Is the Non Profit Structure an Anachronism?

Whither Non Profit Child Care?

by Roger Neugebauer

In our annual survey on the state of child care, we found directors of non profit child care centers to be unusually anxious. Directors agree that events in the next few years will dramatically alter the child care delivery system for low and moderate income families.

For example, one director from the midwest observed:

"The shifting of social service decision-making to the states and the passage of welfare reform have thrown our world topsy-turvy. Left to their own devices, I fear our state officials will seek to buy the most care for the least cost. Parents' needs for stable, stimulating environments for their children will be ignored and licensed, high quality centers will be abandoned unless we as advocates make ourselves heard."

Not all non profit directors responded so pessimistically. Some see this as a window of opportunity to remake a child care system that doesn't work.

However, whether directors see the glass as half full or half empty, all agree that this next year will be one in which organizations serving low income populations will need to be particularly savvy in responding to rapidly changing rules of engagement.

And there is reason to believe that the non profit community will respond well. Management authority Peter Drucker refers to non profit institutions as "America's resounding success in the last forty years." He observes that non profit institutions are "central to American society and are indeed its most distinguishing feature" (Drucker).

On the other hand, anyone who has worked in a non profit recognizes that there are some real challenges to managing organizations bound by non profit rules and regulations. After all, the non profit structure was created in an era greatly different than ours today. The role of government was different, the level of competition for charitable funds was different, and the supply of volunteers was greatly different.

To explore the ways in which the non profit structure may inhibit the responsiveness of organizations serving low income families, let me share some stories. These stories are fictitious, but I think you will recognize some elements of reality. [Note: The term non profit embraces a wide variety of program types. The points in this article apply mainly to independent community based centers. Future articles will concentrate on the unique challenges of church-housed, public school operated, Head Start and sponsored centers.]

Story # 1 — The Shifting Constituency

For years, Fulton Avenue Day Care served low income families with two inner city centers. Initially, Fulton was generously funded by United Way and then, when its second center opened, it signed a contract with the state to provide child care for AFDC families. As the years went by, Fulton found that so many new organizations were competing for United Way funds that its annual grant was getting smaller and smaller. Likewise, though it was able to *maintain its contract with the state, this was shrinking as well.*

Eventually, faced with the prospect of closing one of its centers, Fulton took a look at an adjacent neighborhood undergoing yuppification. It closed its second site and opened a center for the yuppies. This new center was so successful that it was expanded three years in a row. Today, Fulton is a thriving operation with 80% of the children it serves coming from middle and upper income families.

Today, in the average independent non profit, less than 10% of the children are from families receiving public assistance (Willer). This could be interpreted as good news. In the past, large public contracts tended to segregate poor families into a few large programs, while educators argued in vain about the benefits of integration. When centers have shifted their constituencies to foster integration and have done it in a thoughtful way, this is a healthy development.

When centers have shifted their services away from poor families in order to preserve or grow the organization, this may be a different story. It is unfortunate when families with marginal abilities to pay lose services as organizations chase dollars elsewhere. What is truly laudable are the non profit agencies that have managed, against all odds, to diversify their constituencies and funding sources and continue to serve low income families in a substantial way.

Story #2 — Bored with the Board

Jane Jones was thrilled when she was selected as director of Community Day Nursery. This was her first stab at directing a non profit organization and she was looking forward to all the support and guidance she would receive from the board of directors. Her excitement was short lived. At the first board meeting, less than half the people listed on the board roster showed up and those that attended clearly expected her to run the meeting.

Determined to make the board effective, Jane tried everything she could think of: she begged and bribed board members to attend meetings, spent hours preparing back-up materials for agenda items which she mailed out in advance, brought in outside consultants to train board members on their roles, and set up an annual planning retreat at a nearby resort.

All this made little difference — attendance improved but board members seldom prepared for meetings, seldom exercised initiative in proposing changes, and nearly always deferred to her opinions. More daunting, she was now faced with the task of recruiting new volunteers to replace board members whose terms expired and with sweet talking one of them to assume the chairpersonship.

By her third year, Jane had decided that she was investing far too much energy in managing the board to justify the meager returns. She set aside her guilt and basically ran the center with a phantom board.

At the turn of the century, day nurseries and other charitable early childhood organizations were directed by active boards of wives of community leaders. These dedicated women invested considerable time and money in serving poor families with staffs they hired and supervised.

Today, if you look hard enough, you can still find an occasional non profit that is run in the spirit of the old charitable centers. However, finding volunteers who are willing and able to devote so much time to serving on a board is nearly impossible. Whether you are looking to recruit center users or community experts for your board, you will be dealing with individuals with numerous demands on their time and attention. Few of them will place your center's welfare at the top of their priority list.

That is not to say that board members don't take their roles seriously. Board members often work hard, offer helpful insights, ask tough questions, and raise valuable funds.

However, the average board member is likely to be hard pressed to devote more than 50 hours a year to center business (very few of which are spent in the center when kids are present). Considering that the director spends from 2,100 to 2,600 hours a year on center business, it is not surprising that board members are unlikely to challenge the performance or recommendations of the director.

Story #3 — Entrepreneurism Short-Circuited

Joe Macho, CEO of Allied Nuts and Bolts, was invited to serve on the board of Happy Tots Child Care Center to supply the center with some business expertise. Even though Happy Tots had an illustrious 30 year history of service to the community, it had fallen on hard times and needed some new ideas. Joe spent his first four months on the board learning the strengths and weaknesses of the organization. Then he scanned the environment to find opportunities to build on Happy Tots' unique strengths.

Finally, Joe recommended that the way to save Happy Tots was to submit a proposal to provide child care for employees of the city's largest employer in a center the employer constructed.

This employer was eager to offer child care as a benefit and Happy Tots was the highest quality provider in the county — clearly this was a slam dunk opportunity.

Unfortunately, a highly regarded for profit chain entered the competition and offered to finance the construction of the building as well as to manage the center. Scrambling to match this offer, Joe approached all his friends in the banking community. While they had no qualms about lending millions of dollars to Allied Nuts and Bolts, they couldn't fit the economics of a non profit center into their decision-making formulas and turned him down.

Joe resigned from the board and lived happily ever after.

One of the advantages of non profit status (when accompanied with federal tax exempt status) is eligibility to receive tax-deductible contributions from individuals and grants from philanthropic organizations. However, this advantage is lost in raising money via standard commercial routes. Banks can, and do, loan money to non profits, but not as readily and as eagerly as they do to companies whose profit and loss statements they can understand. Likewise, a non profit with a great new project to promote cannot seek out investors motivated by a return on their investment.

There are, of course, sound reasons for the financial restrictions on non profits. The benefits of non profit status are intended to redress social ills, not to enrich private individuals. And there are ways for non profits to generate commercial funds — such as by setting up a tax paying subsidiary. However, the restrictions, and the cumbersome ways around them, often limit the ability of non profits to seize opportunities to move their agenda forward.

Story #4 — The Lingering Legend

Bill Evans was a legend. He had founded Central Child Care Services 40 years ago and built it into one of the finest service organizations in the state. Over the years, his agency had enabled countless struggling families to get off welfare, and provided a sound developmental head start for thousands of children — many of whom were now leaders in the community. Unfortunately, as years went by, he became less open to change, more tied to what always worked in the past. The community was changing, but Bill was unable to see the need for Central Child Care to change.

Members of the board were aware that the services of Central were in urgent need of revitalization, but were reluctant to force the issue. They had all been appointed by Bill — many were even proud graduates of Central. Privately they discussed the need for Bill to pass the torch on to a new leader. However, when they gently broached the topic of retirement in board meetings, Bill treated the suggestion lightly and joked about the time when their children would be serving on his board.

Years later, when Bill finally agreed to retire, it was too late. The agency's financial resources and public support had deteriorated dramatically. All Bill's successor could do was preside over the closing of the agency.

Board members of local non profit organizations are not objective representatives elected at large from among all the constituents of the agency. Board members are typically hand-picked either by the current board members or by the head of the agency. People who agree to serve are usually loyal to the head of the agency. Their natural tendency is to give him the benefit of the doubt.

This deference to the head may be warranted to a degree. As discussed earlier, an executive director knows vastly more about the details of running the center than do board members. On the other hand, personal feelings of loyalty have been known to cause board members to overlook mistakes, to fail to ask tough questions, and to discount staff and parent complaints. Board members cannot be vigilant and objective in evaluating the performance of the director when they are more loyal to him personally than they are to the agency and its constituency.

Story #5 — Managing the Board

The board of directors of Twin Palms Child Development Center was highly visible. Board members were featured in every center newsletter, their pictures were displayed in the center's entryway, and at every event they were introduced and thanked. They appeared to be running the show.

In reality, John Doe, the director, carefully managed the board from behind the scenes. He discouraged appointing people to the board who might prove to be too independent or too feisty. He carefully set the agenda to keep sensitive topics from being discussed.

When it was time to approve the annual budget, he overwhelmed board members with reams of confusing financial data, then placed the vote on the budget at the end of a busy agenda when board members would be tired and eager to go home. He solicited board members' opinions in great detail over matters he cared little about to give them a sense of involvement. And he massaged the egos of those who supported him unquestioningly by continually giving them credit for all the accomplishments of the center.

Some of the best centers I have visited, programs providing the best services for families, are centers where the director runs the show. Typically, the director of one of these centers is very talented with a passion for serving children and families. She is convinced that her vision for the agency is the right vision. Early on, she decided that depending on the board to lead the way in shaping this vision was a slow and frustrating way to proceed. So she began paying lip service to the board, only using it to rubber stamp plans she developed.

It seems unfair to be critical when a center is doing a great job without real board oversight. It can be argued, of course, that the center could be doing an even better job if the board were allowed to fulfill its role. Things would proceed more slowly, but decisions when made might be richer and more broadly grounded.

On the other hand, you very easily could have a director whose heart is not in the right place manipulating the board just as effectively. He may be promoting an educational approach that is inappropriate, treating families in a very demeaning fashion, or even diverting donated funds into his own pocket.

In theory, and in law, the board of directors of a non profit corporation is charged with final responsibility for guiding the organization. In reality, boards can easily be manipulated by center directors with worthy, weird, or mischievous intentions.

Story #6 — The Unappreciated Executive

When Sally Saint was hired by Wonderful World, it really wasn't a very wonderful world. The building was in disrepair, enrollment was down, and a major funder had just terminated its grant over charges of mismanagement. In her first years at the center, Sally worked incredibly hard trying to turn things around. She often worked over 60 hours a week, seldom took vacations, and, to help with the budget, never asked for a raise. In the end, she not only solved the problems she inherited, but she also doubled the number of children served, raised funds for constructing a new facility, and steered Wonderful World through the accreditation process.

Upon her tenth anniversary, Sally decided she deserved a little pay back. Since the center's finances were solidly in the black, she added into the annual budget a pay raise that made up in part for all the raises she had forgone in the early years. When the board saw this, they hit the roof. Of course, none of the current board members, and precious few of the staff, had been around in the lean years when Sally had nearly killed herself to save the center. All they saw was a director with a great job trying to pull one over on them.

Sally resigned, in bitterness, and went to work for Allied Nuts and Bolts.

Non profit organizations often have short memories. With parents connected to the center for only a few years in their children's lives and with normal rotation of board members, what happened four or more years ago is often unknown to current members of the center community. Past contributions of directors and teachers are easily lost in space.

This can be a disadvantage of working in a non profit environment. If you manage a business of your own, you can hopefully sell it when you are ready to retire and reap financial rewards from your years of hard work. As director of a non profit, the best you can hope for is the satisfaction of looking back at all you accomplished and the appreciation of those around you. Sometimes you need to settle for a wooden plaque and a clean escape.

Now What?

Having raised all these prickly problems, you're probably expecting me to conclude that in the next issue I will present five simple management strategies for solving them.

Unfortunately, I don't have any simple solutions. This is not because I don't think these problems are worth solving. During my child care career, I have launched several non profit organizations and served on the boards of many others. I take great pride in the accomplishments of these organizations. Indeed, I am convinced that we need a thriving non profit sector to meet the needs of low and moderate income families — more so now than ever before.

I am concerned, however, that the current ground rules under which non profits are required to play are outmoded and may hinder organizations from acting decisively and creatively in today's world.

Before investing more energy in pursuing these concerns, I need a reality check from you. I need you to tell me if I'm on or off target. And, if you share my concerns, I need your creativity in helping pursue solutions.

Listed below are six potential reactions to this article. Please find one that most nearly captures your opinion and note the number in front of it. Then turn to the Exchange Product Inquiry Card in front of page 73. Fill out this card and circle the number of your reaction. We will share the compiled results in the May 1997 issue. Be sure to include your telephone number on the card as I plan to call a random sample of respondents to explore your opinions about non profit issues in detail.

Here's What I Think

#81 I disagree with you completely — your concerns are unfounded.

#82 The problems you describe are real, but too rare to worry about.

#83 The problems are real, but can be solved with better management.

#84 These problems can be solved with minor changes to the rules.

#85 I agree completely — non profit laws need a total overhaul.

#86 I have no idea what you are talking about.

References

Drucker, Peter. *Managing the Non Profit Organization*. New York: HarperCollins, 1990.

Willer, Barbara, et al. *The Demand and Supply of Child Care in 1990*. Washington, DC: NAEYC, 1991.