

Borrowed From Business: Nonprofits Try Their Own Version of Wall Street-Style Earnings Reports

By Megan O'Neil

New York executives Christine McMahon and Karen Wegmann spent months preparing for the conference call with organizational partners. They worked with an outside investor-relations and communications firm, fine tuning messaging around a new \$82.5-million contract and a \$26.7-million real-estate transaction, among other things.

"I was joking that I had to change my shirt afterwards because we were so nervous," Ms. McMahon said.

That's because Ms. McMahon and Ms. Wegmann, the chief executive and chief financial officer of the major New York charity Fedcap, were treading ground largely the purview of their for-profit peers: the quarterly earnings report.

The May [call](#), Fedcap's first, attracted about 100 participants, including contractors, employees, and fellow charity leaders. The next will take place in late November or early December.

"Our idea was that if we wanted people to make investments in us, whether it be funders or contracting agencies or donors, that we, too, should ensure that we are transparent," Ms. McMahon said.

The calls are one way some experts believe nonprofits could build greater confidence in their operations, an important need as *The Chronicle* unveils a new poll showing nearly 50 percent of Americans are worried that charities don't spend their money carefully. And the Fedcap call took on extra gravitas after another major New York charity, FECS Health and Human Services, [closed its doors](#) in February in financial distress.

Still, few groups do them. Charity leaders say there is a lack of manpower and technical expertise to produce such calls, and they worry about the incongruence of adopting for-profit practices for the nonprofit realm.

'Meaningful Results'

The comparison between quarterly earnings-style reporting by charities and those required by the Securities and Exchange Commission for publicly traded companies is an imperfect one, to be sure. For-profit companies report things including net income, earnings per share, and net sales.

Acting voluntarily, nonprofits leaders can pick and choose what to divulge, a selective look under the hood. Fedcap plans to make its calls twice a year rather than four times a year.

Ken Berger, who headed the watchdog group Charity Navigator for nearly seven years before [stepping down](#) last spring, said that for quarterly earnings-style reports to be meaningful, there needs to be agreed-upon standards, not a hodgepodge of different facts by different groups.

"The most important information of all has to do with outcomes and meaningful results," he said.

Using for-profit quarterly-earnings reports as a model requires nonprofits to manipulate language to pander to powerful businesspeople, Mr. Berger said, instead of educating them about how nonprofits work.

"There is some arrogance among some people who are from the corporate world where they presume that the nonprofits are bleeding hearts that don't know what they are doing," Mr. Berger said. "When we try to model after their way of doing things, we are sort of enabling and feeding into that mythology."

Risks of Reporting

Only a small percentage of U.S. nonprofits have the technology and staff to produce and publicly release such reports, skeptics and proponents agree. Those who undertake the effort must commit to reporting the same data points at consistent intervals. And there are risks involved in putting out financial and other information months or more ahead of required IRS filing deadlines.

"There may be times when things are turbulent and things are rough, and you risk putting that out there and signaling that things aren't as good as you would like them to be," Ms. McMahon said.

Still, she and others argue, the practice has value.

James Lum, chief financial officer at GuideStar, started pitching to his colleagues the idea of such a call in late 2013. Among the concerns were whether it would unduly expose the organization to nitpickers. There were questions about competitive pressures and spying.

In February 2014, 479 people dialed in for the inaugural GuideStar "impact call." The numbers have swung widely since then but peaked at 629 participants for the most recent call in August.

"The sector has relied too long on the 990 as a crutch for transparency, and it's time to come up with a better alternative," Mr. Lum said.

The choice to report when there is no requirement to do so is part of what makes the impact calls so valuable, he said. If there is anything that has disappointed him about the calls thus far, it's that callers haven't challenged him and his colleagues more during the Q&A portion.

"We only chose the starting point," Mr. Lum said. "We are explicitly inviting doubters and naysayers to guide the discussion beyond that point."

Tony MacDonald, chief financial officer at Sama Group, said the San Francisco charity hosted the [first](#) of what it's calling its "quarterly-learning calls" in May, drawing about 60 people. The [second](#), in August, saw 100 participants who wanted to learn about the organization's work to connect people in poor countries with good jobs, education, and health care.

"It is a good thing for an organization to be held accountable to the world in a very immediate way," Mr. MacDonald said. "That kind of thing just makes your performance improve — if you have to sweat a little. If you are sweating too much, you know you need to work on things."

Added Incentive

Discussions at Fedcap about a Wall Street-inspired call began months before the financial meltdown of its peer organization, FEGS, Ms. McMahon said. But the implosion of the charity lent extra context to what she and her colleagues were trying to do.

"I think the FEGS story did sort of unnerve people in a way that other organizations that have come and gone have not," said Ms. McMahon, who took the helm of Fedcap in 2009. "It was large. It was old. It happened fast."

During the call, Ms. McMahon and her colleague talked about taking over an \$82.5-million former FEGS contract from the city. They described the acquisition of Easter Seals New York, which finds employment for the disabled. And they covered the number of people served, those placed in jobs, and those who had completed education milestones via a variety of programs the charity administered. A [summary](#) was published on the charity's website.

Ms. McMahon and Ms. Wegmann did not delve deeply into why Fedcap had sold its longtime headquarters on West 14th Street.

There is no evidence yet that the calls will translate into additional donations or other types of revenue for Fedcap, which relies heavily on government contracts, Ms. McMahon said. Still, she hopes that it will increase trust among donors and partners in the work the charity performs.

"We need to be willing and able to put out there this type of information in a timely manner," she said. "We owe it to them."