

Tides of Reform **Executive Summary**

At N-Train 2005, COMO Carol Urgola gave a presentation to the Board of Directors of the Coast Guard Auxiliary Association on Non-Profit Management Reform, based on research done by Mr. Paul Light of the Brookings Institute, Washington, DC, in order to bring increased awareness of the responsibilities of a non-profit organization in the current environment.

Although the presentation was focused on the Association, the concepts in this presentation, the awareness of the management styles and issues of accountability apply to board and staff alike.

Due to the fact that the general public views non-profit organizations as less efficient and more wasteful than government or private, for-profit counterparts, non-profit organizations need to exhibit accountability. In order to show accountability the Auxiliary Association needs to be aware of the **Tides of Reform** effecting the non-profit sector organizations:

- **Scientific Management**, which is built upon rules and best practices;
- **War on Waste**, which looks for higher performance through cost saving techniques;
- **Watchful Eye**, which puts its emphasis on exposing non-profits to the sunshine of public scrutiny; and
- **Liberation Management**, which places its emphasis on outcomes management.

These reform movements will effect the Association and Board members need to react to them appropriately, and above all be accountable:

- Accountable for **Compliance** to standards;
- Accountable for our **Performance** and our outcomes; and
- Accountable for building our **Capacity** as a viable non-profit organization.

Tides of Reform

-----Slide 1 – Tides of Non-Profit Reform

Mr. Seibert, Mr. Budar, Directors and members of the Coast Guard Auxiliary Association, it is my privilege to address you this morning.

-----Slide 2 – Background

- As National Commodore of the US Coast Guard Auxiliary, COMO Seibert issued a memorandum on Accountability, which emphasizes the absolute accountability that comes with the privilege of leadership. As Commodores and Directors of the Association, you bear dual accountability.
- In line with the character of your responsibilities, and the necessity to be aware of and engaged in your environment, I have been asked to make a presentation on Paul Light's research on Non-Profit Management Reform.
- Mr. Light, the President and Director of Governmental Studies at the Brookings Institute in Washington, DC, was asked to come and do this presentation, but unfortunately he was not available. His research is based on confidential interviews with leaders of non-profit organizations, Internet sources and surveys of state associations for non-profit organizations.

-----Slide 3 – Objectives

- Understanding Mr. Light's report will help all of us to increase our knowledge of what is necessary to uphold the **responsibilities of a non-profit organization.**

- Right now, the non-profit sector is under a great deal of pressure to prove itself. With missions expanding and funding more competitive, the impression of the sector in general is that it is **less efficient** and **more wasteful** than its government and private counterparts.

HOW a non-profit does its work is becoming almost as important as WHAT the organization actually delivers in goods or services.

- Tides of Management Reform – TIDES –Think of the tides and you get an image of recurrent and periodic motion. Like the tides of the ocean, the tides of non-profit reform, the tides of change ...they will never cease. Even if the pressure for reform in the non-profit sector were to calm down, the tides would rise and fall again in periodic motion, as it is effected by external forces.
- The Auxiliary is an organization born on the water. It is our existence, with its ebb and flood stages affecting all of our programs. **How we deal with the Tides of Reform, may well determine our future.**

-----Slide 4 – Recent Changes in Our Culture

- The pressure for change in the non-profit sector is fueled by the doubts about its **ability to perform**. Federal budget cuts and private competition have already affected operating margins. As we all know, government budget cuts increase the need for non-profit services, but those cuts also reduce the ability of the non-profit organization to meet those needs. The grants that used to be available to cover non-profit operating expenses are slowly being converted to project specific grants, leaving administrative costs to be covered by other means.
- With non-profits, one scandal can affect the entire sector. The Salt Lake City Olympics scandal and the highly publicized United Way fraud are just some examples that sparked a broad debate on the **effectiveness** and **legitimacy** of non-profit organizations.
- Some non-profits have had to resort to charging a **‘fee for service,’** which blurs the line between non-profits and the private sector, raising

questions about the need to continue non-profit subsidies through tax-exempt status.

Mr. Light refers to all of this as the ‘**crisis of legitimacy**’

Just think about how this perception of non-profits affects our stakeholders: the members, the funders, prospective partners and government agencies.

- The necessity for reform comes from tighter budgets and the need to show evidence of legitimacy. **It is a matter of trust – a matter of responsibility and a matter of accountability.**

-----Slide 5 - Accountability

There are three models of accountability that require different interventions for organizational leaders:

- **Capacity building** accountability is based upon providing the tools needed for improvement – human, technological and motivational tools. Capacity building includes the development of workable programs and responsive structures.
- **Performance** accountability puts its emphasis on setting goals that pull the organization toward the desired future. Performance accountability emerged from the establishment of incentives and is used before the implementation of the activity to set broad goals.
- **Compliance** accountability is built around the idea that organizational improvement flows from a set of precise rules. Compliance accountability tends to be used after an activity is implemented to determine the faithful execution of the rules.

The choice of one model does not necessarily exclude the others.

-----Slide 6 – Legal Concerns

- The Tides of Reform began with the government **compliance** regulation of non-profit organizations. The Auxiliary Association is a 501(c)(3)

organization, which gives us tax-exempt status. As defined by the Internal Revenue Service, which is easily accessible on the internet, we must be organized for a charitable purpose, must be a corporation, assets of the organization must be permanently dedicated to an exempt purpose, and no part of earnings may benefit any private individual. The rules are strictly established. And we are accountable.

- As a result of our tax exempt status and the amount of revenue necessary for our operating expenses, each year the Association is required to file IRS form 990 for charitable organizations. And that information is part of the public domain. **Public domain** – have you ever done a search for information about the Auxiliary on the web? How about the Association?

-----Slide 6 – Guidestar

Let me introduce you to Guidestar.com.

- This site, like Helping.org, United Way.org and many others, are attempting to help volunteers, donors and charitable organization to get to know one another on a nationwide basis. In that way, volunteers can sign up with organizations that best suit them, and donors can contribute to the organizations that best fit their views and ideals. **These web sites create transparency and make organizational finances instantly available to anyone ...** at the click of a mouse.

This is an example of one of the Tides of Reform in action, as well as an example of why understanding the Tides is very important to us.

-----Slide 7 – Four “Tides”

Let’s talk about the Tides of Reform. The research highlights four tides of reform rising in the non-profit sector:

- Scientific Management, which is built upon rules and best practices.
- War on Waste, which looks for higher performance through cost savings techniques.

- Watchful Eye, which puts its emphasis on exposing non-profits to the sunshine of public scrutiny.
- Liberation Management, which places its emphasis in outcome measurement.

-----Slide 9 – Scientific Management

- Its **strength** is in promoting Best Practices. And the primary implementer is the individual organization.
- This Tide promotes a set of standards; codes of conduct or core practices that make organizations effective. The standards may apply to the conduct of Board members, to internal financial practices and day-to-day business operations.
- **Accountability** is measured by the degree of compliance, with the **focus** on internal improvement.
- Its **weakness** is highlighted when the focus is on the wrong elements of performance.

-----Slide 10 – War on Waste

- The War on Waste is driven by the belief that there is a right number of people and the right number of organizations, and a minimum number of resources to do a specific job. Its **strength** is in the elimination of duplication and concentration of resources.
- The **focus** is on finding error and fraud, and promoting external efficiency and this Tide is initiated by large funders (such as government agencies, and in our case, the Coast Guard). The War on Waste seeks impact from the outside through re-engineering, reorganization, alliances, and downsizing.
- **Accountability** is measured against the compliance and performance models.

- The **weaknesses** in the War on Waste are the reduction in the diversity and the infusion of organization fear.

-----Slide 11 – Watchful Eye

- This goes back to the example of Guidestar.... The **strength** of the Watchful Eye is the openness and the transparency that it provides;
- and the fact that the donors and members being empowered by information; the **focus** on external visibility.
- This Tide is initiated by donors and donor advocates. IF an organization is compliance **accountable** by willingly releasing information, and performance accountable on the content of that information, then the organization can benefit from this tide. .
- The **weakness** of the Watchful Eye is reflected in the accuracy of the information provided and the donor's desire to know.

-----Slide 12 – Liberation Management

Now we move to the last of the 4 Tides: Liberation Management.

- This Tide **focuses** on results, not rules; outcomes management.
- It fosters internal freedom and empowerment. Its **strength** is its focus on measurable progress toward a goal.
- The primary implementers of Liberation Management are the individual members, units and the organization itself, and the primary **accountability** model is Performance based on the general goal.
- The **weaknesses** inherent in Liberation Management are the loss of discipline and responsibility, and the possible focus on the wrong customer or outcome.

-----Slide 13 – Trust vs. Control

- **Trust** is HIGH for:
 - Scientific and
 - Liberation ManagementBecause the rules and the outcomes originate internal to the organization, and the members are trusted to follow the rules and/or work to produce the outcomes desired.

- And Trust is LOW for:
 - War on Waste and
 - Watchful EyeBecause the procedures for cost saving and the demand for transparency of information have their origin external to the organization and the members have no choice.

- For the same reasons, the **Degree of Control or Discipline** needed over the members and units is HIGH for:
 - War on Waste and
 - Watchful Eye

- And LOW for:
 - Scientific and
 - Liberation Management.

-----Slide 14 – The State of the Tides

After decades of flotsam and jetsam being churned up by these tides, we need to be aware of the effect of the Tides of Reform on the Association's ability to provide for the fiscal health of the Auxiliary. As a non-profit organization, it is our missions to pursue short and long-term policies and procedures to generate required income.

We have a choice:

We can stand on the beach and let the tides come in as they will, covering our feet with water; and then feel the sand wash out from under our feet, possibly causing us to lose our balance, when the tides go back out again. **OR**

We can study the trends in the tides, chart our best course of action, be proactive and navigate with the tides and let them carry us forward on our voyage.

-----Slide 15 – The Rising Tides – Long Term

In order to provide for a long-term voyage to the financial health of the Association and its ability to support the needs of the Auxiliary, we need to internalize initiative and react to all of the tides:

- In the **War on Waste**, continue to strive for **maximum efficiency** in our business practices.
- For the **Watchful Eye**, be aware of the **transparency** of our actions and use the exposure to our advantage.
- And navigating ahead to our destination, apply the principles of **Liberation Management**, stressing **strategic planning and outcomes** management, and prepare for the new wave of **marketization** of our services.

-----Slide 16 – High Tide – Immediate Needs

However, the tide is high and our immediate needs come first.

- In order to meet our immediate needs, we should **apply the principles of Scientific Management**, establishing standards and sharing best practices for Association procedures.
- Next...Initiate **education/re-education of all organizational units** and unit leaders. Stress the fact that we are all members of the Association and responsible for its support; just as the Association is responsible for

the well-being of the members, the programs and the fiscal health of the Auxiliary. We all must share the same standards.

- And finally...Strengthen our standards through our **Core Values**, so that our Core Standards may become the focus of this organization.

-----Slide 17 – Be Accountable for...

And above all...be accountable.

- Accountable for **Compliance** to the standards,
- Accountable for our **Performance** and our outcomes, and
- Accountable for building our **Capacity** as a viable non-profit organization.

Ladies and Gentlemen,

I trust that this brief review of Mr. Light's research has left you with a greater understanding of the situation that exists in the non-profit sector today. As you prepare to head home later today, please reflect on these recommendations for meeting the short and long-term needs of the Association. Put these ideas into your 'Leadership Tool Kit' and take them home to share with others. Tomorrow, I will e-mail this presentation to you, along with my talking notes, so that each of you can share this with your district board and staff.

-----Slide 18 - Conclusion

I would like to thank Mr. Phil Helmer for his assistance with this presentation. If you have any questions, please take the time to find Phil or me and discuss it with us.

Thank you for your attention.