Governing Board Oversight of Donor Dollars: The Foundation for New Era Philanthropy

by

Miriam M. Wood
and
E. Lewis Leaman

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E. Lewis Leaman, President, Menno Haven, Inc., 1427 Philadelphia Avenue, Chambersburg, PA 17201.

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Program on Non-Profit Organizations
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Governing Board Oversight of Donor Dollars
The Foundation for New Era Philanthropy

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Summary
The exposure of the Foundation for New Era Philanthropy as a Ponzi scheme attracted wide press coverage in 1995. New Era promised nonprofit organizations that funds deposited with it would be matched in six months. In this case the reader is asked to evaluate the oversight of donor funds exercised by the governing board of Menno Haven, Inc., an operator of retirement communities that numbered among the Foundation's major beneficiaries.

On Monday, May 16, 1995, E. Lewis Leaman, president of Menno Haven, Inc., owner-operator of two retirement communities in Chambersburg, Pennsylvania, received a call from a member of the organization's board of directors, a businessman. "Lew, have you seen the Wall Street Journal today? On the front page there's an article about the New Era foundation that's been matching Menno Haven's donated funds. The article says the foundation is a fraud--one of those Ponzi deals." Incredulous, Leaman read the article carefully and then phoned his cousin, Ben Stadtler,¹ who had introduced Menno Haven to the Foundation for New Era Philanthropy (the Foundation) and facilitated the relationship over the past two and a half years. Finding that Stadtler knew little, Leaman placed a call to Gail Prescott,² the Foundation staff member whom he had come to

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¹Name and familial relationship disguised.
²Name disguised.
know following an introductory meeting with John G. "Jack" Bennett, The Foundation's chairman and chief executive officer. (Exhibit 1)

Leaman was keenly disappointed not to reach Prescott, with whom he and Stadtler had worked in transferring moneys raised from Menno Haven donors to the Foundation so that Menno Haven could participate in the Foundation's Matching Gifts Program. Thus far each contribution from Menno Haven had been matched in six or nine months, netting the retirement homes $1.7 million altogether. This result had imbued Leaman and members of the Menno Haven board with gratitude that their organization had been selected as the beneficiary of such largess. When Leaman had asked a Foundation grants administrator how to convey these feelings to Jack Bennett, she suggested sending him a photo symbolizing how Menno Haven made people's lives better. Yet in retrospect there were clues that the Foundation was not what it purported to be. Had there been signals that should have alerted Leaman and the Menno Haven governing board to possible problems?

**Menno Haven's Introduction to the Foundation**

Menno Haven, Inc. is a free standing 501(c)(3) nonprofit organization with a self-perpetuating board of trustees. Founded in 1964, it views itself as an extension of the Mennonite church ministry, and although it has no formal church ties, its bylaws require that members of the board be members of a Mennonite church. The board has 16 members and meets monthly, as does the executive committee, which has 5 members. Most board members are businessmen who live and work in Chambersburg, a town of 40,000, or in the surrounding semi-rural area. (Exhibit 2) Although directors are limited to two consecutive four year terms, this provision of the board by-laws is recent, and significant turnover has not yet occurred. Each meeting of the board or one of its committees begins with meditation and a short prayer that might be expressed as follows:

Lord, today we have a lot of issues of importance to our residents, and we pray that You will give us clarity of mind. You have blessed us in the past

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and we look forward to Your continued blessing as we seek to do Your will.

"We want and need guidance," Leaman observes.

In 1983 Leaman had been recruited as Menno Haven's administrator (later president) from his position as administrator of a hospital and nursing home in Colorado. Over the next ten-plus years he presided over fivefold growth while perpetuating Menno Haven's word-of-mouth-reputation as "a wonderful, caring place." In 1991 the board had approved the purchase of a second campus, also in Chambersburg, to be funded later by a bond issue in the amount of $3.2 million and private donations in the amount of $1.8 million.

Leaman had first heard about the Foundation for New Era Philanthropy from his cousin Ben Stadtler, an entrepreneur who had established a small insurance agency in western Pennsylvania where the cousins had grown up in the 1950s and 60s. Stadtler was chairman of the board of a Christian school founded by his church. In the autumn of 1992, when Leaman mentioned that Menno Haven's $1.8 million fund drive appeared to be plateauing some $800,000 short of its goal, Stadtler said, "You ought to seek matching gifts," and then described how the Foundation for New Era Philanthropy, located in Philadelphia, had helped the Christian school. (Exhibit 3)

Two years earlier Stadtler had met the Foundation's CEO, Jack Bennett, who had subsequently phoned to say in effect, "We have an opportunity for your school. If you can raise $100,000 from a minimum of 10 donors in fifteen days, the Foundation will double it in six months through its Matching Gifts Program. If you can't, the deal is off." Two weeks later, when Stadtler had been unable to raise much more than $80,000, Bennett agreed to accept the smaller amount, and after six months had passed, the school received a check that doubled its money. Recipient organizations, Stadtler explained, were identified either by Bennett himself or by 50 so-called "beneficiary donors," of whom Stadtler was now one. Each beneficiary donor was purported to make an annual contribution at least $25,000 of his or her
personal funds to the Foundation. Stadtler offered to introduce Leaman to Jack Bennett.

In early February, 1993, Leaman received a call from Stadtler in his role as beneficiary donor with authority to nominate a recipient organization for the Foundation. In six weeks there was to be a fund opening for $425,000, and if Menno Haven could raise that amount in donations, the money would be matched by the Foundation in six months. Like the arrangement with the Christian school, the offer was all or nothing, and the funds had to be deposited forty days hence. When Menno Haven inquired if donated funds already on hand could be used, the Foundation agreed that donors to the current capital gifts campaign could be contacted and asked to earmark their prior gifts for the Foundation's Matching Gifts Program. Furthermore, Stadtler as beneficiary donor had been informed by Foundation staff that he could name multiple recipients of the matched funds, and the cousins agreed on a 10%-90% allocation; that is, ten cents of each new dollar gained—a total of $42,500—would go to the Christian school where Stadtler was board chair and $382,500 to Menno Haven.

"Initially, I had a hard time understanding how the Program made matched gifts possible," Leaman recalls, "and because of the way we make decisions at Menno Haven, I hesitated to make the decision alone." (Exhibit 4) That kind of decision was in the board's purview, he felt, "and because of the conflict of interest due to my cousin being involved, I would have taken it to the board anyway."

Also, I didn't want to complicate my relationship with my cousin, nor did I want the fact that we're cousins to cast a compromising shadow over what might be an important opportunity for Menno Haven. And I wanted to kick the tires. I couldn't go to the board with a formal proposal until I'd done that. Seeing is believing. I'm a doubter.

The agenda for the next executive committee meeting had already been mailed, but when the group met, Leaman told them what he knew about the Matching Gifts Program of the Foundation for New Era Philanthropy.
However, by the time of the executive committee meeting the following month, Leaman could be more definitive based on additional information he had received from Stadtler. The source of matching funds was very wealthy "anonymous benefactors" who wished to remain anonymous but would match contributions made by individual beneficiary donors or by charitable organizations such as Menno Haven. Funds from a charitable organization were transferred to the Foundation for an agreed upon period, usually six months, and the interest earned was used to pay the Foundation's staff and office expenses. On the designated date the original investment, together with the matching funds, was returned to the organization. (Exhibit 5) “But why does the Program exist?” a committee member asked. Leaman described the Foundation's mission of “giving that makes a difference” and its desire to help organizations do better. When another member asked which organizations had participated, Leaman named several other Mennonite organizations in Pennsylvania that had doubled their money. In responding to further questions about the mechanics of the Program, he mentioned an insurance policy that Jack Bennett said would make good on the Foundation's commitments in the event the anonymous benefactors should default. Leaman explained that his cousin Ben Stadtler, as the beneficiary donor who nominated Menno Haven, would have the privilege of directing 10 percent of Menno Haven's matched funds to any charity of his choice, which Leaman said could be the Christian school of which his cousin was board chair.

Gradually the members' sense that “this is too good to be true” was overcome. The committee's comfort level, especially that of its Doubting Thomas, was increased by its experience with the L.B. Smith Foundation, which had previously matched gifts for Menno Haven although a transfer of moneys for a significant amount of time had not been required. New Era's matching practices also seemed familiar through their similarity to college and university fundraising campaigns in which an outside third party--perhaps an alumus/a but usually a private or corporate foundation--matched the gifts of individual contributors. As the committee's deliberations progressed, its questions became, “In what amount should Menno Haven participate?” and “Which funds can we use that will help us grow our
campaign totals?” Eventually the committee unanimously passed a recommendation to the board that Leaman be given approval to hand deliver a check in the amount of $425,000 within the required time frame if further inquiries about the legitimacy of the Foundation were satisfactorily answered. This recommendation was unanimously approved by the board the following week.

In the meantime, Menno Haven’s legal counsel, based in Chambersburg, contacted several lawyers in Philadelphia and turned up nothing negative about the Foundation. Also called in was the consultant managing Menno Haven’s capital campaign who was an employee of a major fundraising firm. When the consultant reported that the Foundation wasn’t registered with the Attorney General’s office in Harrisburg, Leaman telephoned the consulting firm’s president at its headquarters in Pittsburgh. Although this individual was not familiar with Jack Bennett’s present activities, he had known him personally in the past as active in fundraising circles. No cautionary flags were raised.

Visit to the Foundation’s Offices

On April 15, 1993, in company with his cousin, Leaman went to the Foundation’s offices, which were located in an ordinary modern building in suburban Philadelphia. Also in the reception room that morning was the head of a ministry from Chicago. “He was talking about how his organization had benefited from the Foundation,” Leaman recalls, “and I was impressed that he had flown in from Chicago.” Leaman noticed that given its scope, the Foundation was "run by very few people--12 or 13--and everyone was very personable." One employee remarked that the previous Christmas, as a bonus, Jack Bennett had given each staff member $2500 to give to charities of his or her personal choice.

Bennett’s office was "very modest, not ostentatious,” Leaman recalled:

I remember pictures--small photographs--on one wall, and in one he was posed with President George Bush, and maybe there was another with another president, maybe Reagan. And then there
were pictures representing Foundation recipients. They were the kind of pictures that would symbolize helping people. I remember seeing a photo of health care ships that serve Third World countries.

Bennett himself struck Leaman as "very presentable. He exudes confidence and credibility. He has a seasoned look--white hair, you know, that gives him an air of seniority, as if he's been around awhile and isn't learning as he goes along." Leaman "had on my salesman's hat" and had prepared a packet of materials to help explain "what Menno Haven is all about," but Bennett did most of the talking, describing how he had helped other organizations and how, in particular, he had assisted an investment banker who was co-chairman of a well-known Wall Street firm.

Several years earlier, Bennett said, the investment banker had made commitments of corporate dollars to charities but couldn't fulfill them when the investment firm's financial fortunes declined. At that point Bennett offered to locate several very wealthy anonymous benefactors who would match whatever the firm could contribute, thus enabling the firm to make good on its promises. When the banker allegedly asked, "Why are you doing this? I don't deserve this," Bennett responded in the rhetoric of evangelical theology. The situation, Bennett said, was an instance of "grace," in which "we don't deserve it, but it's there for us." Such anecdotes inspired in Lew Leaman "feelings of credibility."

When Leaman asked why the Foundation was not registered on the list of charities maintained in the state capital, Bennett replied that he had personally consulted the state's Attorney General, who was a friend of his. The Attorney General had said that a filing was not required because the Foundation "had a different way of doing things." Leaman also asked how Menno Haven could gain access to the Foundation's Institute for Non-Profit Excellence, referred to verbally as the Templeton Institute, which trained boards and management to engage more fully in their ministries while at the same time becoming more businesslike and accountable. Although Bennett did not say so, Leaman assumed the Institute had connections with Dr. John Templeton, a Philadelphia pediatrician. His father, billionaire investment
Templeton, a Philadelphia pediatrician. His father, billionaire investment manager John H. Templeton, was well-known in evangelical circles for his support of Christian causes and would be a likely candidate for anonymous benefactor. The implication of such patronage added to the aura of the interview, and as the conversation continued, Bennett mentioned that the Matching Gifts Program had benefited two peer institutions, Lancaster School of the Bible and Philadelphia Bible College, as well as other Christian “evangelical” organizations familiar to Leaman. Leaman was impressed that the Foundation was being true to its New Era mission, namely, “giving that makes a difference,” and by the time the interview had come to a close, he had “no doubts” about the Foundation’s legitimacy and Jack Bennett’s desire to help others.

Leaman expressed gratitude for the opportunity for Menno Haven to participate, and he and Bennett shook hands warmly in parting. As agreed with the Menno Haven executive committee and board, Leaman had taken the precaution of having a check prepared in the amount of $425,000 before leaving his office, and he now gave the check, together with a cover letter, to a member of the Foundation staff. (Exhibit 6)

Questions for Discussion

1. As a new member of the Menno Haven governing board, you are attending your second meeting. The executive committee, comprised of the five senior members of the board, has recommended that the board approve participation in the Matching Gifts Program of the Foundation for New Era Philanthropy. You say you will vote against the recommendation because “this deal is too good to be true.” A member of the executive committee says, “But we know that Lancaster School of the Bible and Philadelphia Bible College have doubled their money--it’s in the bank! In my opinion, it would be downright irresponsible to pass up this opportunity for Menno Haven.” How can you reply persuasively?
2. What standards of conduct for board members relate to the oversight of donor dollars? In what respects do the actions taken by Menno Haven's governing board and president meet that standard?

3. What are the clues that the New Era Foundation is not all that it purports to be? What actions would have constituted adequate due diligence on the part of the board? How can the board's failure to undertake these actions be explained?

4. If you were chair of the board at Menno Haven and a reporter from the Wall Street Journal asked you to comment on the Menno Haven board's oversight of the New Era Foundation Matching Gifts Program, how would you reply? If you were an outside expert on governance and the reporter were to call you for a quote, how would you reply?
Profile

John G. Bennett, Jr.
Chairman, CEO, and President
NEW ERA PHILANTHROPY, INC.

John G. Bennett, Jr. (Jack) is Chairman, CEO, President, and Founder of New Era Philanthropy, Inc., an international organization which functions as staff, advisors, consultants, and managers to foundations, corporate contributions departments, bank trust departments, affluent individuals, and other members of the philanthropic community. New Era Philanthropy, Inc. has served over 1,000 grantmaking entities throughout the United States and Europe.

Internationally recognized for developing and evaluating health and human service grantmaking policies to both the public and private sectors, Mr. Bennett is also a recognized expert in developing programs to combat drug and alcohol abuse and broad-based human service problems. Mr. Bennett's clients have included departments and institutes at all levels of the governmental sector, the United Nations, many Fortune 500 corporations, and both national and international grantmaking institutions.

Mr. Bennett was chosen to receive the 1992 Business and Professional Award by the Religious Heritage of America, the 1992 Mercy Corps International Humanitarian of the Year Award, and the 1971 Outstanding Young Man of the Year Award by the United States Jaycees.

A board member of many national and international organizations, including universities and grantmaking foundations, Mr. Bennett has spoken extensively, making professional presentations to the White House, Cabinet, United States Senate, United States House of Representatives, United Nations, and audiences throughout the United States and in Europe.

Mr. Bennett is also Chairman of Human Service Systems, Inc., a corporation which develops, markets, and administers programs that reduce health care costs for corporate America, as well as President and Founder of the Foundation for New Era Philanthropy, a non-profit grantmaking 501(c)3 corporation, assisting the grant-making community in program and policy development, technical assistance, and consulting on a variety of philanthropic related matters.

Mr. Bennett is Chairman of the boards of the Evelyn M. Bennett Memorial Foundation, the Foundation for New Era Philanthropy, New Era Philanthropy, Inc., and Human Service Systems, Inc. He serves as the treasurer of the Alan Amche Memorial Foundation and is on the executive committee of the Foundation for a Drug Free Pennsylvania, the Philadelphia Leadership Foundation and the One-to-One Partnership Foundation.

In addition, Mr. Bennett serves as a director of We The People-2000, the Philadelphia Liberty Medal, the Tiger Foundation, and both the United States and International Funds of the Templeton Investment Funds. Mr. Bennett is also a member of the Public Policy Committee of the Advertising Council, Inner City Impact Institute, Philadelphia Orchestra Major Gifts Committee, and the Presidents Advisory Council of Eastern College. He holds memberships at the Rockefeller Center Club in New York, the Union League of Philadelphia, the Tuesday Club, and the Pyramid Club.
Occupations of Members of Board of Directors
Menno Haven, Inc.

Certified Public Accountant

Semi-retired Businessman/Former Owner

Retired School Teacher, Bishop, Minister, Pastor, and Farmer

Pastor

Clinical Nursing Manager

Bookkeeper, Secretary-Receptionist

Businessman/Owner of food market, Ford dealership, RV dealership

Self-employed Farmer/Businessman

Self-employed Farmer and Real Estate Developer

Self-employed Farmer

Fund Raising and Resource Generation

Owner/Operator of clothing store

Semi-retired Carpenter

Registered Nurse

Owner/Operator of kitchen center

[vacancy]
HISTORY
The Foundation for New Era Philanthropy had its beginnings in the early 1980's and was officially incorporated as a 501(c)(3) tax-exempt corporation in 1989. The Foundation was established to address the changing needs of the private philanthropic sector. These changes have been triggered by the significant reduction in federal funding to non-profit organizations, as well as the impact on corporate giving due to a recessionary economy and large numbers of merging companies. As expected, the non-profit world must now rely on fewer or alternate sources for their financial support, which, in turn, presents new challenges to the grantmaking community.

In this "new era" of philanthropy, grantmakers must look beyond their traditional giving standards because of the increased demand and competition for available philanthropic dollars. The complexities of grant requests have presented a need for innovative, creative, more efficient management, and a greater leveraging of dollars than ever before.

In addition to assisting our clients in their designated grantmaking, the Foundation, with its own discretionary funds, participates in philanthropic giving that makes a world of difference.

PHILOSOPHY
The Foundation for New Era Philanthropy uses its discretionary funds to invest in organizations which have a positive impact on society — particularly those which work to improve the quality of life for our neighbors around the world as well as those which value Judeo Christian principles.

The Foundation supports 501(c)(3) tax-exempt organizations, large and small; however, primary consideration is given to organizations which have the potential for significantly increasing their impact as a result of our investment of money and/or technical assistance. Strong preference is given to organizations which have attended our free Institutes For Non-Profit Excellence or those which have received technical assistance through our Foundation.

The grantmaking philosophy also leans heavily towards organizations which have significant potential to become self-sustaining and which are committed to achieving excellence in their performance.

The following application procedures and exclusions apply to the Foundation's discretionary grantmaking only and not the grantmaking activity of its clients.

ELIGIBILITY PROCEDURE
Applicants should prepare a brief letter of inquiry, no more than two pages in length. Inquiry letter should include the following:

❖ A brief description of the organization
❖ Summary defining the need for grant consideration
❖ Amount of funding being requested
❖ Dates of any technical assistance or training received from the Foundation such as an Institute For Non-Profit Excellence

Letters of inquiry from organizations which have participated in training will be acknowledged within 30 days. Grant application forms will only be given to eligible organizations. The Grant Review Committee meets quarterly during the calendar year.

EXCLUSIONS
The Foundation for New Era Philanthropy will not award grants to:
❖ organizations that are not 501(c)(3)
❖ organizations that discriminate on the basis of race, sex, age, or national origin
❖ building projects
❖ fraternal organizations
❖ government agencies
❖ labor organizations
❖ political causes or interests
❖ veteran's organizations
Excerpts from By-laws
Menno Haven, Inc.

Article IX - Finances

Section 4: The board of directors may transact such business and take such action at any meeting as it shall deem proper concerning the operations or assets of the corporation without any special notice except as otherwise herein indicated.¹

Section 5: The funds of the corporation shall be deposited in such depositaries as shall be determined by the board of directors.

¹No exceptions are indicated.
The New Concepts in Philanthropy Fund originated through the generosity of an anonymous philanthropist/benefactor who had an interest in expanding and maximizing the range of grantmaking opportunities for like-minded individuals. Since inception, the number of anonymous benefactors to the New Concepts in Philanthropy Fund has grown considerably.

The benefactors to the New Concepts in Philanthropy Fund are individuals of significant wealth who have gone a step beyond their own charitable activities. Through their benevolence and mutual interest in broadening and maximizing their personal grantmaking, they are committed to matching the contributions of others, i.e., beneficiary donors, who share the same value system, integrity, and compassion—but not necessarily the same level of wealth.

Through the New Concepts in Philanthropy Fund, beneficiary donors are given the opportunity to have their contributions to charitable activities doubled by the benefactors. Thus, a beneficiary donor who makes a contribution of $25,000 to the Foundation for New Era Philanthropy will have the opportunity of disbursing contributions in his/her name equal to $50,000.

Beneficiary donors are able to enter the New Concepts in Philanthropy Fund by invitation only. This invitation is extended by the President of the Foundation for New Era Philanthropy who also has the discretion in determining the level of matching funds available to any beneficiary donor.

**Distribution of the Fund**

Several times throughout the year, a New Concepts in Philanthropy Fund opportunity is initiated by one or more of our anonymous benefactors. The beneficiary donors of the fund then are afforded an opportunity to make a contribution to the Foundation for New Era Philanthropy, which is a 501 (c) (3) tax-exempt organization. This contribution to the Foundation allows the beneficiary donor to receive a tax deduction for his/her contribution. The money is then held in escrow by the Foundation for New Era Philanthropy until the funds are distributed. Upon maturation of the New Concepts in Philanthropy Fund—generally in six months—
Exhibit 5 (continued)

the Foundation for New Era Philanthropy distributes checks to qualified organizations, activities, or needy individuals designated by the beneficiary donor.

The recipients may be located anywhere throughout the world. The number of recipients, as well as the amount of the contribution, is the choice of the beneficiary donor – as long as the total payout is no more than twice the amount of the beneficiary donor’s contribution to the Foundation for New Era Philanthropy.

Should the beneficiary donor request the Foundation for New Era Philanthropy to send a pledge letter in advance to a grantee, confirming the fact that they will be receiving a specific amount of money at a designated point in time, this service is available.

Contributions distributed through the New Concepts in Philanthropy Fund do not necessarily have to go to tax-exempt organizations. As previously stated, the beneficiary donor receives the tax exemption through his/her contribution to the Foundation for New Era Philanthropy. Therefore, grants may be distributed for needy purposes that are not tax-exempt, such as an economically distressed individual or scholarship assistance to one in need.

Obviously, the Foundation for New Era Philanthropy assumes responsibility for seeing that the individuals or organizations receiving the grants are in keeping with the charitable perspective for which the fund was created.

The Foundation for New Era Philanthropy has afforded several benefactors and numerous beneficiary donors the unique opportunity to participate in this creative philanthropic effort. Through the utmost generosity of the anonymous benefactors, the New Concepts in Philanthropy Fund has encouraged the type of giving that makes a world of difference.
April 15, 1993

Mr. John G. Bennett, Jr. Chairman  
New Era Philanthropy, Inc.  
3 Radnor Center, Suite 150  
100 Matsonford Road  
Radnor, PA 19087

Dear Mr. Bennett:

Enclosed is a check for $425,000 from Menno Haven Penn Hall, Inc. to be matched under your New Concepts in Philanthropy Fund.

Enclosed is documentation evidencing the gift sources to the Capital Gifts Campaign of our organization, along with a letter from the donors expressing their desire that these contributions be used for obtaining matching dollars through the Foundation for New Era Philanthropy.

We appreciate the opportunity afforded us for having contributions multiplied for what we believe to be an unusual and extraordinary cause.

We need assurances that the funds donated to the Foundation are protected and that the expectations relating to this transaction be realized. We understand that these funds will be placed in escrow, principle of which is to be paid along with matching funds no later than the maturity date of October 30, 1993.

We request a receipt for this contribution of $425,000, and also evidence of these funds being placed in escrow.

Sincerely,

E. Lewis Leaman  
President  
Menno Haven, Inc.

ELL/dmg

Enclosures
Bibliography


In a format designed for scholars as well as practitioners, presents a clear description of the duties of care, loyalty, and obedience and their implications for accountability.


Law school case book. Illustrates in chapter 3 the "shifting standards of fiduciary obligations" related to the duty of care, conflicts of interest, and so on. Reviews the Sibley Hospital and Wilson College cases among others.


Describes pressures toward conformity in groups. Implies flaws in conventional wisdom that consensus is desirable modus operandi in the boardroom.


In a format designed for board members, presents on pp. 31-33 a concise description of the meaning of the duties of care, loyalty, and obedience.