The Board’s Dilemma

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The case centers on a volunteer board serving a social entrepreneurship organization that was the Executive Director’s dream. The organization started as a non-profit serving individuals with disabilities by providing employment related services including skills evaluations, job placement in one of IRPs job opportunities, some job coaching, and support services such as some medical and psychological assistance. The organization morphed into a social entrepreneurship by purchasing several fast food franchises that supplemented the funding needs created by decreasing government support for the disabled. In addition, the organization pursued contracts to stock shelves for a military commissary (The Laredo Contracts). During a board meeting the Executive Director informs the board that the agency cannot meet current and past IRS debts. The board must decide whether to continue or not and whether they would be individually liable.

Keywords: social entrepreneurship, board governance, contract management, social entrepreneurship teaching case.

Integrative Rehabilitation Programs Part A: The Laredo Contract Mission Conflict or a Governance Issue

James Johnson¹, the Executive Director of Integrative Rehabilitation Programs (IRP), was sitting alone in the boardroom frustrated after another fruitless board meeting. His mind raced as he thought about the developmentally delayed clients that IRP serves and what their future would look like if he were unable to sort through and resolve the issues that were threatening both his tenure as Executive Director and the very survival of IRP itself. He knew all too well how vulnerable his clients were and feared for their safety and well being were IRP to fail, leaving them without the employment and support systems critical to their leading independent and productive lives. Through the years, he had seen pretty much everything -- clients languishing at home with nothing to do but watch television, homelessness, physical violence, sexual assault -- and he resolved that he would do anything necessary to prevent his clients from falling victim to this fate. IRP needed to decide whether to keep a contract that employed several individuals with disabilities but conflict with the Board prevented a decision. But what should he do? How did he get into an unresolved governance conflict with his Board of Directors?

IRP’s STORY- HOW IT GOT INTO A GOVERNANCE CONFLICT

IRP’s Inception

¹ The Company name and names of individuals have been changed to maintain anonymity.

Full Citation
The Executive Director of IRP, James Johnson, received a Bachelor's of Science (BS) degree in rehabilitation counseling and a Master of Business Administration (MBA) from state universities. He served as a counselor in a state mental hospital, as a consultant for the Commission on Accreditation for Rehabilitation Facilities (CARF), and as a consultant to Pilgrim Programs, a non-profit agency (community rehabilitation center) serving individuals with development delays. In 1987, discrepancies in Pilgrim’s compensation and rehabilitation programs lead Pilgrim’s funding agency to require changes, which Pilgrim’s Board of Directors refused to allow leading the Board to dissolve the agency throwing all 140 individuals with development disabilities onto the street.

Over the next weekend the funding agency asked Johnson to establish a new non-profit agency, find a building, and continue services to the Pilgrim’s past clients. Initially IRP served only former Pilgrim’s clients with developmental disabilities.

In the late 1980s and 1990s IRP’s services were expanded to include assessment of an individual with disabilities’ employment capabilities, therapy, and employment services. IRP developed several employment opportunities for its clients including a sheltered workshop on-site of 30-60 clients which did light manufacturing and packaging for local entrepreneurs, several janitorial contracts, and fast food concessions at the local international airport and at metro area malls.

**IRP 1990 to 2017**

During this period a national debate erupted over the “proper integration” of individuals with disabilities. A national campaign by advocates of the disabled, families, and academicians promoted the idea that every individual with a disability could and should be active participants in the larger community in both residential and employment environments (Novak, 2009). IRP and its major funding agency disagreed over the correct approach to “mainstreaming” or “integrating” individuals with disabilities into their larger communities. The conflict escalated when IRP’s major funding source, Optimum, a subsidiary of the State Vocational Rehabilitation Department, pulled funding for 135 of IRP’s clients, throwing them into unemployment, and pulled $625,000 of IRP’s previous gross revenues of $700,000. While the State Governor’s office intervened, and forced a compromise, the uneasy truce mirrored the national conflict over what is considered meaningful integration. IRP ultimately survived by obtaining government set-aside contracts (see below) although greatly reduced in scope and in debt.

**IRP’s New Strategic Direction and Mission**

Johnson and Theresa Mulligan, the Assistant Executive Director, convinced the Board of Directors that some workers with disabilities did not have the right behavioral, attitude, hygiene, or motivational skills to succeed outside the agency and should not be pushed out. Ultimately, acting on its new Values and Mission Statement (Appendix 1), IRP adopted the strategy of offering everyone with disabilities the choice to work in a variety of employment settings from the most supervised and restricted (i.e., the on-site sheltered workshop), to moderately restrictive (i.e., janitorial and Laredo warehouse/stocking
crews), to fully integrated settings (i.e., the retail outlets at the airport and malls). The new strategic direction not only provided IRP’s clients with disabilities more employment choices but also reduced IRP’s reliance on Optimum and created more financial stability. The staff and Board agreed to revise IRP’s mission statement to reflect its commitment to more employment choices but opportunity or venture must create positive cash flow (Values and Mission Statement Appendix 1).

**IRP’s entrance into Government Set Asides and For-Profit ventures**

Continuing its strategy to reduce reliance on state funding, IRP developed two new opportunities, federal government set asides and for-profit ventures. IRP became one of the first non-profit agencies to venture into for-profit activities thus becoming one of the first agencies now labeled “social entrepreneurship organizations.” Johnson asked David Huckleberry, a professor of entrepreneurship and a former professor of Johnson’s, to serve on his Board.

**IRP’s For-Profit Venture- a Franchise.**

Johnson and Huckleberry convinced the staff and the rest of the Board to pursue for-profit ventures. Surprisingly the first venture found IRP when the airport management informed Johnson that a franchise was for sale. The national franchisor’s culture was based on strong family and social activism values. A student Small Business Institute (SBI) Consulting team analyzed the venture and recommended purchase, which IRP did.

IRP’s legal structure was a 501c (3) a non-profit. It established a single member LLC with IRP as the single member, obtained an SBA loan which Johnson personally guaranteed, and placed the franchise in the LLC.

David Huckleberry, the professor of entrepreneurship, and President resigned after two terms spanning eight years and recommended a friend, Val Larimer, a prominent attorney to take his place on the board. At Huckleberry’s departure, IRP owned two fast food franchises – one at the airport and one at a local mall -both extremely successful that provided positive cash flow back to IRP.

**Government Set-Asides, NISH and JWOD.**

The Javits Wagner O’Day Act (JWOD) set up the government’s system of set-asides for individuals with disabilities (Javits Wagner O’Day Act, 1938). A certain percentage of government contracts were to be allocated for individuals with disabilities. A governmental agency, NISH (formerly the National Institute for the Severely Handicapped) assisted agencies like IRP to research and develop requests for government contracts. NISH provided technical assistance, training, and liaison services between the agencies providing services, like IRP, and the various government entities providing the funding.

James Johnson served on NISH’s Executive Board and as his region’s liaison to NISH. Effective management of NISH contracts required knowledge of NISH and government procurement procedures. These contracts had historically provided a source of steady
income and employment for IRP’s workers with disabilities. Johnson’s contacts and knowledge of bureaucratic procedures were invaluable in obtaining and maintaining these types of contracts for IRP.

Because the JWOD Act covered many different government agencies, including the military, each contract had a separate procurement office specific to that branch of government/agency. The role of the specific agency procurement office was to obtain the right percentage of set-asides to regular contracts and monitor all contracts for compliance. IRP’s NISH contracts included a contract for janitorial services at a federal building managed by the Treasury Department, two janitorial crews at federal buildings managed by the General Services Administration (GSA), and the two contracts at the Laredo military base.

THE LAREDO CONTRACTS

IRP’s two NISH contracts at the Laredo base provided warehousing and shelf stocking services. The Laredo warehouse contract consisted of one to two supervisors and 25 workers with disabilities who were paid by IRP on an hourly basis to provide warehousing services/materials handling. The Laredo shelf-stocking contract had one to two supervisors and 25 employees with disabilities that stocked supplies on the retail shelves at the commissary on the Laredo military base.

The commissary served active duty armed forces in the city and was also popular among retired military families because of its convenient location and low prices. However, the commissary’s square footage was very small - approximately 25,000 to 30,000 square feet. The supporting warehouse facility was only 12,000 square feet and, therefore, required extremely careful ordering to assure that the IRP warehouse crew did not have to move pallets of over-stocked goods several times to provide the shelf stocking crews access to what they needed to stock the warehouse shelves.

The warehouse contract reimbursed IRP for material handling services based on standard piece rates per stocked case. The reimbursed standard piece rates for the disabled workers were established relative to non-disabled worker productivity rates. This system was mandated by JWOD, IRP’s own internal rules, and Department of Labor (DOL) regulations. Careful time and motion studies were initially performed to determine the rate of productivity for non-disabled workers and then were adjusted for IRP’s disabled workforce. In addition, DOL regulations mandated that health and welfare benefits be included in each of IRP’s clients’ total costs when bidding and servicing contracts.

The Old Ordering System

Each day, IRP supervisors would physically count every item on the warehouse shelves, compare it to a target inventory level, and then order any deficiency in quantity to be delivered from one of two suppliers the next day. For example, if there were two cases of tomato sauce on the shelf but the target was four cases, then two cases would be ordered for delivery the following day. This “perpetual” inventory system guaranteed that inventory levels would never rise above the targeted level of inventory that would fit on
the limited shelf space in the Laredo warehouse facility albeit at the expense of additional orders and deliveries. But IRP was buffered from these “ordering costs” as their only expenses arose from the labor costs associated with materials handling in the warehouse facility.

The military procurement officer, Harry Purlinger, at the Laredo base was proud of IRP’s extremely low stock error/stock out rate of less than five percent per year and turned over all the ordering for the commissary to IRP. Unfortunately, Harry Purlinger retired and was replaced by a new procurement officer, Sam Slick.

**The New System - CHAOS**

Sam Slick made the decision to transition to a new centralized, computerized ordering system- CHAOS (i.e., Computer Assisted Ordering System). Under this new system, the IRP supervisors no longer performed ordering. Stocking error rates (i.e., stock outs) under the new system jumped significantly and in response, Slick began making judgmental adjustments to CHAOS order quantities to ameliorate the situation. To add further complexity, the previous two suppliers who delivered daily became angry and were replaced by four suppliers all of whom delivered only once each week, requiring bundling of requirements across multiple days. This transition to a “periodic” system was beneficial in the eyes of the military procurement officer as it certainly economized on ordering costs (i.e., fewer orders and fewer deliveries). But the impact on materials handling requirements and costs in the Laredo warehouse was colossal.

The result was widespread overages on stocked goods, reaching as high as 10,000 excess pallets of goods at one point. Pallets blocked the aisles in the Laredo warehouse and had to be constantly moved to provide access for the commissary shelf stockers to needed products for the commissary shelves. To add insult to injury, IRP was fined for placing some of the pallets in the parking lot, a work-around that they had devised to alleviate the over-stocking problems they were experiencing in the warehouse.

Harry Purlinger, the previous procurement officer, paid a return visit and chastised Sam Slick for the pervasive over-stocking, verifying that the overage was indeed at about 10,000 pallets at the time of his visit. Despite Harry Purlinger’s advice, when the error rate ballooned past 17 percent, Slick set that as the new standard. When it soared past 17 percent, Slick argued that it was all IRP’s fault and creatively justified the excessive error rate by claiming to superiors that it was necessary due to the need to bundle requirements to account for sales across multiple days given the weekly delivery frequency under the new system.

The impact of all of this was devastating for IRP. Material handling labor costs mushroomed in the Laredo warehouse. The additional time and expense associated with moving pallets was not initially reimbursed. IRP’s employees’ productivity fell dramatically. IRP hired more shelf stockers and warehouse workers in response. What was once a very lucrative pair of contracts was now losing about $100,000 a year.
Relations between IRP and Slick and Slick’s own staff grew increasingly acrimonious. He submitted grievances, which IRP countered with requests to the government for reimbursement for the government created overruns. On two separate occasions, when IRP’s extra costs totaled some $77,000 and then $100,000, the two requests for reimbursement were accepted and paid by the military commissary system. During mediation sponsored by NISH, the government admitted that CHAOS had created similar issues with other agencies all over the nation that they were working to debug.

PRELUDE TO THE CONFLICT

With the loss of IRP’s knowledgeable controller, Johnson hired Susan Newly. Newly was the former bank manager who had been instrumental in IRP’s SBA loan at her bank. Newly claimed to have accounting knowledge and interviewed well. Newly was an expert at Excel spreadsheets and could read and understand financial statements. Unfortunately, IRP’s independent auditor, Hal Dejorn, informed Johnson that Newly could read financial statements but not build them because she did not know how to make basic accounting entries. As Johnson gathered data to fire her she met secretly with Val Larimer, the Board President, and accused Johnson of malfeasance.

THE CONFLICT

Johnson’s Dilemma

In James Johnson’s mind, only the Board had the authority to deal with an issue that pitted the two key parts of IRP’s mission statement against each other (i.e., financial survival versus employment of individuals with disabilities). How long could they continue to lose money on the Laredo contracts? Was the employment of these long-term employees, whose welfare critically depended on these jobs, worth risking the agency’s survival? Who was looking at IRP’s strategic direction? Instead of focusing on long-term strategy the board created a 60-page set of instructions that made him pass every operational decision past the Board which rarely meet and would not answer his calls. The Board of Directors was most certainly focused on him, but what of the existential conflict in IRP’s mission that the Laredo contracts had made so evident? Did the members of the Board even get it? These thoughts swirled about in James’ mind. What should he do?

Val Larimer, Board President’s Dilemma

Across town, IRP’s Board President and practicing attorney, Val Larimer, took a break between clients and looked out his window. Absorbed with two pre-trial cases, he currently did not have the time for the demands imposed on him by his role at IRP. The lack of adequate time for his IRP obligations was compounded by his lack of understanding of basic financial statements. These shortcomings on Val’s part had resulted in a deteriorating relationship with Johnson, the Executive Director of IRP. In a nutshell, Larimer did not entirely trust Johnson because of his secret meeting with Newly. But if he were instrumental in overseeing Johnson’s termination, what would happen next? Val knew that he certainly did not have the time to deal with yet more
The Consultants

Johnson hired two consultants Keith Sample and Sam Goodfellow, with extensive non-profit experience to mediate the conflict. The consultants met with the Executive Director, James Johnson, and all board members. Part of the consultant’s presentation involved a review of Board-to-Executive Director roles and relationships; they had hoped that a clearer understanding of appropriate roles would foster conciliation.

The consultants pointed out that if they, the Board, fired the Executive Director then there would be no one to run the agency, at least in the short-term. The consultants understood that each board member had outside commitments particularly in the case of Board President, Val Larimer. In a bold move at lunch, Sam Goodfellow looked Val Larimer directly in the eyes and said, “You are tired and should consider resigning.”

IRP’S SITUATION AND ENVIRONMENT AT THE TIME OF THE CONFLICT

IRP’s businesses at the time of the conflict

IRP’s lines of business are shown in the following table. The fast food franchises show a slight loss because IRP used the positive cash flow to fund some of the therapists, counselors, psychologists, psychiatrists, behavioral counselors, and employment specialists and others necessary to help IRP’s clients but whose salaries were not provided by the decrease in Federal and state funding through Optimum. In total, IRH had two fast food franchises, four NISH contracts, and a sheltered workshop.

The sheltered workshop provided light manufacturing and assembly for 30-60 individuals with disabilities. As mentioned above the workshop was the source of conflict with Optimum because it grouped the disabled together with little exposure to the outside world. In the 1980s to 2000 the workshop had positive cash flow by providing the final assembly and shipping for entrepreneurs with innovative products and who did not want to perform those functions themselves. However, by the late 2000’s many of their customers were using overseas companies to perform the assembly and shipping, which decreased income for the workshop. The two fast food franchises at the airport and the mall provided cash flow and jobs for the higher functioning individuals with disabilities. Laredo made money for years and was now responsible for a big loss and increasing debt.

IRP’S Clients with Disabilities

The US Census reports that about 56.7% of Americans (19%) of the population have some disability (US Census Bureau, 2012). Mulligan explained that a disability has a long-term effect on an individual’s income production median income, and ultimately net worth (National Council on Disability Policy: A Progress Report, 2014). The employment rate of working age people with a disability was 33.5% in 2012 compared to 76.3% of the non-disabled. The percentage of working age people with a disability
working full time/fully year was 20.9% compared to 56.4% (National Council on Disability, 2014). This prior group is also three times more likely to live in poverty than those without disabilities (National Council, 2014).

**IRP’s Legal Structure**

IRP was originally organized as a non-profit 501c (3) organization. Because the Small Business Administration (SBA) would not provide a loan to a non-profit, IRP had to establish an LLC which made the loan (Johnson guaranteed the loan personally). The franchises were then placed in the LLC. As IRP added more franchise units they were placed in the LLC.

Under current tax laws, a non-profit can operate and make money if the revenue generation is related to its non-profit mission. Because all the sites were staffed by predominately IRP employees with disabilities and were used primarily to provide them employment (and even transition to employment outside IRP), the arrangement met relevant tax regulations. The accounting and tax system carefully segregated the financials into IRP and the LLC for accounting, tax, and reporting purposes.

Table 1. - IRP’s Lines of Business

<table>
<thead>
<tr>
<th>Lines of Business</th>
<th>Income</th>
<th>Expenses</th>
<th>Net Profit</th>
<th>Number of Disabled Clients</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fast-food franchises First</td>
<td>126,135</td>
<td>134,330</td>
<td>(8,195)</td>
<td>1-3 each</td>
</tr>
<tr>
<td>Nish Contract</td>
<td>1,188,533</td>
<td>1,120,446</td>
<td>68,087</td>
<td>25-30</td>
</tr>
<tr>
<td>Janitorial Services Contracts First Nish Contract</td>
<td>594,603</td>
<td>469,881</td>
<td>124,722</td>
<td>30</td>
</tr>
<tr>
<td>Second Nish Contract</td>
<td>355,018</td>
<td>283,417</td>
<td>71,601</td>
<td>25</td>
</tr>
<tr>
<td>Third Nish Contract</td>
<td>464,058</td>
<td>410,315</td>
<td>53,743</td>
<td>8-9</td>
</tr>
<tr>
<td>Fourth Nish Contract</td>
<td>336,604</td>
<td>317,604</td>
<td>19,000</td>
<td>40-60</td>
</tr>
<tr>
<td>Sheltered Workshop Contracts</td>
<td>351,221</td>
<td>452,222</td>
<td>(101,024)</td>
<td>40-50</td>
</tr>
</tbody>
</table>

**IRP’s Competitor Organizations**

Unlike the for-profit sector, there was little competition between IRP and similar agencies within IRP’s metropolitan area – 1.1 million people. Most metropolitan areas have similar agencies that serve populations with disabilities. Some of these agencies serve specific disabilities such as vision, hearing, mobility impairments, cerebral palsy,
and other disabilities. Most states had a surplus of individuals with disabilities that needed services. IRP’s state had a waiting list of at least 20,000+ individuals; some potential clients had been waiting for services for years.

IRP’s Staff

IRP’s staffs were as follows:

- James Johnson, Executive Director and overall supervision of the agency
- Theresa Mulligan, Assistant Executive Director- managed all the government contracts and the rehabilitation documentation required by Optimum, the state, and Federal agencies.
- Holly Harthstone, the nurse tasked with medication distribution, medical counseling.
- Sally Forthwith, the rehabilitation manager responsible for developing and monitoring each client with a disability’s personal rehabilitation program.
- First line supervisors at the sheltered workshop, janitorial contracts etc.
- Two fast food franchise managers
- 150+ client/employees with disabilities
- Sam Goodfellow, non-profit consultant, former president of a large local foundation
- Keith Sample, a non-profit consultant and former non-profit executive director.

IRP’s Board of Directors

All the following were unpaid volunteers:

- Val Larimer, President of the Board a prominent attorney.
- James Jones, Secretary of the board a nonprofit consultant.
- Harry Spendworth, a successful business man who owned a marketing agency
- Spencer Snyder, a successful businessperson who owned an insurance agency and who had two sons with disabilities- one in the workshop and the other in the fast food franchise.
- Two additional board members
References

IRP Board Minutes and Documents 2008-2016


Appendix 1
IRP’s Mission Statement

Mission
Our organization’s mission is to create market-based employment opportunities that will provide individuals with moderate to severe disabilities the opportunity to participate productively in the economy of their community.

Goals
To maximize independence and productivity according to each individual’s needs and capabilities

Values
We know that the intrinsic value of work takes place in an individual’s mind. It comes from self-esteem gained by achieving personal goals as well as from having a real stake in the broader organizational goals that exist in the workplace. We believe that an authentic work experience (real effort for fair wages) enhances the quality of life for IRP client employees and our staff. We believe in the right of all people to choose their own work. We believe that in assessing, knowing, and understanding the abilities and desires of each of our clients, we can help realize the highest potential in each individual’s effort. We are committed to fair compensation, including wages and benefits, for our staff and our client employees. We value self-reliance and independence and believe strongly in our collective and individual ability to overcome obstacles and to succeed. IRP is the people who work here. We will seek to accomplish these with a mixture of for and non-profit activities while maintaining our financial and fiduciary responsibilities.

INTEGRATIVE REHABILITATION PROGRAMS PART A: THE LAREDO CONTRACT – TEACHING NOTE

CASE OVERVIEW

The case illustrates the conflict between an Executive Director and his Board of Directors; a situation exacerbated by a failing contract. Neither party trusted the other, the Board did not meet regularly, the conflict sidetracked both sides from addressing the inherent conflict within the organization’s mission statement itself, and there was a lack of a sufficiently clear strategic direction. Both sides had valid opinions, but who should be forced out, the Executive Director or the President of the Board?

The Executive Director started the agency and was the only person capable of running this complex agency. He had extensive experience with government set-aside contracts, NISH, and a national franchisor. Both the Executive Director and Goodfellow (the external consultant) believed that the Assistant Director was excellent at rehabilitation issues but lacked managerial experience. The Executive Director had nurtured the Laredo contracts and was proud that they employed many individuals with developmental disabilities who depended on their jobs to provide personal identity and fulfillments as well as helping them avoid becoming a burden on society, dependent on government
assistance. The Executive Director was reluctant to have them lose their jobs, return to government assistance, and stay home watching television all-day or worse.

In addition to the extant conflict between the Executive Director and the Board, the situation created a paradox by placing the two key parts of the organization’s mission statement in direct conflict with each other. The Laredo contracts historically provided substantive funds to IRP and provided meaningful employment to its client employees with disabilities. To abandon the contracts would mean that fifty individuals with disabilities would lose employment and the support system that they needed to survive. At the same time, cost overruns on the Laredo contracts were threatening the very survival of IRP itself.

The mission versus commercial viability fits Smith and Lewis’s (2011) concept of a paradox and is an issue facing other social enterprises where competing demands require a balance between meeting a social need and financial survival (Tracey, Phillips and Jarvis, 2011).

The President of the Board, a lawyer, was preparing two suits for trail and did not have adequate time to devote to the agency. Due to this time constraint, the Board did not meet regularly. The Board President and his law firm had devoted significant time to file grievances with the government that had twice successfully forced the federal government to pay for its role in creating IRP’s cost overruns with the Laredo contracts. He was legally but not financially trained and had relied upon IRP’s internal Controller/accountant for information and insights. Because of that information, he had successfully convinced the rest of the Board to impose an exhaustive monitoring system on the Executive Director.

The external and independent CPA auditor, Hal Dejorn, recognized the controller’s ineptitude as evidenced by her creation and use of inaccurate financial information. Was the decision to tighten the reins on the Executive Director appropriate? Should he (the Board President) continue to help with the current request for repayment or quit -- is he just too tired to continue? If he chooses to push the termination of the Executive Director, what will happen to IRP with no immediate successor available to run the agency?

**SUGGESTED COURSES**

The analysis of whether to continue with a bad contract is suitable for an entrepreneurship, social entrepreneurship, strategic management, non-profit management, purchasing, or organizational development course. The question is when and how an organization should discontinue a previously lucrative contract/line of business. Questions about the role of the Board and appropriate Board-to-Executive Director relationships are also important. The Executive Director-to-Board conflict is valuable for a strategic management, non-profit management, or organizational development course with the question of how to resolve conflict at the highest levels of an organization to ensure a long-term strategy that ensures survival.
LEARNING OBJECTIVES

1. Identify and detail the conflict within an organization’s mission.

2. Identify and explain the concept of social entrepreneurship and the conflict that it created in the case of IRP.

3. Analyze a project’s/contract’s costs and benefits and their impact on an organization’s strategy and mission.

4. Evaluate the positions of the parties involved in the conflict and alternatives for conflict resolution.

5. Evaluate and recommend courses of action for IRP, the Executive Director and the President of the Board.

SUGGESTED ASSIGNMENT QUESTIONS

1. Describe IRP’s, Johnson’s, and the Board President’s situation and the major issues.

2. What is social entrepreneurship? What is the conflict within IRP’s mission statement and how do the organization’s social entrepreneurship activities create this mission conflict?

3. What are the major issues with the Laredo contracts? At what point, should IRP pull out of these contracts?

4. How should IRP resolve the conflict between the Executive Director and the Board? What are some possible alternatives?

5. Is this conflict an example of Tracey, Phillips, and Jarvis’ (2011) paradox or a communication/governance failure between the Board and Executive Director?

ANSWERS TO SUGGESTED ASSIGNMENT QUESTIONS

**Question 1: Describe IRP’s, Johnson’s, and the Board President’s situation and the major issues.**

The situation is that the Executive Director and Board are locked in conflict.

Arguments could be made that the Board is at fault.

1. The board is not helping with the strategic direction.

2. The board has not helped frame the mission conflict appropriately.

3. No one is providing adequate financial oversight.
4. No system exists to satisfactorily monitor the situation.

5. The Board needs to create a constructive relationship with the Executive Director.

IRP’s external consultant Goodfellow in a personal interview stated that:

The function of a non-profit board is to set policy and provide long-term strategic direction to an organization. Some non-profit boards are more hands-on and are used like additional staff. In contrast, others, such as IRP’s, function as outsiders who provide time, talent, or wisdom.

Arguments could be made the Executive Director is at fault. The Executive Director might consider some or all the following actions.

1. He could help guide the Board to review and revise the mission.

2. He should be scanning the environment and more proactively bringing change issues to the board.

3. He needs to foster more frequent and positive interaction with the board.

4. He needs to help build a more positive and engaged board.

However, analyzing who is at “fault” may not be helpful. The biggest problem is what the organization should do to rectify the crisis. This question leads to the major issue of the lack of strategic planning and adequate attention to the failing contract. Strategic planning texts all discuss the need for organizations to perform strategic planning especially in the face of a turbulent environment. The advantages of a clear strategy are a clear direction, clearly understood processes to make decisions, and frameworks for deciding whether ventures, products, or contracts fit with the strategic direction of the organization (Dess, McNamara, and Eisner, 2014; David and David, 2017, Thompson, Gambel & Strickland, 2012).

IRP’s situation is like many organizations -- both non-profits and for-profits -- that find themselves with once lucrative contracts or lines of business that are deteriorating. Students should recognize that contracts like products and services have life cycles and can and do enter the decline portion of that cycle. Organizations should not only recognize the existence of a life cycle but also develop analyses/frameworks that determine when to discontinue such contracts.

**Question 2: What is social entrepreneurship? What is the conflict within IRP’s mission statement and how do the organization’s social entrepreneurship activities create this mission conflict?**

Abu-Saifan’s (2012) definition is: “The social entrepreneur is a mission-driven individual who uses a set of entrepreneurial behaviors to deliver a social value to the less privileged, all through an entrepreneurially oriented entity that is financially independent, self-sufficient, or sustainable.” IRP’s application is as follows:
1. IRP recognized a societal problem. Many individuals with disabilities do not receive services and sit at home unemployed or are underemployed. Many do not feel that they are contributing to themselves, their families or society because they are dependent on government assistance. Many individuals with disabilities and their families earn less, accumulate fewer assets, and struggle finding meaningful occupation relative to their counterparts (National Council on Disabilities, 2008 and National Council on Disabilities, 2014).

2. IRP attempted to find a solution by finding government set-aside contracts that provide employment to this disadvantaged group.

3. IRP’s goal is not so much to generate large profits, but to find contracts that provide employment for the disabled.

4. IRP combines for-profit ventures, non-profit ventures and governmental contracts to provide employment opportunities.

5. The mission statement has a built-in conflict. The mission statement is:

   Our organization’s mission is to create market-based employment opportunities that will provide individuals with moderate to severe disabilities the opportunity to participate productively in the economy of their community.

   We will seek to accomplish these with a mixture of for and non-profit activities while maintaining our financial and fiduciary responsibilities.

IRP exists to create employment opportunities via social entrepreneurship activities. However, it cannot exist long if any of their business entities continue to lose substantial amounts of money, threatening the very survival of the organization. If IRP fails, then all the individuals with disabilities would be unemployed rather than just those employed on a losing contract.

It should be noted that the field is emerging with attempts to clarify the definitions, the boundaries, and the differences between Social Enterprise, Social Entrepreneurship, and social activities- (Abu-Saifan, 2012; Smith, Besharov, Wessels & Chertok, 2012; Smith & Lewis, 2011; Zang & Zang, 2016).

**Question 3: What are the major issues with the Laredo contracts? At what point, should IRP pull out of these contracts?**

The first major issue is that the contracts were once very lucrative and provided both employment for IRP’s workers with disabilities and some funding for IRP’s other social programs. The retirement of the once supportive Laredo contracting officer, the installation of a new contracting officer, and the adoption of a new ordering system have resulted in a contract that is now losing money.
While IRP’s mission is to provide employment to individuals with disabilities, the other part of its mission statement is to survive. While it might theoretically retain a contract with a small loss, it cannot maintain contracts that are losing approximately $100,000 a year. The Laredo contract losses have increased IRP’s overall debt levels. Students should recognize that the organization should discontinue the contract immediately.

**Question 4: How should IRP resolve the conflict between the Executive Director and the Board? What are some possible alternatives?**

**Hire an outside organizational development consultant.** One possibility is that there is no resolution to this issue. Both sides think they are correct. Organizational development students may recognize that given the depth of the parties’ conflict, only outside intervention would have a chance at succeeding. The consultant could attempt mediation by putting the parties in separate rooms and having each party explain the issues and possible solutions.

**Suggest that the Board resign.** Whatever the Controller said to the Board has convinced them that they are correct. However, if they fire the Executive Director, then there is no one competent enough to run the agency. Board members are all volunteers from the community and can be replaced if they are not effective. Therefore, one solution is for the membership of the Board to resign.

**Suggest that the Executive Director resign.** The Executive Director does not have the support of the Board and should resign. Without support from the Board, the Executive Director cannot function let alone address the critical issue of what the organization’s strategic direction should be.

**Question 5: Is this conflict a conflict described by Tracey, Phillips, and Jarvis (2011) exemplifying a paradox- a conflict between the mission and the financial viability of IRP?**

Previous theories argued that when two social goals A and B exist; decision makers should seek the better option. Contingency theory argues that the decision makers need to determine which works in what situations. Conversely, paradox theory argues that both A and B exist simultaneously (Smith, Lewis and Jarvis, 2011). Therefore, they predict that social enterprises must learn how to manage competing demands from their mission and the financial needs or face failure.

Students should have recognized the inherent tensions between the two from the start of the case. IRP recognized this tension earlier and developed many sources of income thus doing exactly what Tracey et al (2011) recommended – find creative solutions to provide both. IRP successfully ran non-profit and for-profit ventures that provide income and employment for its clients. Therefore, students could argue that this underlying tension is the root of the problem – especially given James Johnson’s reluctance to stop the contracts and put his employees with disabilities on the street.

Students could also argue that IRP solved that issue- this tension was not the main issue between the Board and the Executive Director - this was a governance/communication
issue. The Board was not performing its role in providing overall guidance. Perhaps the Executive Director was somewhat at fault for not pushing the Board into terminating the contracts but they were not listening to him.

**GENERAL DISCUSSION**

This case is especially useful for any organization that faces a declining product, service or contract. The recognition of the decline may be the first step, but recognition of the need for a decision is equally critical.

There is enough material for a class to analyze social entrepreneurship issues. While the concept of social entrepreneurship and social innovation is relatively new, the literature asks good questions. What is this activity, what are the issues, and are the roles of social entrepreneurs different from traditional for-profit entrepreneurs? A current issue rose in the literature and in this case, is the tension between providing a social good and commercial viability (Tracey, Phillips, and Jarvis, 2011). A strategic management class can discuss who is responsible for monitoring the overall direction of an organization. It can also discuss how to avoid or resolve conflict at a high level.

**EPILOGUE**

The outside consultants had extensive talks with the Executive Director, IRP staff, and IRP’s board. Attempts to mediate between the parties failed -- both sides refused to reconcile. The financial auditor, Dejorn, told the Board that if they did not trust the Executive Director that they had the power to fire him.

After several weeks of intervention, the consultant took the Board President out to lunch to discuss the conflict. Unable to resolve the issue, the consultant looked the Board President in the eye over the table and told him that he was tired and should resign. Subsequently, the President did resign and so did all but one of the other board members. The Executive Director reconstituted a new board by recruiting individuals who had previously served on the Board.

After an analysis of the Laredo contract, the new board asked Johnson to attempt a final reconciliation with Sam Slick. That attempt at reconciliation failed and the new Board unanimously voted to immediately terminate the contracts.

IRP negotiated with another community rehabilitation agency to take over the contracts. Current laws governing individuals with disabilities did not allow IRP to identify which employees were individuals with disabilities.

There was no happy ending. The ordering system continued to over- and under-order. In efforts to control costs, the new agency slowly terminated the individuals with disabilities. Many became unemployed and unemployable with the removal of IRP’s employment support system. One died from lack of support, one was raped, and the others sit at home watching television.
The debate over proper “integration” or “mainstreaming” individuals with disabilities continues. Johnson, Mulligan, and Huckleberry all witnessed many higher functioning clients who went from full or partial integration back to the workshop because of their desire for social interaction, safety, and security, which they felt lacked in the real world. They also witnessed the reverse- lower functioning individuals with disabilities who surprised everyone by thriving in more integrated positions. Their position is that agencies such as IRP should not be “parochial” and demand that any individual work in a certain environment either sheltered or integrated- they should be given their choice. Conversely, Nova (2009) and others are pushing governments and legislators to close sheltered workshops and eliminate the sheltered workshop’s pay for piece rate- their pejorative term is subminimum wage (National Council on Disabilities, 2014).
REFERENCES


Board Minutes 2008-2010.


FURTHER OR SUGGESTED READINGS


INTEGRATIVE REHABILITATION PROGRAMS PART B
THE BOARD’S DILEMMA

INTRODUCTION: THE BOARD MEETING

David Huckelberry and his fellow Board members sat in stunned silence trying to comprehend the Executive Director’s statement that Integrative Rehabilitation Programs (IRP) would not be able to make its IRS payment of past taxes or the next quarterly payment of current taxes. Was this the end of a social enterprise dream? Was there a moral obligation to continue the fight for a social good? What would happen to its disadvantaged clients/employees with disabilities? Would the volunteer board members be individually responsible for the IRS debt if they continued to serve?

PRELUDE TO THE BOARD MEETING

Integrative Rehabilitation Programs Laredo (Part A) explains that the Board and the Executive Director were locked in conflict. No organizational development or conflict resolution techniques worked. In desperation, the Executive Director hired two consultants who met with each side to find a resolution. Each reiterated their positions outlined in part A. At lunch, one consultant looked at Val Larimer and said, “Val you are tired and should quit” which he did. However, upon hearing that Val resigned, the other Board members followed him out the door. Needing a Board to help him with the mission conflict, the Executive Director, James Johnson assembled a new Board including a previous member, David Huckleberry.

THE PERFECT STORM

The First Shock – the Laredo Contracts

Most organizations cannot survive one exogenous shock let alone multiple ones. The government ordering system (CHAOS) was so deeply flawed that the error rate ballooned to 10%, then raced past 17% at which point the government set 17% as the new standard - which was also subsequently breached. A nationwide food wholesaler refused to deal with the government and terminated the next day deliveries. In its place four wholesalers delivered at various times - every two days and some once a week. The resulting chaos clogged the small warehouse necessitating IRP crews to move several pallets to find the needed items. The congestion and disorganization slowed down the shelf stockers, who were paid piece rate by the number of shelves they stocked, and then delayed the janitorial team. IRP paid overtime and hired more employees to meet the commissary’s stocking needs.

IRP documented the cost overruns and billed the government twice for approximately $200,000 each time, which the government paid. However, the last five years of overruns now totaled $280,000 which the government delayed paying. IRP sued the government to force payment but the government lawyers found a technicality forcing the case to start over. The case then languished at the bottom of a crowded district court docket.
The Executive Director was very reluctant to stop the Laredo contracts because they employed many of his higher functioning workers with disabilities by providing them several choices of employment. With their salaries and required benefits many were making more money than they ever had, some could afford apartments, and one had a non-disabled lady friend.

During its first months of existence the new Board reviewed the agency’s financial position. The Board was concerned about the negative cash flow from the Laredo contracts and the low probability that IRP would win the court suit forcing the government to pay for the cost overruns created by the government’s CHAOS ordering system. Consequently, the Board believed that IRP’s survival was at stake and voted unanimously to terminate the contracts.

The result - the damage was done - IRP now had more debt on its balance sheet. The contract was given to a for profit company who slowly fired all of IRP’s workers with disabilities- some who had worked for over 15 years, gotten themselves off government welfare, and for one – a non-disabled girlfriend.

The Second Shock

The fast food franchise on the major international airline’s concourse had been successful for years, paid off its original loans, met its own expenses, provided integrated employment for many IRP workers with disabilities, and provided some support to the administrative overhead. However, the airline moved most of its operations to the other end of the concourse leaving IRP’s end of the concourse virtually vacant, reducing a cash producer to a cash loser. Airport management refused to address any of IRP’s and the other vendors’ complaints, requests for rent reductions, or other relief. Instead, airport management refused to extend IRP’s lease and then required over $100,000 in repairs to a functioning wall.

The net result was a franchise losing money, facing significant upgrades, and no future without a lease extension. The franchise’s value fell to zero along with its marketability or ability to generate loans.

The Third Shock

Simultaneously, one of IRP’s four fast food franchises was in a mall that was not refurbished, lost foot traffic, and started losing money. It became too small to staff any workers with disabilities and became unmarketable.

The Fourth Shock

Unknown to the Executive Director, an inexperienced controller, in order to meet payroll, did not make a quarterly IRS payment. Upon being informed by the Executive Director, the Board required the Executive Director to contact the IRS and set up a payment plan that was done.

The Fifth Shock
IRP successfully made payments for the old IRS debt and maintained currency on its current IRS debts. However, the IRS doubled the monthly payment amount on the past debt.

**THE BOARD’S DILEMMA**

After the Executive Director finished, David Huckleberry’s first thought was what else could they do? His second thought was what would happen to IRP’s dedicated staff and employees with disabilities if IRP went bankrupt? The demise of a previous agency left most client/employees on government welfare sitting at home watching TV, one killed crossing a street, and one raped. David’s third thought was – once informed would the Board collectively or individually be liable for future unpaid IRS debt? They had joined together to provide a social good. If they stayed to help were they at risk? What were his options? How far does one pursue a social good?

IRP’s Staff

**IRP’S ENVIRONMENT AT THE TIME OF THIS CASE**

**IRP Staff**

The staff at the time of this case was the same as in part A.

**IRP's Board of Directors**

The new Board members were all unpaid volunteers who joined to help provide some social good. The President was a project manager for a large commercial construction firm, the Vice President, David Huckleberry, was an entrepreneur and a professor of business, the Secretary Treasurer was a retired president of a large local foundation, two were small business owners, one owned several McDonald franchises, and another a marketing executive. Taken together they provided the following expertise: grant writing, fund raising, entrepreneurial visioning, franchising, management, janitorial management, financial, and project management. Two board members had children with disabilities who received services and worked in IRP’s jobs.
References


TEACHING NOTE
THE BOARD’S DILEMMA

CASE OVERVIEW

IRP started because of the dreams of the Executive Director to help others. This social enterprise was established to help mildly disabled adults integrate into society. These individuals could do basic work especially something that is routine and repetitive. In the beginning the company contracted with firms to do simple assembly line projects. As government funds became more difficult to obtain the Executive Director and Board members decided to engage in social entrepreneurship by adding some for-profit enterprises to the organization to provide funding for the non-profit enterprise. The for-profit activities included five fast food franchises, retail concessions at athletic events, and federal government contracts that provided janitorial services (janitorial contracts at four federal buildings), shelf stocking, and warehousing (the Laredo contracts) at a military commissary. The adults with disabilities could work at both the non-profit and for-profit entities with appropriate supervision. As a result of having a job, these individuals could integrate into the larger society and live alone. The jobs also provided social opportunities.

Everything went well until a stream of unfortunate events occurred: The military commissary’s new ordering software increased costs to IRP, changes at the airport resulted in a dramatic decrease in sales at a franchise, a franchise at a poorly managed mall began losing money, and a missed payment to the IRS resulted in substantial fees and penalties.

Now the Executive Director and Board members must determine the next course of action. The failure of the previous Board to solve its conflict and address significant issues created more debt than IRP could resolve. The second Board acted quickly but the damage was done.

SUGGESTIONS FOR USING THE CASE

This case is a great example of a social enterprise and its issues of funding, decision-making, social entrepreneurship, and moral and ethical obligations to constituents. It may be used in a general management course, an ethics course, or a non-profit management course. Students can apply ethical models to identify ethical and moral obligations, discuss the pros and cons of social entrepreneurship, identify funding issues faced by non-profit organizations, and apply decision making processes. The case can be used for in-class discussion and application of course concepts, small group activities, group presentations, or written case assignments.

Teaching Objectives and Suggested Assignment Questions:

Teaching Objectives:

1. Assess IRP’s situation.
2. Assess IRP’s moral and ethical obligation to its workers with disabilities.

3. Formulate and analyze possible solutions.

**Suggested Assignment Questions:**

1. Analyze IRP’s current situation. What is it doing well? What role has social entrepreneurship activities played for this company? In retrospect was social entrepreneurship a good course of action? Why or why not?

2. What issues do the Executive Director and Board members need to identify and deal with?

3. How do ethics apply to this situation? What obligations do the Executive Director and Board have to its disabled workers? To its regular workers?

4. What are some possible courses of actions the Executive Director and Board should consider? What are the pros and cons of each course of action?

5. What recommendation would you make to the Executive Director and Board? Why?

**Answers to the Suggested Questions**

**Answers to Question 1. Analyze IRP’s current situation. What is it doing well? What role has social entrepreneurship activities played for this company? In retrospect was social entrepreneurship a good course of action. Why or why not?**

IRP is clearly in desperate straits. It cannot pay either the quarterly payments or the new taxes coming due. Its major sources of revenue have disappeared including the two fast food franchises and the Laredo contracts. The organization exists to serve individuals with disabilities. Social entrepreneurship was a good course of action but either the Board or Johnson should have recognized the impact of the failing Laredo contracts and pulled the plug sooner.

**Answers to Question 2. What issues do the Executive Director and Board Members need to identify and deal with?**

The issue is survival. Johnson is out of options. The issue for the Board Members is whether to stay and try to help with the potential of becoming personally liable for the past taxes.

**Answers to Question 3. How do ethics apply to this situation? What obligations does the Executive Director and the Board have to its workers with disabilities and to its regular workforce?**
Ethics does have a role here. Many organizations in these dire straits are not upfront with their stakeholders. Both the board and Johnson need to tell its disabled workers, staff, parents and others that it is in trouble and what if anything they intend to do about it. They need to be transparent and give stakeholders time to think of their personal situation.

**Answers to Question 4. What possible courses of action are there?**

1. Attempt a new loan to pay the taxes.
2. They can try to sell some or all of their assets.
3. Declare bankruptcy.

**Answers to Question 5. What recommendations would you make to Johnson and the Board?**

They should immediately notify all the stakeholders, attempt to sell what they can and declare bankruptcy. The board members should resign to stop any claims that they are personally responsible for the debts.

**Teaching Outline:**

The above questions can be used as a guide to a class discussion about social entrepreneurship, ethics, and possible courses of actions.

For small group in-class activities, students can be divided into groups and each group can be assigned one of the above questions to answer. Group members can then report their analysis and conclusions to fellow students in a whole-class discussion.

For oral presentations or written assignments, any or all the above questions can be assigned.

**EPILOGUE**

The story does not end well, everyone involved was affected. The Executive Director shut down the agency. A sister organization declined to pick up the fast food franchises because the airport would not guarantee a lease. Consequently, these higher functioning IPR employees with disabilities were terminated. Another agency picked up the other contracts but slowly released the former IRP employees with disabilities. Without support services, one was confused about bus routes and was killed crossing a street, some were assaulted, and the others are on welfare and at home watching TV.

Every Board member was affected when the IRS sent each a personal notification that they could be individually and collectively liable for all of IRP’s debts. The Board escaped this liability only because they notified the IRS that they had done the following:

- When the previous Board became totally dysfunctional and was disbanded this Board was constituted. The contract with the military that caused the debt had occurred during the previous Board’s tenure.
When told by the Executive Director that the controller had failed to make a payment of payroll taxes, the Board put into the minutes a motion directing him to immediately contact the IRS and set up a payment plan. The Executive Director accomplished this and reported back to the Board.

The Board routinely asked and verified that payments on the past debt were being made and that obligations on current payroll taxes were also being paid.

When informed by the Executive Director that IRP could not meet the pending payment of either the past debt and/or the current debt, the Board put in the last minutes a motion directing him to make those payments.

When the Executive Director reiterated that IRP had no cash available, each board member resigned.

When contacted by the IRS (see appendix below), the Board hired their own attorney who presented the documents verifying the above steps.

Subsequently, the IRS notified the Board that they were not liable. (They did have to pay the attorney’s fees.) However, the IRS fined and penalized the Executive Director and took the maximum allowed payments out of his only retirement- his social security.

In 2015-2016 the state initiated proceedings against Optimum and its Executive Director for misuse of funds. While some individuals with disabilities struggled for survival, the state found that Optimum’s Executive Director was paid more than $400K well over the amount paid for comparable non-profit executive directors.

In 2015-2016 an ongoing investigation of Nish began to determine if it was aiding its agencies and providing sufficient support for the disabled.
Appendix 1 Letter to Huckleberry from the IRS

INTERNAL REVENUE SERVICE
Address

Mr. David Huckleberry
Street
City, State, Zip

Department of the Treasury
Letter number  xxxxxxx xx

Date: _______________________
Huckleberry’s
social security number _____________
IRS: Contract person ___________
IRS contact phone number __________
IRP EIN number _________________

We are attempting to collect unpaid taxes from the business named below.

BUSINESS NAME  Integrated Rehabilitation Programs

We are now determining who may be personally responsible for some portion of the tax. We have received information that indicates that you may have some responsibility for the tax. We encourage you to contact us if you have information that would help us determine your personal liability.

As part of this determination process, we sometimes talk with other persons when we need to obtain or verify related information. If we do contact other persons, we generally need to provide them limited information about you, such as your name. The law prohibits us from disclosing any more information than is necessary. Our need to contact other persons may continue until we collect the tax.

If you have any questions regarding this letter or wish to request a list of people we contact regarding this matter, please call us at the telephone number shown above.

Sincerely

Marcus Weatherspoon
Revenue Officer