.

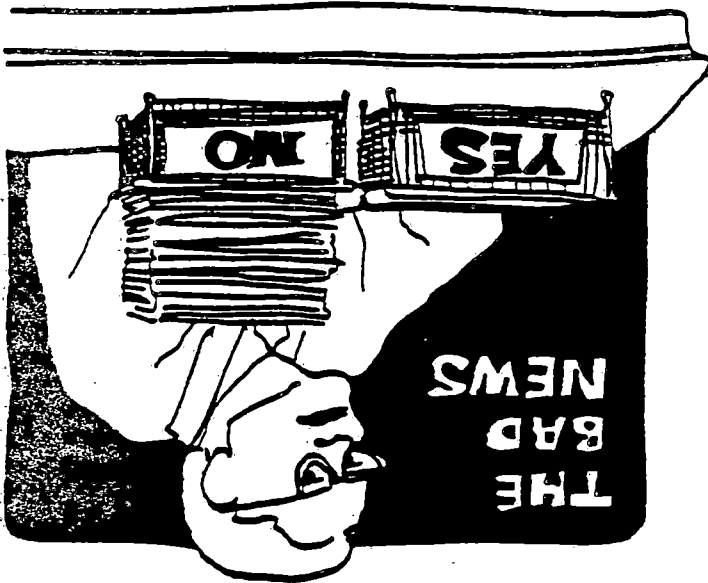
Although the issue may seem trivial, it is not. There are good reasons why foundations should be well-run and efficient, not the least of which is that the needs are so much greater than the resources.

Overly bureaucratic procedures in the pursuit of efficiency, however, may discourage unsophisticated grantees and weed out proposals that serve real needs but lack professional polish. Rigid procedures may also hamper the foundation's ability to respond quickly to an emergency or to grab a fleeting opportunity. If management relies too much on staff-generated ideas it may limit the funds that can be allocated to ideas that come from the field. And if management insists on measurable, sure outcomes it will be less likely to fund those risky new ventures that only have a chance if foundations provide the capital.

A perennial problem in the foundation field is that the legitimate need for funds is always greater than the money available. Developing grantmaking criteria is therefore the first prerequisite in directing the hard choices to follow.

Importance of Planning

Each foundation should decide what it will fund and then communicate this to grantseekers. This information, along with reporting about grants already awarded, becomes the basis for the grantseeker's research. A foundation's policies may limit its grantmaking to local projects or to national or international ones. Policies may provide grants for gen-



Harsh Reality
One program officer indicated that funding priorities are getting stricter at her foundation. She immediately declines inquiries and proposals that are outside the program area.

At well-staffed foundations, an administrative assistant or program officer usually handles routine turn-downs. Largest grantmaking programs, executive directors and presidents screen proposals and decline some themselves. A CEO may read all applications. Even at a few of the standard foundation letter is sent. In smaller foundations, a request is clearly outside established guidelines, a grant officer, or chief executive officer (CEO).

Foundation procedures vary regarding declined applications. In some grantmaking institutions the first person to read correspondence determines if a project fits into a funding program. This individual may range from a clerical worker who opens mail to an administrative assistant, program officer, or chief executive officer (CEO).

Handling the Bad News
Foundation procedures vary regarding declined applications. In some grantmaking institutions the first person to read correspondence determines if a project fits into a funding program. This individual may range from a clerical worker who opens mail to an administrative assistant, program officer, or chief executive officer (CEO). Foundation staff normally have the authority to make decisions about proceeding with an inquiry. It is unwise for applicants to subvert the process by directly approaching board members, and most foundations actively discourage such practices. If the proposed project does not fit into the criteria or guidelines, foundation staff decline by letter.

phone call soliciting information, and can often save considerable time for both parties. At this stage, correspondence and telephone conversations are brief and to the point. If there seems to be a match between the grantmaking program and the project that needs funding, then the grantmaker may either investigate the project ideas further, or request a full-scale proposal.

Even if a foundation's published materials indicate that it makes grants in a certain area, staff members often appreciate an inquiry before receiving a full proposal. An inquiry may consist of a written request or a telephone call.

Let's a question of just organizing the deluge. My office sometimes has as many as 80 phone calls a day. We keep a roster of incoming calls and outgoing ones. And I have correspondence—we keep a log. We average anywhere from 20 to 50 letters a day.

Start With an Inquiry
Foundations are inundated with requests for information and money. As one program officer put it:

take the first step and initiate contact with a foundation. Those do not. Therefore the grantmaker commonly must, though some foundations do much of their work this way, assistance on the part of grantmaking staff members. Although often involves substantial brokering and technical assistance, and collaborating with organizations on specific projects. Sending out a request for proposals (RFP) or by identifying sometimes the foundation initiates the project, either by hand and published materials on the other.

But there is more to grantmaking than research on the one hand and published materials on the other. The Foundation Center and publish an annual report. Complete all parts of the IRS Form 990PF, report grants be likely to fund their projects. Responsible grantmakers materials and carefully research the foundations that would make requests a concerted effort on both sides. Responding up the appropriate grantmaker and grant organization chooses to fund.

ers can familiarize themselves with the subjects that their In the same vein, foundation employees and board members getting those grantmakers that find their areas of interest to organize their ideas and to develop strategies for carrying a foundation's priorities enables grantmakers education.

eral purposes or only for particular program areas such as

The importance of the process in terms of access to foundations is too rarely discussed. Likewise the implications of leaving grantmakers in the dark about how their proposals will be handled.

Three Models and a Process

For a Better Understanding of How Various Types of Foundations Work, There's Nothing Like Looking at the Real Thing. Herewith Three Foundations and Their Modus Operandi

Model #1: The Active Foundation

The active foundation funds national and international programs. It has a small staff with specific areas of concentration. Reporting relationships are hierarchical, but employees do not view their workplace as bureaucratic.

Staff members consider themselves generalists who handle all types of proposals within their program areas. They pride themselves on their accessibility to grantseekers and give each proposal individual attention. Staff make decisions about which proposals will be presented to the board, but they make no grants and have no discretionary funds. All recommended requests go before the board.

Planning is institutionalized at the foundation. Approximately every five years the board initiates a planning process that looks at what the foundation should be doing in the next decade or more. Staff prepare and present general papers suggesting future activities every three years. Trustees discuss these recommendations and reach a consensus on general funding guidelines for the next three years.

Handling the Flow

The formal grantmaking process is relatively simple. Proposals are received, logged, and sent to the program officer, who skims them. They are also reviewed by the secretary or assistant—who prepares declinations for out-of-program requests and those that fall out of the current areas of emphasis. Each letter must be signed by a program officer.

Each proposer receives a response within a month, either a declination or an acknowledgement that the proposal is being considered for funding. Proposals that are within program areas are then investigated.

The investigation begins with a thorough review of materials. Then persons listed in the proposal are called, and site visits are arranged for all grantees prior to the first grant. If the program officer thinks

the proposal should be funded, he or she takes it up with the president in an informal, collegial manner. Sometimes there is discussion with other program staff. Sometimes a memo is written to clarify questions raised by the CEO.

On to the Board

Once the proposal is approved by the president, the staff member writes a recommendation for the docket. This is prepared by the program staff and not delegated to assistants. It is circulated to the board a few weeks before they meet. The proposal goes to the full board, and the staff person presents the proposal orally.

If the grant is approved, the staff member oversees the monitoring and evaluation of the project and develops a checklist for the files which describes the proposal, why the foundation got involved, how the project evolved, and opinions of those consulted about the proposal. This file is used to answer questions from trustees, staff and the IRS, and for internal evaluation.

Staff-Generated Projects

Within the foundation's areas of emphasis, program staff become very knowledgeable about the good actors and the ideas that are *not* presented to the foundation. The staff often initiate projects or play a catalytic role in forming a program that will further the foundation's goals.

Sometimes staff members join boards of related organizations. Although there is general recognition that this might lead to conflict-of-interest situations, each case is decided on its merits. The foundation often provides the seed money and helps organizations to raise the rest of the funds. The foundation rarely funds a project alone; it cooperates with a wide range of organizations.

Model #2: A Reactive Foundation

When a proposal comes in it goes to the grants control person, who registers it and starts a file. It then goes to the CEO, who assigns it to a program officer. The grants control person sends an acknowledgment to the grantseeker with application requirements and notification of missing items.

The program officer calls the applicant on the telephone and usually either makes a site visit or invites the grantseeker to the foundation offices. They go over the proposal together. If the project is at all promising, the program officer prepares a summary for the board. If it's clearly going to be denied, a formal letter is sent after a personal telephone call.

For anything that falls within guidelines, the program officer writes a two- or three-page summary memo and recommendation for the board. The memo goes to the CEO, who edits it, sometimes conferring with the program officers about changes, sometimes not. The CEO takes it to the board. The board votes, and the applicant is notified.

even if they are good projects. She also weeds out weak proposals, and those that she knows have already been attempted.

The decisions, or judgment calls, on such declinations are usually made by a program officer. But CEOs generally know about them, since rejection letters may go out under their signatures. And in some foundations boards also receive a list of declined proposals.

Staff members exercise varying amounts of authority. In those cases where clerical workers handle declinations, the signature on the letter is almost always that of the supervisor. Says one administrative assistant: "I don't sign the declination myself. The vice president approves the responses, signs the correspondence, and becomes familiar with each and every applicant's request."

Program officers generally sign about half of the declinations they prepare, CEOs the rest. For example, if a development officer from a college is asking for funding, a program officer responds directly; but if a university president requests a grant, then a foundation president usually responds. No matter who requests the money, however, from 80 to 95 percent of all inquiries are declined before they reach the board.



Turn-around time for responses is longer at some foundations than at others. Even an early declination can take three months, and a staff member may decline an application at any point in the review process. A program officer indicated:

We try to have an answer for every application within a month. If it's a declination, they should get a letter within a month. If it's something that will be considered, they should get an acknowledgment. The ones that are within the guidelines, that can be seriously considered on their merits, are in my pile of work.

Studying the Applicant

If an inquiry or proposal is judged to have merit, a foundation staff member begins investigating the organization which submitted the request. At larger foundations a program officer does this work, although he or she may need the approval of the CEO before proceeding. In small foundations, the CEO is often directly involved in the investigation process.

A collegial approach is common in the philanthropic field, although CEOs vary in the degree to which they delegate authority to program officers. Many foundations operate with a consensual style of decision-making at this juncture. Says one program associate:

We sit down with the inquiries we think should go to full-fledged application and talk about them. It's more or less, 'I'll look into that.' Or, 'Do you want to look into that?' It's very free-flowing.

Some inquiries are rejected after deliberations at a staff meeting. Others are divided among the program staff for further work.

Model #3: A Company-Sponsored Foundation

This large company foundation uses several methods to handle its various grantmaking programs. Staff recommend to the board the proportion of the yearly grants budget that should be allocated to each component of the foundation's giving program. Proposals come to the foundation directly from the public, through company subsidiaries and occasionally from corporate executives.

The paperwork and tracking are computerized, enabling staff to spend less time on decisions and more with the rapidly increasing flow of requests that have potential for funding.

The standard process is to have an assistant sort through proposals that arrive in the mail, making an initial determination about whether they fit the program guidelines. A program officer reviews these judgments. Decisions are sent via standardized letters produced by computer and signed by program officers.

When a proposal meets the guidelines, an assistant is responsible for getting the papers in order and putting together the file of necessary information. The program officer looks at the material, calls the organization, and when possible makes a site visit or has an interview. Grantmaking peers are also consulted about the applicant organization.

Moving Up

Program officers write recommendations for all proposals that are selected. The director reviews these decisions. If he differs with a recommendation, he discusses it with staff and may be persuaded to change his mind. Staff can make the final determination on proposals of less than \$10,000, while larger amounts

The grantmaking process should be characterized

by openness, mutual respect and trust.

In the broadest sense, grantmakers and grantseekers

define a community of interest. They enable each other to fulfill their philanthropic purposes.

Special Attention

The board is made up of top-level corporate executives, plus several outside members, who meet quarterly to consider recommendations. If the proposal involves sensitive issues in a particular region, staff members may not make a recommendation. Rarely, however, is a negative recommendation taken to the board, for the board plays an approval role. Grants of less than \$1,000, including matching gifts for employees and gifts to organizations where employees volunteer, are handled routinely on the recommendations of officers in subsidiaries around the country. The budgets are determined by foundation staff, but these grants do not require staff discretion as long as the recipient qualifies under the tax law.

Proposals that are referred to staff by top corporate executives receive more personalized attention. Care is taken that they do not become part of a computer backlog, and the review is accelerated. The director is aware at all times of where the proposal is in the process, in case an inquiry is made. Staff are explicit about criteria for funding. Altruism is not the motivating force. Projects must be defensible as part of the long-term interest of the company. The foundation is part of the public outreach and communications policy. Projects must be relevant and self-interest is the bottom line.

Not all staff view communication and collaboration among grantmakers as an unmixer blessing. Some CEOs stress that they consult their peers on the process issues, but make their own independent funding judgements. They avoid practices that might suggest that successful applicants at one foundation therefore enjoy preferred status at other foundations, or that unsuccessful applicants are automatically doomed.

Materials for the Board I would prepare a sheet including the formal resolution that the board will have to approve, and a synopsis of the proposal. It always ends with our rationale for why the study should be done and why it's appropriate for our foundation to fund it. Another example has much in common with the first, except that we are the initiator of the proposal and so the early stages are quite different. This usually involves meetings with people we feel are good advisors on this particular topic, and eventually leads to the selection of someone who should be actively involved in conducting the work. Since it's our idea and we've analyzed how it should be done, we will be less likely to send it out to reviewers.

When the proposal comes in I send it out for comments to about three people, experts in the particular field whom we trust. Depending on the nature of the comments, the proposal may have to be revised. During this process I would be giving progress reports to my colleagues at the weekly staff meeting. If my recommendation is that we should bring it to our board, I would circulate the full proposal to my colleagues so they could give me some comments as well. Then it would go to our board.

Several Options The next step varies. If the applicant is nearby we might get together, but it's not necessary at this stage. Usually I would send back a list of questions that were raised and ask for a fully developed proposal. At this stage I might discuss the budget. It may be that the study is something we'd like to contribute to, but the budget is just tremendous. Therefore we might talk about applying to other sources

A Technical Review Process To provide a hands-on description of how the technical review process works, the authors interviewed a program officer who handles many such proposals. Here's how he does it.

I get a two-paragraph letter in the morning mail asking whether we'd have any interest in funding a study. I don't know enough yet to decide if it's something we're interested in, so I write back and request a fuller description. I do not ask for a full-scale proposal at this point because my experience is that in a three-page letter I'll get back enough information to know whether the topic is of interest. Let's assume that they reply that it's a study that incorporates all the themes we think are important right now, and it's wonderful. I will then bring it to our weekly program staff meeting, and prior to the staff meeting will circulate copies of the letter. At the staff meeting, those who feel they have competence comment on the proposal. Generally they say that it sounds good, and that if I think it's promising I should pursue it further.

A Technical Review Process

Any number of activities might take place next, depending on the style of the staff and the tradition of the foundation. A site visit may be arranged, or key staff members from the applicant organization may be invited for a discussion at the foundation's offices. This often depends on geographic and monetary constraints.

Usually, however, staff members research an organization prior to meeting with its representatives. They might call colleagues at other foundations to see if they have ever funded the agency, or know of their work. A foundation employee explained:

Sometimes people will write to us for support and they indicate that they have received previous support from another foundation. So we'll call up and say, "What was your experience with so and so?" If an inquiry comes in that's not for us, but we think it may be for another foundation, I may call and find out whether or not that is in fact the case before I encourage someone to contact them. And of course, if we're both considering the same project then there is a lot of communication.

Not all staff view extensive communication and collaboration among grantmakers as an unmixed blessing. Some CEOs stress that they consult their peers on the process issues, but make their own independent funding judgments. They avoid practices that might suggest that successful applicants at one foundation therefore enjoy preferred status at other foundations, or that unsuccessful applicants are automatically doomed to failure.

Organizations similar to the applicant's, or experts in the field, may also be asked about the qualifications of the grantseeker. If the initial investigation is favorable, the foundation staff members will probably request a full proposal, or additional specific information.

Proposal Submission and Staff Evaluation

Some foundations require that grantseekers fill in application forms. Many prefer to review proposals submitted in a standard format. Supporting materials, such as budgets and IRS documentation, are normally requested along with the proposal, and if they are missing an administrative assistant often asks for specific items such as a copy of the applicant's IRS letter. A few foundations provide technical assistance to organizations with good ideas, but such special attention is limited because of lack of staff time.

Foundations that decide to provide funding for general purposes usually have a different kind of staff and review process from those that specialize in a particular field such as medical research. Some general purpose foundations choose broad-gauged staff and everyone handles every type of proposal. Others prefer a degree of specialization: one

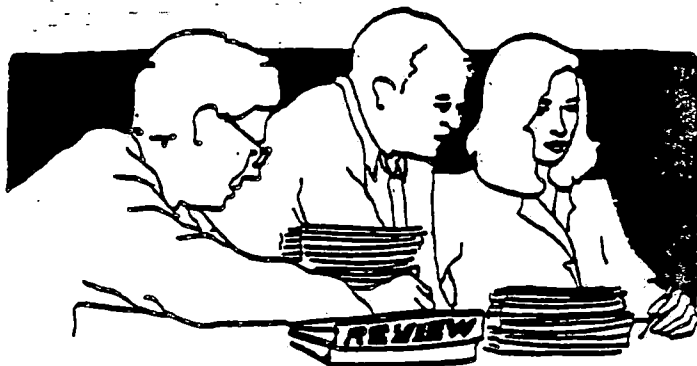
staff person may review proposals in the arts, another in health, and so forth. In narrowly focused foundations there are more likely to be staff with particular expertise.

Combination Specialist-Generalist

Even if program officers review proposals in a specific area, they must be generalists as well. Says one program officer:

I have the primary responsibility for the health work that we do. I do a fair amount of grants review and work in higher education, and a fair amount in human services. It is the character of this place that each of the program officers has one basic area, and then some of everybody else's area as well.

Although a program officer may be familiar with a particular field, it is often impossible to fully understand all



the ramifications of a specific project without extensive research. In addition to the substantive portions of the proposal, the program officer must also consider the budget and the ability of the applicant to carry out the project.

Because a program officer might be reviewing hundreds of applications, some receive more thorough investigation than others. Some foundations cope with this problem by sending proposals out for peer review to a committee of specialists, or by relying on consultants with expertise in a program area.

Subjective, Not Scientific

Grantmaking is not a scientific process. Determinations are usually based on a staff member's knowledge of the field, of the community served, his or her values and tastes, or those reflected in board-mandated policy. They rest on the assumption that judicious funding decisions are possible, and that foundation staff are qualified to make appropriate recommendations.

Although most foundations operate with hierarchical staffing arrangements, their managements vary from very authoritarian to nearly consensual. Under more authoritarian management styles the CEO often retains a veto on employee recommendations. Sometimes staff members

simply do the research and technical work in preparation for the executive's decision.

In contrast, a foundation president described a consensual proposal review process: "We do it all together. We see each other every day, and every application that comes in is read by all of us. We all comment, and we get together and decide what to do with it."

Style Affects Substance

A foundation's operating style, whether active, reactive or interactive, also has a bearing on the grantmaking process. Active foundations, even if locally oriented, may have a process that emphasizes technical assistance. In such foundations the staff may become advocates to the board for particular projects, particularly if they are involved in initiating projects.

General purpose foundations that fund mostly unsolicited proposals often have little grantee interaction and thus need fewer staff. Their decision-making process would typically not involve staff in advocacy roles. Grantmakers who seek to leverage their funds must find other foundations and corporations that are willing to undertake cooperative funding—a process that requires extensive communication and networking with foundation peers.

The management of many grantmaking institutions mitigates against arbitrary employee recommendations. At most larger foundations, proposals are reviewed more than once, by different people. At the very least, CEOs comment on the work of program officers. At foundations with only one employee, the board is the primary check on staff work. And in many cases, outside consultants or review committees fulfill these functions. But foundations make trade-offs when they use non-employee reviewers. The more people involved in the process, the longer it takes to complete a decision.

Role of the Board

Ideally, a board is responsible for developing grant-making policies, considering the recommendations of staff on particular projects, and ultimately deciding whether or not to fund specific proposals. The staff reviews grant applications, determines how well they fit the approved policy of the board, investigates the applicants' ability to complete the project, and prepares formal recommendations.

Preparation for board meetings usually begins months in advance. A docket of pending grant proposals is mailed to all trustees a few weeks before each meeting. Some boards wish to see the full proposals, but the trend is for trustees to read brief summaries of projects prepared by foundation staff.

A CEO generally acts as a connecting link between board and staff. At large foundations program officers are often

Discretionary Funds

Many foundations have mechanisms such as discretionary funds that are used to provide greater flexibility. Discretionary funds are often earmarked for emergency situations, small grants, special programs or creative—often risky—ventures. The use of these funds is usually the prerogative of the chief executive, or sometimes vice presidents at larger foundations.

While discretionary funds have been criticized because of the possibility of abuse, they do enable more prompt emergency grantmaking as well as greater independence and latitude on the part of foundation staff.

In the "Career-Patterns in Foundations" study, nine of the 27 foundation CEOs interviewed cited discretionary funds at their organizations. The funds ranged from \$10,000 to \$850,000 per year, with limits of \$2,000 to \$100,000 to any one grantee. One CEO with discretionary money indicated:

I have a presidential slush fund, staff grant fund, or whatever, which isn't very much. But we try to use it wisely. I can get more if I want from the board. But rather than use that for gifts to friends—well, I'm not saying that a lot of people do it, but I don't want to do it—we use it as start-up funds for things that are quite different, where somebody needs money to see if something's going to work or not.

Not all foundation CEOs seek discretionary funds. The president of one of America's largest foundations put it this way: "No. Don't use it, don't want it."

*Overly bureaucratic procedures
in the pursuit of efficiency
may discourage
unsophisticated grantees and
weed out proposals
that serve real needs but
lack professional polish.*

advocates for the proposals they recommend. In many organizations both the CEO and program staff present proposals and answer questions; at the smallest ones, the CEO does it alone.

Check and Balance System

Relationships among board, staff and grantees are complex (*Foundation News*, May/June 1983). They traditionally serve as a kind of check and balance system. CEOs serve at the pleasure of the board, so most executives try to be sensitive about the discretion to which a board is entitled—which is all part of doing a good job. Says one CEO: "If the data are there, and you've done your homework, and it is reasonable, they'll approve it."

Another foundation president described the situation with his board, which is representative of most of the CEOs we interviewed. He indicated:

The board meetings are very lively, with prolonged discussions that are very well informed. The most important thing, to my way of thinking, is that the board is not as all intrusive. They don't feel it's their responsibility to develop programs, or to have their pet projects supported by the foundation. They do review the proposals very carefully before they approve them, which they should do. That's their responsibility.

Foundations vary, but the composition of the board, and the ability and power of the chair, in combination with the personality and leadership skills of the chief executive, definitely affect the autonomy enjoyed by staff.

Conclusions

Foundation boards hire CEOs whose judgment they trust and CEOs in turn hire staff that they trust. Decisions are usually made by more than one person, but the criteria for grant decisions are often not explicit. Most foundations are looking for a good idea, a workable plan, strong leadership, organizational capability, a realistic budget and fiscal integrity.

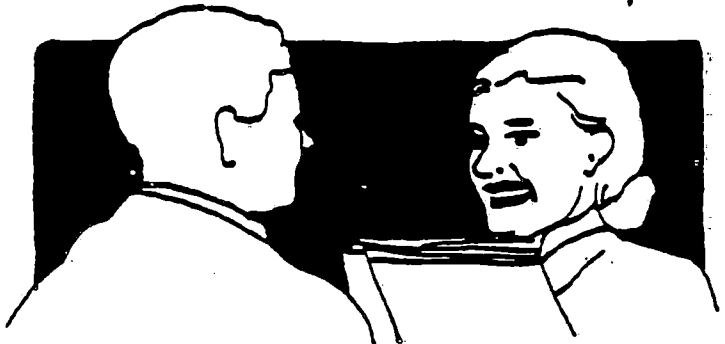
Foundations place differing emphases on these elements. Some will overlook other weaknesses if a project has a good leader with a novel idea. Such foundations consider themselves risk takers, and often devote considerable staff time helping the organization to achieve the goals set out in the proposal, perhaps even helping to write the proposal itself.

Other foundations require evidence of the ability to carry out projects before they will make grants. They often have either the staff nor the inclination to help fledgling organizations reach the appropriate level of sophistication to carry out a desirable project.

Decisions are seldom arbitrary, nor are they totally ob-

jective. The system has checks and balances, but there is no precise measuring stick that can identify a sure-fire project. Evaluation based on experience is the accepted decision mode, but individual and organizational values always come into play.

Recognition of the subjective aspect of the decision-making process is prompting foundations to include better representation of women and minorities on boards and staff. Just as a remedy for staff arrogance is to hire former



grantees, so hiring women and minorities is effective in countering insensitivity to the needs of these groups.

Much to be Done

Despite progress, complaints about inconsiderate treatment of grantees are still heard (see page 49). Prompt acknowledgement of proposals, early decisions and well conceived investigations into the merits of proposals—in other words, a well managed process—can go a long way toward maintaining the philanthropic community of interest.

Beyond the paper traffic, a concerted effort to develop a fair and focused decision process that incorporates evaluation standards, flexibility and a spectrum of experiences and values is in the best interest of the organization and of philanthropy.

Explicit policies and procedures help to ensure that foundations operate in an objective and ethical fashion, but they do not guarantee that decisions will be wise. Ultimately, good judgment and intuition make the difference. □



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10. Orlans, Harold, ed. Non-Profit Organizations: A Government Management Tool. New York: Praeger Publishers, 1980.

Written by a number of authors from the public administration community, this work focuses on the federal experience and on government-sponsored not-for-profits operating demonstration projects. Various essays in the book offer guidelines for federal use of not-for-profit organizations and highlight the use of not-for-profits in otherwise governmental programs.

11. Shafritz, Jay M., and Daniel Oran. The MBA's Dictionary. Reston, Virginia: Reston Publishing Company, Inc., 1983.

The MBA's Dictionary provides definitions and discussions of all the terms, processes, persons, organizations, laws and court cases needed by nonprofit managers (or business or government). The book provides the vocabulary of management, helps in the preparation of reports and generally adds to the understanding of the management environment. It is concise and lucid, yet contains extensive cross references, illustrations and citations for further information.

GOVERNANCE

12. Bradford, Leland P. Making Meetings Work: A Guide for Leaders and Group Leaders. California: University Associates, 1976.

This book covers most major topics relating to the dynamics of meetings and group communication. While it is clear and lively, it somewhat oversells the subject, making sensitivity and encounter seem easier to practice than they really are. Good for the serious reader who often works with groups.

13. Conrad, William and William Glenn. The Effective Voluntary Board of Directors: What It Is and How It Works. Chicago: The Swallow Press, Inc., 3rd ed., 1980.

The book reviews the basic mechanical functions of the nonprofit organization Board of Directors. Board size, term, composition, duties, liabilities, etc., are examined in detail. The section on board/staff relations is extremely good and the book does a fine job describing the roles of various board committees. In total, the book serves as an insightful discussion of private nonprofits and how they really work rather than how most say they are supposed to work.

14. Institute for Voluntary Organizations, n.d. Designs for Creative Management. Revised. Chicago, Ill.: Institute for Voluntary Organizations, 1983.

These materials are intended to be used in a training setting as a companion to the Glenn and Conrad books cited above. It is an excellent collection of Board exercises that offer practical insights on the role and function of the board.

15. O'Connell, Brian. Effective Leadership in Voluntary Organizations. Chicago: Follet Publishing, 1976.

This book serves board members, voluntary organization executives, and all people interested in effective voluntary organizations as a systematic review of the basics of management in voluntary organizations. The book is a manual - a how to do it handbook for voluntary leaders. It starts with how to get organized and continues through recruitment, rotation of leaders, differentiation of volunteer and staff roles, committee management, fundraising, and how to evaluate results. An excellent section is the introduction which covers an accurate and concise history of voluntarism in America from colonial times to the present. The section on "Keeping Voluntary Organizations Independent" challenges the reader to personal involvement.

16. Tropman, John E. et al, The Essentials of Committee Management. Chicago: Nelson Hall, 1979.

An impressive work in its exhaustive presentation of the types and functions of committees. While somewhat inattentive to the dynamics of interpersonal relationships, the book serves as an excellent reading for those who serve in social agencies or governmental entities. The book also considers special task forces, commissions, and other forms of boards and committees.

17. Weber, Joseph. Managing the Board of Directors. New York City: Greater New York Fund, 1975.

This pamphlet is intended to provide a systematic approach to organizing and managing voluntary boards. Specified guidelines are provided in such areas as recruitment, orientation, board/staff relations, responsibilities and liabilities of board members, and the board's role in planning for the nonprofit organization.

MARKETING

18. Kotler, Philip. Marketing for Nonprofit Organizations. 2nd ed. Englewood Cliffs, N.J.: Prentice Hall, Inc., 1975.

The author's central thesis is that marketing tools and strategies are equally applicable to nonprofit organizations as they are to firms in the profit sector. The book's five basic foci concern: 1) conceptualizing marketing problems for nonprofit organizations; 2) marketing problems related to demand in the task of managing demand; 3) marketing mixed variables in related strategies; 4) administering the marketing program, the organization needed for effective administration, and planning and controlling marketing efforts; and 5) illustrations of marketing concepts and health, education, and public services.

19. Montana, Patrick J. Marketing in Nonprofit Organizations. New York City: AMACOM, 1978.

The author reviews all of the basic issues concerned with nonprofit marketing-planning, objective setting, market analysis, product design, distribution, pricing and packaging. Numerous illustrations are provided to emphasize these applications including education, social services, health and welfare. Individual contributors provide a unique, and interesting perspective on the basics of nonprofit marketing, and the need for continual innovative applications of business marketing concepts and practices.

RESOURCE DEVELOPMENT

20. Allen Herb, ed. The Bread Game. San Francisco: Glide Publications, 1974.

A handbook on how to raise money through foundations. A practical introduction to fundraising problems and techniques that is highly irreverent and a little funky. Written in easy-to-understand language, the book talks about how to find the "beast" who has all the money, how to form a tax-exempt organization, and how to make reports once the beast has provided funding. A reasonably comprehensive bibliography (for 1974) is included.

21. Bakal, Carl. Charity USA. 2nd ed. New York City: Times Books, 1980.

Written by an investigative journalist without previous experience in philanthropy, the book is written from the perspective of a writer who is "discovering" what he calls a largely hidden, often unaudited, multi-billion dollar "industry." The author follows the flow of money in philanthropic organizations from the donors to recipients to the actual users of contributions. Several interesting stories about national nonprofit organizations are often informative but embarrassing to the organization in question. It is a candid, behind the scenes, inside view of charity in action. An interesting introduction to not-for-profit organizations although occasionally uncomplimentary of them. The author offers two distressing judgments: first, that government should take over many of the functions now performed by the Third Sector, and second, that the federal government should more closely regulate charitable organizations.

22. Broce, Thomas E. Fund Raising: The Guide to Raising Money from Private Sources. Oklahoma: The University of Oklahoma Press, 1979.

The book is an easy to read primer on raising funds from private sources. The book provides an excellent tool for the beginner or the expert.

23. Crimmins, James C. and Mary Keil. Enterprise In The Nonprofit Sector. New York City: Partners for Livable Places and the Rockefeller Brothers Fund, 1983.

Based on a research project conducted under the auspices of the Center for Policy Research, the book offers eleven case studies of nonprofits that have experimented with enterprise activities. The authors point out that entrepreneurship is not appropriate for every nonprofit and that it takes time and creativity to be successful. A very worthwhile reading for board members and executives of nonprofits who are considering the establishment of enterprise activities.

24. Flanagan, Joan. The Grass Roots Fundraising Book: How to Raise Money in a Community. Chicago: Contemporary Books, 1982.

The book covers fundraising with verve and specific ideas. The emphasis is on financial solvency and the roles of salesmanship, publicity and recordkeeping. The author suggests a wealth of techniques - from simple book and bake sales through television marathons and tennis tournaments. Explicit how-to's, a list of training schools, and a bibliography are included.

25. Koch, Frank. The New Corporate Philanthropy: How Society and Business Can Profit. New York City: Plenum Press, 1979.

This book describes in a comprehensive and, more importantly, a practical way every corporation can marshall its financial support, employee talents, and other resources to make a meaningful impact on society. It is aimed at business leaders in general and those managers in particular who have responsibility for their company giving programs. Must reading for everyone who gives or seeks corporate financial support.

26. Leibert, Edwin and Bernice Sheldon. Handbook of Special Events for Nonprofit Organizations: Tested Ideas for FundRaising and Public Relations. New York City: New Century, 1972.

The book addresses the important area of non-grant fundraising for nonprofit organizations. As the federal government cuts back its giving, and corporations and foundations grow at a pace inadequate to the need, this book offers specific recommendations on how to put together special event activities that not only raise funds but publicize the existence and activities of a given organization and attract volunteers to the cause. The book describes everything from budget development and campaign opening events to various types of special events and the promotion of the activity. Specific ideas on brainstorming new ideas are offered.

27. White, Virginia P. Grants: How To Find Out About Them and What To Do Next. New York City: Plenum Press, 1975.

A valuable guide, this book explains in an easy-to-read style what the grant business is all about. Filled with anecdotes from people who have received significant financial support, this book lists publications, information sources, seminars, and media providing grants information. Addresses, telephone numbers, and contact points are also provided. All in all, a good discussion of the basics of grantsmanship.

CONTROL AND EVALUATION

28. Anthony, Robert N., and Regina E. Herzlinger. Management Control In Nonprofit Organizations. Revised. Homewood, Illinois: Richard D. Irwin, Inc., 1980.

This is the bible of control systems within nonprofit organizations. The purpose of this book is to describe the management control process consisting of three sub-processes: 1) strategic planning, 2) management control, and 3) operational control. Also included are several case studies of nonprofits.

29. Hatry, Harry et al. Program Analysis for State and Local Governments. Washington, D.C.: The Urban Institute, 1976.

The book's intent is to provide some insights and suggestions for improving program analysis in state and local governments. The book presents the basic ideas and methods of program analysis in a useful and practical way. The book is not dramatic, exciting or novel, but is pragmatically sensible - and needed.

30. Hatry, Harry et al Practical Program Evaluation for State and Local Government Officials. 2nd ed. Washington, D.C.: The Urban Institute, 1981.

A good book for moving people from mere program evaluation into more meaningful kinds, associated with outcomes, impact and cost/benefit. A common sense, highly readable, and highly useful book.

31. McConkey, Dale D. MBO for Nonprofit Organizations. New York City: American Management Association, 1975.

The author provides a very pragmatic and useful system for effecting an MBO system. A guide for determining an implementation approach for MBO is reviewed in detail, along with judicious use of case studies. A paradigm is provided for overall context as well as a discussion of top management versus middle management tasks, responsibilities and practices.

32. Ramanathan, Kavasseri V. Management Control In Nonprofit Organizations. New York City: John Wiley and Sons, 1982.

The title of this book is misleading because it lumps together the public and private tax-exempt sectors which means a lot of the case material is irrelevant to readers from either sector. The book contains many basic examples of budgets, financial reports, performance report forms, etc., and could have some utility for the inexperienced manager. All in all, an accountant's view of management.

33. Ramanathan, Kavasseri V., and Larry P. Hegstad, (editors), Readings in Management Control of Nonprofit Organizations. New York City: John Wiley and Sons, 1982.

This book is a companion book to the one above and also lumps together the public and the private tax-exempt sectors. The emphasis of the articles is on accounting practices and the quantification of activities within organizations.

34. Weiss, Carol. Evaluation Research: Methods of Assessing Program Effectiveness. Englewood Cliffs, N.J.: Prentice-Hall, 1972.

The author successfully builds a case for evaluation at the policy level of the organization. She develops a complete rationale for doing so and outlines various strategies for effecting evaluation systems both externally and internally. In addition to illustrating various methods for conducting program evaluation and their attendant advantages and disadvantages, the author reviews strategies for integrating various evaluation efforts.

ACCOUNTING AND FINANCIAL REPORTING

35. Bennett, Paul. Up Your Accountability. New York City: Taft Corporation, 1973.

The book is aimed specifically at the unique problems of nonprofit organizations money management. It explains the principles and procedures of accounting for nonprofit organizations. Written in an easy-to-read style, the book is the best for non-financial managers.

36. Callaghan, Christopher, and Tracy Connors. Financial Management for Nonprofit Organizations. New York City: American Management Association, 1982.

This is a source book for nonprofit managers on 22 topics of specific concern, each written by an expert on the particular areas encompasses. Each chapter provides a concise overview and discussion of a problem area likely to be encountered in the nonprofit organization. The major divisions of the book are: "Budgeting," "Accounting and Reporting," and "Record Keeping." The editors have provided a useful flow to the subjects with introductions to each division that allows for a comprehensive view. The book is a valuable resource from bookkeeper all the way up to the executive director, depending on the problem to be resolved.

37. Gross, Malvern J., Jr., and William Warshauer, Jr. Financial and Accounting Guide for Nonprofit Organizations. 3rd ed. New York: Ronald Press (John Wiley & Sons), 1979.

The authors review accounting and financial responsibilities of the nonprofit organization's treasurer and CEO. Current issues in accounting and financial reporting reviewed along with some current trends and expected changes. Accounting and financial reporting principles, standards, and practices are reviewed and illustrated for colleges and universities, hospitals, voluntary health and welfare organizations, and other nonprofit organizations - museums, performing art groups, libraries, etc. Budgeting issues and concerns are also reviewed and illustrated.

38. Nelson, Charles A. and Frederick J. Turk. Financial Management for the Arts: A Guidebook for Arts Organizations. New York City: Associated Councils of the Arts, 1976.

This book outlines a step-by-step approach for designing, implementing and evaluating a basic accounting and financial reporting system for arts organizations. The authors provide numerous helpful hints and explain key concepts and terms. Sample charge of accounts, budgets and financial statements are provided.

LEGAL

39. Hopkins, Bruce R. The Law of Tax Exempt Organizations. 4th ed. New York City: John Wiley & Sons, Inc., 1980.

A somewhat easy to read legal book; attorneys and accountants who minister to tax exempt organizations, and trustees and administrators of nonprofits will derive invaluable assistance from this volume. A fine desk reference providing quick answers for specific problems in a straightforward, easily found, and amply documented form. The author has managed both a coherent overview of a complex subject and a highly useful working tool for the exempt organization administrator. It is first class scholarship mated to practical use.

40. Oleck, Howard L. Non-Profit Corporations, Organizations, and Associations. 3rd ed. Englewood Cliffs, N.J.: Prentice Hall, Inc. 1980.

A not-so-easy to read book written by and for lawyers which discusses the legal aspects of not-for-profit organization management. At 1,000 pages exactly, the book is comprehensive but difficult for the uninitiated. Everything from forms for proxies to the powers of nonprofit directors is discussed in fine detail.

POLICY AND PLANNING

41. Andrews, Kenneth R. Concept of Corporate Strategy. Revised. Homewood, Ill.: Richard D. Irwin, Inc., 1980.

The author provides an excellent overview of the essential elements to strategic management. Three distinct roles of the CEO are identified and explained, as well as the role of the board of directors in strategy management. The book's primary focus is in describing the critical elements to strategy formulation and a relationship of each to strategy implementation. In this context, a clear and well articulated corporate strategy serves as an important lever.

42. Berger, Peter L. and Richard John Neuhaus. To Empower People: The Role of Mediating Structure in Public Policy. Washington, D.C.: American Enterprise Institute for Public Policy Research, 1979.

This essay summarizes a larger research report conducted by the American Enterprise Institute. The purpose of the essay is to identify and discuss the policy implications to those aspects of our society which play an important role mediating policy issues and concerns between individuals and institutions in our society. These "mediating structures" are neighborhood, church, family, and voluntary associations. The authors emphasize the need for policy makers to creatively consider mediating structures with their policy decisions.

43. Hardy, James M. Corporate Planning for Nonprofit Organizations. New York City: Association Press, 1972.

This book provides numerous models for effecting a long-range planning process. In providing an overall framework, the author discusses and illustrates every aspect ranging from "the plan-to-plan" to operating budgets and evaluating the long-range planning process.

44. Steiner, George A. Strategic Planning. New York City: The Free Press, 1979.

While written for the corporate leader, this book offers an excellent overview on the value of planning and the technical steps involved in its accomplishments. The book does an excellent job covering the process of environmental scanning and the development of purpose and mission statements.

45. Tregoe, Benjamin B. and John W. Zimmerman. Top Management Strategy. New York City: Simon and Schuster, 1980.

The authors' mission is to provide a couple of useful frameworks for "thinking strategically." In describing the important differences between long-range planning and management, the authors provide a strategic framework for guiding top management policy decisions. The concept of a "driving force" is examined as cornerstone to strategically effecting top management plans.

VOLUNTARISM

46. Allen, Kerry Ken, et al. Volunteers From The Workplace. Washington D.C.: National Center for Voluntary Action, 1979.

The book is a comprehensive study of the nature, scope, and accomplishments of efforts by corporations and organized labor to involve workers as volunteers in their community. It is a descriptive report which examines what is done, how it is structured and operates, and how it benefits the communities.

47. Schindler-Rainman, Eva and Ronald Lippit. The Volunteer Community: Creative Use of Human Resource. 2nd ed. La Jolla, CA.: University Associates, 1975.

A theoretical description of the volunteer community in America and overseas. The book begins with assumptions about the relationship between democracy, voluntarism, and personal growth and development. Sequentially, the book summarizes social trends relevant to voluntarism, the basis of motivation that works on those who volunteer, and such technical matters as the recruitment and orientation of volunteers. A considerable portion of the book is designed to provide the rationale for training volunteers and evaluating volunteers and volunteer programs. It is a thorough, easy-to-read review of volunteers and their place in American society.

48. Wilson, Marlene. The Effective Management of Volunteer Programs. Boulder, CO. Volunteer Management Associates, 1976.

This practical guide to volunteer management provides a rare combination of humane and very efficient management perspectives. The book provides warm and humorous illustrations from practice against a backdrop of sound theories of management. It is written for those people who make a career of matching volunteers to places where they are needed.