

## **Case Study : Management Failure of a NPO**

Organization A was a US based news service with its headquarters in Washington DC. With its mission “to deliver the precious voice of children to the world,” it had been a successful provider of news stories produced by young journalists. It set up a network of bureaus and seemed to be running smoothly both in operation and activities when its sudden collapse caught everyone by surprise in July 2001.

Wall Street attorney Robert Clampitt founded the organization in 1975, where young people aged 8 to 18 were trained to be journalists, researched and wrote stories. The nonprofit organization became famous in 1976 when a young reporter scooped the mainstream media by reporting Jimmy Carter’s chosen vice president candidate. In 1998, it received an Emmy and Peabody Awards for a report on the presidential race, and won US\$3.9 million in grants over four years from the Kellogg Foundation which was six times its annual budget. As a first step in its expansion plan to establish bureaus in 12 countries by 2010, the Tokyo bureau was opened in 2001.

However, it crushed the hopes of millions of young journalists when it suddenly ceased its operation that summer after discovering itself US\$ 2.4 million in debt. Bureaus in New York, Washington, Michigan and Tokyo were closed and all the staff were laid off.

### Developments until the collapse

- 1975: Organization A was founded with headquarters in New York. The board consisted of supporters of Clampitt’s passion for the cause. The founder was stronger than the whole board.
- The 1990s: The headquarters was relocated to Washington DC. New York office became a bureau.
- Aug 1996: The founder and executive secretary Robert Clampitt (69) passed away due to heart attack.
- The board vigorously searched for a new executive secretary.
- 1997: Eric Graham was hired as executive secretary. He was a management consultant and founder of a public radio service.
- Communication between the board and executive secretary started positively.
- 1998: Won \$ 3.9 million over four years in grants from the Kellogg Foundation.
- Eric Graham spent \$30,000 on an external consultant for the “branding” of the organization, and attempted to change the organization’s name, but gave up after facing massive protests from young journalists.
- Increase in staff members and labor cost. The number of staff increased from no more than 10 at three bureaus to 26 by 2000. Total payment to management also increased to \$334,000 (of which the executive secretary’s salary was \$130,154) from \$142,000, and payment to other staff \$ 624,000 from \$218,000.
- The project that won grants from the Kellogg Foundation (“Diversity Program”: Children write and make TV programs on race, region and other diversity issues in US society) became the new mission of the organization.
- Nov 2000: The Washington DC headquarters moved into a beautiful office space, with a US\$ 1.8 million lease until 2008.

- The organization attempted to expand overseas and sought a partnership with UNICEF and the United Nations.
- March 2001: The executive secretary reported a cash shortfall to the board.
- The executive secretary also reported “it has submitted a US\$ 1.3 million grant application” (However, the Foundation never received a formal grant application.)
- \$400,000 line of credit was taken to keep the operation going. (decision by the executive secretary)
- May 2001: The board discovered that the organization was on the brink of collapse.
- June 2001: It was found that the Kellogg Foundation provided 95% of the organization’s annual budget.
- Mid-June: The board conducted an accounting examination while the executive secretary was on holiday and found itself US\$ 2.4 million in debt.
- The board has hired an attorney since and has cut out all communication.

#### Operation of Board

- The number of board members: 10 (Most lived in New York)
- The number of board meetings: 3/year
- Finance Committee . . . None
- Fund-raising Committee . . . None
- Property . . . None of the members had personal property or a connection to wealthy individuals.

#### Comments by the board

- Ed Jones, the vice chairman of the board and auditor (manager of University of the District of Columbia’s Cable TV)

“The objective of the organization moved away from the broad mission of “to train children in interviewing and writing articles on various issues to express their opinions, and distribute the stories to the general media” set by the founder when he started the organization. Our mission was replaced by that of the Kellogg Foundation.”

“The board did not ask the executive secretary the right questions at the right time and allowed him too much authority. When I think back, the board did not receive sufficient accounting reports from the executive secretary to check this NPO was managed properly. We also did not have an in-house accounting staff and used external accountants to do accounting work, so proper monthly reports did not exist either. It was like the board was flying with their eyes shut.”

“The executive secretary and senior staff were not the only people who caused the collapse, we all made mistakes.”

- Mr. Ashley, the chairman (former editor)

“Robert Clappitt was the founder, the executive secretary, the fund-raiser and the soul of the organization itself.”

“In spring 2001, I proposed to donate \$50,000 if other board members could raise \$50,000 but they failed to come up with \$50,000.”

“The senior management had a plan to open several bureaus every year to set up 12 overseas bureaus by 2010 in countries like Czech Republic and Vietnam. But it was so sudden and none knew how much it would cost to open a bureau overseas.”

Comments by former staff

○ Indianapolis bureau chief (It broke off from the organization in 1999.)

“Organization A was no longer the kid-driven group I’d been associated with for 20 years. They were letting funding drive the whole process, and they really didn’t have a plan”

○ Other staff

“Eric was constantly hiring the staff at the Washington headquarters and spending. New positions, new consultants, new assistants, pay rise and Palm Pilots for all the staff for Christmas, I don’t know where he got the money from.”

Comments by the executive secretary

○ Eric Graham

“There was a proposal from someone who wished to stay anonymous at the beginning of 2001 “to donate \$700,000 if the board could raise \$700,000” but the board failed to come up with that money.”

“We did not just let things happen. The staff worked very hard to turn things around but it was difficult to raise money.”

“The board is overestimating the size of debt. Realistically, I think it is less than US\$ 1 million ”

“I was making regular report on our financial situations to the board. I also told them about our deteriorating financial situation last autumn. The board must have received accounting reports, whether they read it or not. The board did not have any financial strategy and, in practice, was not making any progress in fund-raising.”

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Source :

The New York Times, “Children’s News Service Collapses” July 29, 2001,

Chronicle of Philanthropy, “Leadership Lapses Cause Charity to Collapse” Aug 9, 2001,

Questions

1. What are the factors that led to this organization’s collapse? What went wrong?
2. Who is responsible?
3. Who should have taken initiative and what needed to have been done if Organization A were to have sustainable operation?
4. In management of NPO, who determine the direction and strategy of the organization and how?