Hope Network: Where Do We Go From Here?

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Cases in Nonprofit Governance
CNG No. 23

February 2001

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Program on Non-Profit Organizations
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HOPE NETWORK: WHERE DO WE GO FROM HERE?

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A faith-based nonprofit organization is at a crossroads after learning that its founding CEO plans to retire. The board of directors must now determine what kind of leader to seek and what implications this process might have for the future of the organization.

Hope Network is an existing nonprofit organization headquartered in Grand Rapids, Michigan. The author wishes to thank its founding CEO for his openness about organizational developments and for making available relevant documents. Thanks also to the other staff and the trustees who were interviewed as part of the research for preparing this case. All names used in the case are pseudonyms.
Hope Network: Where Do We Go from Here?

Jessica Porter liked to get into the office early, to have some time for herself before her colleagues arrived and the workday officially began. This time, she needed that private time to think about the latest developments at Hope Network. As board chair, she would be called upon to provide leadership once again at an organizational crossroads: Harry Sutton, the longtime CEO, had called her at home the night before to announce that he planned to retire at the end of the year. Her first reaction had been to exclaim, "Harry, first you get me to become board chair to help you convert the board to the Carver Model. We’ve just begun to get people used to that change, and now you tell me I have to deal with your retirement! This is more than I bargained for!"

In the light of day, she was a bit calmer, although she didn’t know whether to be really annoyed at Harry’s surprise tactics or to admire him for his ability to focus on the central issue without letting his emotions get the better of him, even when he was the subject. Forty years at the helm of the organization, and now he seemed to be approaching the end as just one more administrative decision to make. Did he really think it would be so easy to deal with this or was he simply putting up a good front? With Harry, it was often difficult to tell! Jessica chuckled to herself, a bit ruefully, for she knew leading this discussion with the board and dealing with staff reaction once the news got out would take every bit of her expertise in human resource management. She couldn’t help thinking back to her introduction to the organization and to Harry.

History

The history of Hope Network starts with the history of its parent agency, Pine Rest Christian Hospital. The hospital was founded in West Michigan in 1910 by members of
the American Christian Reformed Church who believed the secular approach to medical care for the mentally ill as practiced in state institutions was incompatible with Calvinist views on the sanctity of human life. From the very beginning, the idea that religion was not only a reason to provide care but also had a specific therapeutic value and thus played a prominent role in treatment formed the cornerstone of the hospital’s philosophy. These ideas were supported by top management and by line staff. In fact, many of the staff directly caring for patients were drawn to Pine Rest by faith and felt they were doing God’s work within a religious community.

In the late 1940’s, a small group of nurses, on their own initiative and at their own expense, challenged the prevailing view of treatment for the mentally ill, custodial care, with a new concept that involved patients in a variety of recreational activities. They organized the Pine Rest Nurses Recreational Activities Club, sustaining their efforts through bake sales, car washes and the like. After a while, the hospital leadership saw the value of this new approach, which was made more feasible by the introduction of drug therapy at about the same period. In 1957, the club was dissolved in favor of forming an Adjunctive Therapy Department within the hospital.

Harry Sutton was hired to be director of this department, which began to grow rapidly, expanding its program to include vocational activities, thereby allowing a majority of the patients to engage in work for the first time. In 1963, through Sutton’s vision and leadership, the department became a separately incorporated nonprofit organization, the Pine Rest Sheltered Workshop. Over the next twenty years, the new organization increased in size and complexity, taking on the name of Pine Rest Christian Rehabilitation Services along the way. However, by 1983, the board of trustees
determined that due to this growth, the mission of the organization had changed sufficiently to warrant becoming totally independent of the hospital, and in 1985, the name “Hope Network” was formally adopted for this separate entity. Further program expansion in the areas of housing, health care and residential treatment took place during the remaining years of the decade.

**Meeting the Challenges of a Changing Environment**

Beginning in the early 1990’s, under its current governor, John Engler, Michigan emerged as a leader in states’ efforts to play a more prominent role in the welfare reform and reinvention of government movements. A major paradigm shift was under way as government agencies began to contract with nonprofit organizations to provide services once offered directly through the public sector—a trend that shows no signs of being reversed.

As the years went by, Hope’s success in the rehabilitation field was reflected in its growing reputation for expertise in negotiating government contracts. The organization began to branch out both locally and into other parts of the state, establishing ties with existing not-for-profit agencies and when necessary to provide services not already available, founding new ones. The growing complexity was reflected in a significant jump in revenues between 1994 and 1996, from nearly $27 million to close to $41 million, a gain of more than 50 percent.

By the middle of the decade, not only was government contracting out of services firmly in place but also the principles of managed care that dominated the health industry had been transferred to the mental health arena. It became increasingly clear that the old ways of doing business did not fit this new environment; accordingly, Sutton took action
by promoting the adoption of a very different structure, the Management Services
Organization (MSO) model, to keep pace with the expectations of funding sources and
advances in technology.

The MSO Model

Under the new structure (Exhibit 1), Hope continues to provide a wide range of
rehabilitation services to people with disabilities of all kinds, including mental illness;
physical, developmental and neurological disorders; brain and spinal cord injuries or
illnesses; and Alzheimer’s disease and other forms of dementia. In addition, as in the
past, the agency serves individuals who are terminally ill, have been in prison, are
homeless, have substance abuse problems, or have had vocational injuries or experienced
other barriers to employment and community inclusion.

The big change is in the mode of service delivery. Instead of providing services
directly, the organization has established a variety of relationships with other nonprofits
to meet the needs of client groups in specific communities, creating a network that has
enabled Hope to expand operations throughout the state. There are four options for these
agencies to consider: 1) Joint venture, which entails collaborating with another independ-
dent organization on a specific project of mutual benefit to both parties; 2) Selected
services contract, under which an independent organization selects a certain number of
management, clinical, and/or support services from a broad menu; 3) Full services
contract, which is similar to #2 but more comprehensive; and 4) Affiliate status, whereby
the other agency becomes a wholly owned subsidiary of Hope, offering services as
determined by its board and management but within boundaries set by Hope’s board.
The administrative principle behind the MSO is quite simple: to fill gaps in management services and skills so that the "partner" agencies can concentrate on service provision to clients (Exhibit 2). Hope uses the expertise it has developed over the years in fund raising, personnel management, marketing, financial management, government relations and regulatory compliance to benefit more people in need. With improvements in both effectiveness and efficiency, the new structure is presented as a win-win situation all around. To manage the MSO, the CEO is expected to concentrate on positioning the network for success in the external environment of contracting and managed care. Staff teams have been created to oversee the MSO services, grouped into logical areas by function; team representatives meet weekly with the CEO as a Leadership Council.

Finally, in terms of governance, there are two levels (Exhibit 3). The MSO board of trustees, for the Hope network, is responsible for overall direction and vision setting, policy making, standard setting, quality control, financial oversight, selecting the network's CEO and evaluating that individual's performance, and determining the relationships with contract agencies and affiliates. The role of each affiliate board of directors is to provide oversight and direction for the agency, whether it is one serving clients (now referred to as "customers") in a specific geographical area or through a specialized service, and ensure quality control of performance, within the limits established by the network board. These board members, in fact, are appointed by the Hope board; the choice of the terms trustees and directors signifies this reporting relationship.
Embracing the Carver Model

Although Jessica was not on the board at the time Harry first proposed the new organizational model, she knew that not everyone had been in favor of it, with its implications for change in service delivery, administration and governance. In fact, Sutton had come perilously close to losing his job over this issue. For those opposed to the MSO model, it was a question of both style and substance.

When he approached her to join the board, he had already won the battle, but it was evident that the struggle had been difficult. On the other hand, Harry’s feisty personality was obvious as he summarized what had happened: “How did I survive it? That’s a good question. When you push, you’re always going to rub people the wrong way, and sometimes the people you offend have enough political power to get rid of you and sometimes they don’t. So you play that risk. I always have a simple thing; I know it’s the right thing to do, and I’m going to do it. Oh, I’ve got stories and stories about that because you’re always challenging the status quo.”

Being rather cautious by nature, Jessica wanted to be clear about how her name had surfaced as a possible board member and where she would fit in Harry’s plan. To serve the new organization, Sutton wanted a small board of eight to nine people who had upper-level management experience, a skill in at least one specific management function and experience in diverse human service and/or business organizations. Now a full-time academic at a local university, Jessica had worked for many years in the public sector, with an emphasis on human resources management, and she had a great deal of board experience in a number of nonprofit organizations. As an added element, she was African American. If she agreed with Harry’s vision, she would become chair of the
board, with the primary role of helping the other trustees embrace the Carver Model, which had features that were especially compatible with Harry’s idea of what a nonprofit board should do, in general, and what his MSO board should focus on. Some might say they were meant to function much like a for-profit board, and in fact, board members were compensated for attending meetings, a common practice in the corporate world.

Jessica had no illusions about whose board this would be; it was Harry’s. He had also made that evident in their initial conversation: “You know, the typical relationship between a nonprofit executive and the board is strange, in my opinion. We have this thing called a board of directors or trustees who don’t know our business, yet they’re your boss, and they tell you what to do and they decide policy. Isn’t that sort of backwards? I think in this company, I lead the board, because I started the whole operation. Of course, I am not a voting member, so I have to make my pitches to the board as to why we should do something, but if it sounds reasonable, they tend to go along with me. There’s a lot of trust, and it doesn’t hurt that we’re financially solid!”

Despite this rather unorthodox recruitment, she had decided to join the board, primarily because she believed in the organization’s mission, with its religious overtones.

Since taking the board leadership role, she had indeed found her main responsibility to be keeping her colleagues “in line” with the tenets of the Carver Model, especially the emphasis on setting Ends policies (to use Carver’s term) rather than getting involved in operations. As she saw it, it was a matter of balancing personalities since the board was composed of both business people and holdovers from the old, traditional Hope board; the former seemed to have few problems with the Model while the latter had a tendency to want to address the details of planning and needed to be reminded that they
were to concentrate on strategic visioning. By and large, however, Jessica was pleased with the progress that had been made and felt most of the other trustees were at least more comfortable now with the general thrust of governance.

Leadership Succession – The First Board Meeting

Harry’s phone call to announce his retirement plans had been strategically timed—just before the next quarterly board meeting. He had suggested to Jessica that it might be easier to discuss the matter if he did not attend the meeting, and she agreed. As she entered the conference room, early as always, and waited for the others to arrive, she wondered how they would greet the news. After a few minutes, everyone who was expected was there, and when Jim asked, “Where’s Harry?” she took a deep breath and opened the discussion.

“Harry won’t be at today’s meeting, and this is why. He called me last night with the announcement that he feels the time has come for him to retire, and he thought it best for him not to be here so that we can freely discuss the ramifications of his decision.” She paused to let the news sink in; there were actually a few gasps, but mostly the other board members just stared back at her as she continued her preliminary remarks. “I have had the benefit of a night to think about this, so let me suggest a possible way for us to proceed. I recommend that we spend our time together today talking in broad terms about the likely scenario for Hope after Harry. Let’s consider what kind of leader might best fit that vision. I will put together a profile based on our discussion. We could then convene a special meeting and invite Harry to address us. After all, who has a better sense of the total history of the organization and what it will take to keep us in a solid position? Once we have had a chance to factor in Harry’s perspective, we can determine
the actual search process—you know, inside versus outside candidates, local versus national search, and so on." Jessica looked around the table, and the nods from the others told her they were comfortable with her proposal.

The first person to speak up was Jim Byrnes. As CEO of a regional chain of grocery stores, he was used to dealing with high-level personnel matters; he was also the board member who had taken to the Carver Model most readily, and thus Jessica considered him her closest ally on the board. "Since I joined the board two years ago, I have seen Hope Network grow from a very good local organization to a force to be reckoned with across the state. With the MSO structure, our operating budget is now close to $80 million, just about double what it was under the old structure, but with no sacrifice in quality of service, as far as I can see. This is a major success story, anyway you look at it, and I say we should keep it up. Let's consolidate our current position and then see what else might be available beyond our state borders."

Once more, Jessica looked around the table to gauge reactions to Jim's remarks. Again she saw nods of agreement, but before she could begin to think that everything was going almost too smoothly, she heard a "harumph," the usual signal that Karl Vandermeer was about to contribute to the discussion. Karl, an officer for a large bank, was one of the holdovers from the old Hope board and had initially opposed the adoption of the MSO; needless to say, he was still finding his way with the Carver Model. Yet, no one doubted his commitment to the organization, and like Harry, he possessed institutional memory that was often invaluable to the board's work. "As you know, I have not always agreed with Harry, but I have always admired his vision and his tenacity. Above all, I respect his devotion to our clients. We have grown because he has made us see the total
person, that it isn’t just about a job but also important to have a decent place to live and transportation so that you can get from one place to another. Accordingly, I want to caution us not to embrace growth just for its own sake. Harry has been the right person for Hope because he has been able to be an entrepreneur but without sacrificing his Christian principles. As difficult as it may be to find that combination in someone else, that’s what I feel we should be seeking in a new CEO."

Jessica could see that Karl’s remarks had had a decided effect on the rest of the board. For the remainder of the meeting, they debated the pros and cons of the growth Hope had been experiencing in recent times in terms of its impact on the mission and also considered what the future might hold. In the end, Pat Simpson, probably the most politically savvy among them, summed up the thrust of the discussion: “We seem to have consensus about the things that are important to us, primarily to maintain the strength of our core services, but I think it is going to be essential in identifying the best person to lead us in the coming years to hear directly from Harry, especially with regard to the environmental factors we must consider in making this critical decision.” A second meeting date was set up for two weeks hence, and Sutton was asked to attend and make a presentation to the board.

**Leadership Succession – The Second Board Meeting**

All nine board members were present for the second meeting, which signaled how significant everyone felt this session would be to the future of Hope Network. After the usual scripture reading, Jessica summarized the discussion of the previous meeting and turned things over to Harry.
"Dear colleagues and friends, you can imagine my emotions at this time, but I want to spend my time with you focusing on the realities of the present and likely future for social service organizations such as Hope.

To tell you the truth, I sometimes miss the old days when we were small and everyone knew everyone else. But, given the environment in which we now work, with managed care and all that goes with it, there is no turning back. I know some people criticize us for the way we have grown, but I don’t even bother trying to answer them. I see it as a matter of survival. The small not-for-profit is going to go out of business, and the large ones are going to survive, as simple as that. It’s a matter of positioning ourselves further up on the chain for managed care at the policy-making level. The not-for-profit world is no longer the nicey-nice thing that many people perceive it to be. It’s a hard-nosed, cutthroat business, I don’t care which way you want to look at it.

At the same time, we must think about our service delivery system and be conscious of the individual, person-centered plan for the clients, parents and guardians. You play the whole range of the spectrum, if you will. There’s a long-term commitment to people and to the organization itself. That’s why we set up our strengths so that we’re not going to disappear—to use all the aspects of the community and of the private sector for the good of the client.” Harry discussed in some detail the recent meeting he had had with the Director of Managed Care for the State of Michigan, in which it was disclosed that all contracts will now be let through RFPs, with only twelve given out for the entire state. “All he talked about was ‘blending your resources.’ Well, translated, that means a network, and we have done that. In closing, I am very pleased you invited me to talk with you today, and I hope these comments have been helpful. As to who might be best
to become the new leader of this organization, I think we have some fine people at the senior staff level, with a clear understanding of our mission and the MSO, and any one of them could do the job. However, that’s for you to decide. I know I can count on you to do the right thing.”

**Questions for Discussion**

1. What are the pros and cons for a nonprofit organization when the founder remains the CEO over a long period of time?

2. Given the history of Hope Network and the environmental factors delineated by the retiring executive, what course of action should the board take in seeking a new leader? What might be the consequences of each one? What ethical issues, if any, need to be considered?

3. Why do many nonprofit organizations experience difficulty with leadership succession? Should this issue be approached differently from the way it is handled in a for-profit? Support your position.

4. What are the implications of the influence of managed care for leadership and decision making in human service organizations?

5. When an organization like Hope Network grows to be the size of some businesses, should it enjoy the same tax breaks and other benefits accorded to small not-for-profits? What future might be predicted for this organization?
Exhibit 1. The MSO Model

Option #1 – Joint Venture

Independent Company

Board

Executive Director

Staff

MSO

Joint Venture

(Allocated or assigned staff from all companies)

Option #2 – Selected Service Contract

Independent Company

Board

Executive Director

Staff

MSO

Contracts

(Selected services)

Option #3 – Full Services Contracts

Managed Independent Company

Board

Executive Director

Staff

MSO

Contracts

(Staffing, Management, Support Services)

Option #4 – Affiliate

Wholly Owned Subsidiary

Board

Executive Director

Staff
Exhibit 2. Management of MSO Operations

The CEO must concentrate on positioning Hope Network for success in the rapidly changing managed environment; educating and working closely with the new Board of Trustees; and monitoring and modifying Hope Network systems. Therefore, it will be difficult for him to oversee day-to-day management of the new structure. Eventually, it may be necessary to hire a COO (Chief Operating Officer). The first phase of the MSO can be managed through the following features:

1. Delegate primary responsibility for oversight of staff activities and services to:
   A. permanent teams comprised of persons performing related services that normally need coordination (see below), and
   B. cross-functional project teams formed for specific, time-limited tasks.

MSO services can be grouped into areas of service that benefit from coordination within teams.

- Areas that serve the public and/or help others serve the public include Communication, Public Relations, Fund Raising, Pastoral Services.
- Areas that deal with finance, governments, legal and regulatory requirements, and information systems include Accreditation, Finance, Government and Regulatory Relationships, Information Systems, Legal Services, Licensing, Property Acquisition and Management.
- Areas that deal with service delivery include Program and Service Delivery, Quality Assurance and Outcome Review.
- Areas that deal with human resources include Benefits, Salary, and Compensation; Employee Development; Management Development.
- Areas that deal with responding to changing market or external conditions include Marketing and Promotion, Program Acquisition, Affiliate and Contract Agency Acquisition.
- Areas that coordinate organizations include Planning and Organization Development.

2. Appoint a team representative to an MSO Leadership Council that meets weekly with the CEO to:
   A. review progress and deal with issues not settled within or between teams,
   B. advise the CEO concerning matters that need executive decision making, and
   C. respond to the CEO on matters of the CEO’s choosing.

3. Appoint a Coordinator of MSO Operations to ensure the MSO activities are appropriately coordinated and executed.

4. Appoint Regional Coordinators as needed to:
   A. serve as “account managers” for all Network activities within the region,
   B. be gatekeepers who channel all MSO services to the region,
   C. assist affiliate executive directors in their management, and
   D. assist affiliate boards of directors in selection, appraisal, development, and guidance of executive directors.
Exhibit 3. Governance Models

Collaboration (Joint Venture Contracts) → Hope Network Board of Trustees → Affiliate Boards of Directors (by Geographic area)

Hope Network Board of Trustees → Selected Services Contracts

Hope Network Board of Trustees → Full Services Contracts

Hope Network Board of Trustees → Affiliate Boards of Directors (by type of service)
Suggested Readings


Comprehensive guide to help organizations understand various new corporate structures, such as MSOs and mergers, that may help protect and enhance mission.


Presents a model of board governance that is radically different from the traditional model, by emphasizing long-range policy setting as the primary board function.


Provides sound advice for executives who are taking over new positions and for organizations that are undergoing leadership changes, looking at all stages of the transition from the first perception of the need for a change to the point of the new person coming on board.

Herman, R. D., and Heimovics, R. D. *Executive Leadership in Nonprofit Organizations.*

San Francisco: Jossey-Bass, 1991. Describes the elements of a successful executive–board partnership and offers guidance on strategies and skills needed by nonprofit CEOs to make this relationship more productive.