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Nonprofits Dealing with Adversity through Failure Management

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Abstract

This paper presents the results of an empirical research that explores the extent to which a new management perspective is practiced in nonprofit organizations—failure management (FM). Specifically, it presents the results of an empirical test of a conceptual framework of failure management derived from a review of the strategic management literature. The findings show support for the practice and systematic patterns and benefits from nonprofit management of failure. The paper concludes with limitations and next steps in the research.

Keywords: Nonprofit, organizations, management, failure management, learning, failure, paradox, benefits of failure

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Introduction

Perspectives on nonprofits' organizational failure vary. In the face of failure, some nonprofit organizations take a retrospective view that focuses on the causes of failure in order to correct and prevent it. Risk management and crisis management are examples of efforts to minimize failure based on retrospective analyses before or as failure occurs. On the other hand, confronted with failure, some organizations take a prospective view evaluating failure in order to learn and benefit from failure, for instance, learning new knowledge, stimulating innovation or attracting external help. Total quality management and turnaround management are examples of management approaches to maximize the benefits of failure. In this study such prospective approach to failure is referred to as failure management (FM).

The existing literature on how nonprofit organizations manage failure has focused mainly on the retrospective view or the causes of failure. In other words, nonprofits' failures have been regarded as something to prevent or minimize through internal or external controls. However, the prospective approach of the benefits of failure has been stressed less often in the prior nonprofit management research. The purpose of this research is to empirically test a conceptual framework of failure management that concerns the prospective approach, to determine if nonprofit organizations practice FM and if they do, whether it can be systematically described. With this purpose in mind, this study is a first attempt to explore and validate a conceptual framework for the management of failure in nonprofit organizations.

The paper begins with a brief review of strategic management literatures on the two perspectives of failure. Then the conceptual framework is introduced and Failure Management (FM) propositions described. Following that is the methodology and results of an empirical test

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of the framework in a convenience sample of nonprofit organizations. The research results in terms of generic patterns of nonprofits' failure management within the 16 propositions are presented and discussed. The paper ends with limitations and next steps in the research.

Literature Review

Retrospective View on Failure

To begin with, the kinds of failure have been categorized in various ways. For instance, Stone (2011) suggested four types of failure according to four different causes—mechanical, accidental, intentional, and inadvertent. When it comes to the causes of failure, many nonprofit organizations' failures have been attributed to the internal factors such as expanding programs and organizational infrastructures outside the capabilities of managers (Hager, 1999), inability to reproduce commitment (Starbuck, Greve, & Hedberg, 1977), turnover of key personnel (Hager, 1999), or excess intra-organizational conflict (Levine, 1978). At the same time, external factors leading to failures were also ascribed to as the causes of failure. For instance, nonprofits would fail due to inconsistent funding sources (Chambré & Fatt, 2002), ineffective revenue diversification (Foster & Fine, 2007; Kim & Bradach, 2012; Chikoto & Neely, 2013), deficient sociopolitical legitimacy and demands (Singh, Tucker, & House, 1986; Hager, 1999), or unfavorable niche conditions (Hannan & Carroll, 1992; Carroll & Swaminathan, 2000).

Recognition of the causes of failure has given birth to accountability concerns among and charitable fundraising practices, financial reporting, fraud detection and prevention programs, standard accounting and governance and impact of nonprofit organizations in the US (Barber, 2012), and in other countries throughout the world (see Phillips, 2012 for Canada).

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Interestingly, attribution of failure is observed to have a significantly biased pattern. For instance, people or managers tend to attribute their failure to external factors, and their success to internal ones. And vice versa. They often attribute others' failure to internal factors, and others' success to external ones (Gooding & Kinicki, 1995; Kelley, 1973; Vaara, 2002; Wagner & Gooding, 1997; Weiner, 1985).

Prospective View on Failure

Different from the retrospective perspective, which focuses on the causes of failure and the corrective measures to prevent it, the prospective perspective on failure focuses on the benefits of failure. For instance, some research on for-profit management has shown that failure can improve resilience (Adrian & Lloyd, 2004), may be more important for learning than success (Madsen & Desal, 2010), and provides a generative opportunity to determine what works and what doesn't (Fryer, 2011).

Besides such studies, both the general business and nonprofit strategic management literature has focused on various ways to facilitate learning in the face of failure or adversities as follows:

- Learning through formal planning processes (Stone, Bigelow & Crittenden, 1999; Bryson, 2011);
- Overcoming grief from failure (Shepherd, 2003);
- Normalizing failure (Shepherd, Patzel, & Wolfe, 2011);
- Using socio-cognitive learning networks (McDonald & Warburton, 2003; Moynihan, 2008; Bechky & Okhuysen, 2011);

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- Facilitating improvisation or heuristic contingency plans (Mullins, 2000; Brown & Iverson, 2004; Graebner, 2004; Morrison & Salipante, 2007; Dunn, 2010; Eriksson & McConnell, 2011); and
- Revaluating organizational mission (Frumkin & Andre-Clark, 2000).

In addition to learning from failure, a few studies have suggested that there are other benefits of failures or adversities as follows:

- Facilitating adaptation by using risks (Donaldson, 1999);
- Taking advantage of the dependency on environment (Hafsi & Thomas, 2005);
- Finding hidden values in excess assets (Dykstra, 2002; Peress, 2002; Wurst, 2004); and
- To lead (Hass & Pryor, 2009); innovate (Zimmerman, 1992; Katila & Shane, 2005); or induce external help (McGrath, 2011).

Table 1 below summarizes the two perspectives on failure management.

[Table 1 Here]

It should be noted that the distinction between retrospective and prospective approaches does not imply that they are mutually exclusive. Rather the prospective approach can complement retrospective efforts by helping find the causes of failure and also by providing new tools to prevent and minimize failure. However, to date little attention has been paid to the prospective approach to failure in the field of nonprofit management. There is also a relative paucity of research on the prospective view in terms of how nonprofit organizations have benefited from failure. Other than the study by Hafsi and Thomas (2005), there is little research on the

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systematic use of failure in nonprofit organizations. Put another way, the unique characteristics of nonprofit organizations (e.g., such as public stakeholders' expectations and financial dependency on volunteers or government grants) have not been considered in prior research.

Conceptual Framework of Failure Management

The conceptual framework of failure management below was derived through a grounded theory approach to the literature review (see Lee, 2012). Since Glaser and Strauss (1967) published their study on grounded theory, it has become a widely used approach when to explore and develop a concept (Denzin & Lincoln, 1994) or in reviewing the literature (Onions, 2006). With limited understanding of the concept of failure management, the initial framework was built based on a grounded theory review of the strategic and nonprofit management literature.

The literatures were reviewed using the keywords such as failure, challenge, adversity, in database searches. As recommended by Eisenhardt (1989) in grounded theory type reviews, the literatures continued to be collected, analyzed and coded to identify the common concepts, categories, and dimensions of failure management until no new concepts emerged (i.e., theoretical saturation).

Before describing the dimensions, failure needs to be defined operationally. *Failure* is operationally defined as any “state where reality is inferior to goal” (Lee, 2012). According to this definition, the word “failure” means any state such as regret, frustration, conflict, challenge, or adversity that is perceptibly different from initial expectations. In addition, *failure management* is defined as activities undertaken to make the most of or to benefit from failure.

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The results of the literature review produced two dimensions of failure management—types of failure (with three sub-categories) and purposes of failure (with six sub-categories).

Dimension 1: Three Types of Failure

Of the two dimensions of failure management, the first concerns types of failure (and side-effects of failure). According to the operational definition of failure above (i.e., state where reality is inferior to goal), inferior reality can exist in three different types: *deficiency*, *excess*, and *inconsistency* (that encompasses oscillation, instability, diversity, ambivalence, and uncertainty).

Dimension 2: Six Purposes to Use Failure

The second dimension is the purpose to use failure. Three purposes are internal—*saving internal resources*; *reforming internal hazard*; *learning new knowledge*—are the activities taken to adapt internally in the face of failure. Four purposes are external—*learning new knowledge*; *discouraging external threats*; *attracting external supports*; *complementing multiple forces*—are the activities to adapt to (or sometimes to influence) the external environment. Noteworthy is the fact that the purpose to use failure for *learning* is both internal and external because learning may be experienced in the internal and external organization's environment.

Failure Management Propositions: Sixteen Benefits of Failure

Table 2 below shows these two dimensions produced 16 propositions describing the different ways organizations benefited from failure that emerged from the grounded theory review of the strategic management literature.

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Table 2 Here]

Research Design and Methodology

The failure management framework consisting of the sixteen propositions above provides a theoretical and conceptual basis by which the ways nonprofit organizations have managed failure can be empirically tested. The key questions this research study seeks to answer are:

1. *Can failure management be systematically described in nonprofit organizations?*
2. *What patterns of failure management do nonprofit organizations practice?*

In order to answer the research questions, secondary case study and primary data were sampled for the following purposes:

- To validate the concepts in the failure management framework.
- To confirm the internal validity (i.e., the systematic relationship) between the dimensions and propositions of failure management framework.
- To validate the failure management propositions.
- To explore patterns of failure management.

1. Case Study with Secondary Data

The case study method is widely used to ensure the internal and external validity of theory. By studying multiple cases, the internal validity of theory can be built (Eisenhardt, 1989). At the

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same time case study can be used to enrich understanding of how a preliminary theory is applied to practical cases (Yin, 2009).

For the case study method, the Kennedy School of Government Case Program was used as a sampling pool, and all 122 nonprofit cases in that repository (as of February 2012) were considered as a sampling frame.

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Table 3 shows that eventually 12 cases were chosen based upon the purposive sampling criteria such as accessibility, relevance, sustainability, and clarity of each as a case of failure management.

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Table 3 Here]

The organizations and document titles of the 12 nonprofit cases are summarized in Table 4. The cases were analyzed through a structured process of coding and content analysis. In detail, by using the framework of failure management as a coding and analysis template, incidents of failure were coded in terms of the two dimensions—types of failure and purposes to use failure. Such coded incidents were analyzed and described according to the corresponding propositions of failure management. To check the reliability, the analysis was re-created by two independent investigators.

[Table 4 Here]

2. Interviews for Primary Data

To add more depth to the analysis, interviews with nonprofit organizations followed the case study review. The target population was managers of the nonprofit organizations in the Capital Region of Alpha (pseudonym), US. The sampling frame consisted of individuals that participated in a seminar hosted by a state university on April 12th and May 10th in 2013. Out of about 500 nonprofit organizations that were invited to participate in that seminar, about 150 participants attended (from about 100 organizations) most of who were the CEOs, managers, staff, or board members of nonprofit organizations.

As a result of the convenience and snowball sampling, eleven organizations were contacted and interviewed. The characteristics of the organizations that participated in the interviews are summarized in

Table 5 below.

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Table 5 Here]

Each interviewee was asked how their organization approached failure. To minimize response bias, open-ended questions were used to structure the interview. In detail, because the word "failure" alone can imply some vague meaning, supplementary words such as challenges, frustrations, conflicts and adversities were used to define failure. In addition, to assist interviewee recall of organizational experiences with failure, probing questions were used to draw out specific nonprofit leadership and management activities (e.g., board, human resources, planning, finance, public relations, etc.).

Once the initial data on each organization's experience were gathered, incidents of failure were content analyzed according to the codes generated from the FM conceptual framework. By using the analysis templates, each incident of failure was categorized into one of the three types of failure (i.e., deficiency, excess, and inconsistency.) Subsequently each organization's responses to the incident of failure were categorized into one of the six purposes to use failure (i.e., learning, saving, reforming, discouraging, attracting, and complementing.) As a result, each failure and response was categorized to fit one of the sixteen propositions of failure management.

After the initial analysis, the interview contents and analysis for each organization were sent to the interviewees to validate the data transcribed. To meet the confidentiality condition of the interviews, the interview data were de-identified and are referred to in this paper as *Org. A, B, C, D, E, F, G, H, I, J, and K.*

Findings and Discussion

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This section presents results under the headers of the two research questions.

Can failure management be systematically described in nonprofit organizations? This question was answered by analyzing the 23 cases (12 organizations with secondary data and 11 organizations with primary data) in the light of the failure management propositions.

The results of the analysis showed that failure could be described with the failure management (FM) propositions in the 23 nonprofit organization cases.

Table 6 below summarizes the number of incidents of failure management captured in the 23 organizations analyzed. The frequency of activities suggests that the management of failure in nonprofit organizations can be systematically described.

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Table 6 Here]

What patterns of failure management do nonprofit organizations practice? To answer this question, each incident of failure was content analyzed using the codes generated from the FM Framework. Noteworthy is the fact that the management of failure was not isolated and independent acts but rather complementary. In other words, more than one proposition could be used to describe the actions taken by nonprofit organizations to manage failure. The next section presents these results along with specific examples that describe how failure was managed in nonprofit organizations under the headers of the 16 propositions.

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Proposition 1: Failure (deficiency, excess, or inconsistency) can result in learning.

(Any type of failure—deficiency, excess, or inconsistency—provides extreme conditions in which certain variable’s presence, characteristics or attributes can be tested and learned by either internal or external stakeholders.)

The results showed learning occurred in the nonprofit organizations sampled internally and externally lending support for Proposition 1 and suggesting learning from failure occurs in the internal and external environment.

By way of example of internal learning, *Org. G* and *K* saw their program performances fail due to changes in the external environment from unstable financial resources or dwindling customer basis. But such challenges resulted in *Org. G* and *K* **learning** their “niche” again, and reorganize their program portfolios to concentrate efforts to improve competitiveness.

External learning was also observed. As *Org. G* and *J* resolved their financial challenges, their reputation in the community improved because the community vividly witnessed and **learned** how diligently and reliably *Org. G* and *J* worked to resolve difficulties. Such learning by external stakeholders proved helpful in reducing threats and attracting more external support for the organizations.

Proposition 2: Deficiency can help forgo inferior opportunity and save resources.

(A missed chance due to deficiency can help forgo inferior opportunity and save resources.)

As a result of a number of mergers since 1985, *The Empire Blue Cross and Blue Shield* (EBCBS) organization experienced difficulty as a result of scattered office sites. But thanks to this **deficiency**, EBCBS saved rents and wages of offices outside the metropolitan area.

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In another example, *The Land Trust Alliance* (LTA) met with **deficient** member interest in a web-based service it launched in 1997. Instead of investing in efforts to increase web-service use and interest among users, it saved its resources by delaying online interaction with members until mid-2000 when LTA saw a higher percentage of members online.

Org. D devised a new management model that intended to help comprehensively proctor operating procedures, but encountered a **deficient** acceptance of the new management model among partners. But such delayed implementation of the model saved *Org. D* by providing more time to improve the model.

In another example, *Org. K* saved from a **loss** of charismatic leadership by employing “new bloods” that rejuvenated the organization’s programming and marketing in innovative and decentralized ways.

Proposition 3: Excess can be saved for superior opportunity.

(Excess resource itself can be used for new purposes.)

The American Red Cross (ARC) met with **excess** demand for blood supply after WWII. But ARC did not turn back on such demands, rather used the opportunity for blood service to increase public support for ARC as a whole.

Org. A had a problem of **excess** facilities and spaces due to diminishing members. *Org. A* used the problem as an opportunity to attract new potential customers by opening the facilities to a neighboring community and also by increasing community involvement in the organization.

Org. C and *F*, under financial difficulty, had an **excess** diversification of financial sources. But *Org. C* and *F* took advantage of the additional benefits of new financial networks. In other

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words, they used the new funders not only as monetary sources but also as non-monetary supporters (i.e., new marketing channels and new information providers.)

Proposition 4: Inconsistency can help conserve resources and spread risk.

(Intermittent patterns of environment can help achieve both goals of reducing risk and conserving resources.)

The Empire Blue Cross and Blue Shield (EBCBS) experienced **fragmented** data operation due to dispersed office sites after the mergers. But EBCBS was able to save large-scale data repositories from risks thanks to the dispersed sites, which proved to be an effective strategy on September 11 in 2001 when they lost some of their data in the collapse of the World Trade Center.

As an agricultural preservation organization, *Org. K*'s program had traditionally focused on one large annual festival. But changes in the composition of the board, reflecting the new board members' diverse preferences, resulted in *Org. K* diversifying its fundraising program to smaller more frequent and **diverse** types of events. By diversifying the festival events *Org. K* was also able to reduce the financial risk associated with one annual fundraising event.

Proposition 5: Deficiency can help improve effectiveness.

(Deficient resources can help pursue efficiency and effectiveness by doing away with harmful or needless redundancy that has been held with high elasticity.)

The CARE USA (CU) had **deficient** managerial capacity to manage the new worldwide relief services that required both standardized and decentralized procedures across countries. But the recognition of the problem provided CU with an impelling rationale to develop a revolutionary

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communication mechanism—Basic Service Questionnaire (BSQ) in 1992—to increase capacity through improved communications between headquarter and field offices.

Since the governmental funding cuts in the 1980s, *the National Urban League* (NUL) experienced *deficient* financial funding needed to maintain affiliates in centralized governance. But NUL responded by using the deficit situation as a timely opportunity to decentralize governance.

Deficient financial resources of *Org. B* and *E* resulted in the adoption of new low-cost technologies such as online programs and public relations through emails and social network services, which in turn helped *Org. B* transform ways of working.

The *deficit* problem *Org. D* experienced made it easier to reform and remove inefficient and ineffective programs and services that could not be reformed in the past.

Proposition 6: Excess can help stimulate innovation.

(A process of resolving excess problem can help get an impetus to innovation.)

The American Red Cross (ARC) had its *excess* shortcoming revealed by the FDA inspection on the technology assets for a blood service in 1988. But ARC reformed the blood operation far beyond FDA requests by using the poor state of blood service as an impetus to envision restructuring.

The Oxfam America (OA) suffered *excess* dishonor due to the Oxfam Quebec financial scandal in 1992. But in the wake of the scandal OA recreated its “brand” value by banding the eight affiliates together not only to protect themselves from the aftermath of Quebec scandal, but

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also to build a stronger *Oxfam International* through which a more expanded mission could be pursued.

Org. D, a medical research/clinic organization, encountered *excess* negligence in a regional laboratory that led to a medical tragedy. But the incident was used as an impetus to reorganize the operating procedures of the nationwide affiliates beyond the organization's regional scope.

Org. H, an academic association that works collaboratively with external partners to hold annual conference, experienced *unusual* conflict over revenue sharing. Such conflict led *Org. H* to create a revenue-sharing policy that standardized revenue sharing, reduced the conflict and increased the strength of the collaboration.

Proposition 7: Inconsistency can help challenge status quo and avert bias.

(Unstable environment fosters creativity and preparedness.)

To address a management capacity issue, *CARE USA* (CU) developed a new internal evaluation tool—Basic Service Questionnaire (BSQ)—in 1992. But there were *questions* about the efficacy of BSQ as a management tool within CU. Questions led to the development of a more comprehensive and revolutionary evaluation tool—Management Assessment for Country Offices (MACO), which was eventually accepted and adopted by management in 1994.

Thanks to an *inconsistent* environment following a fiscal crisis, *Org. E* innovated management operations as a result of inertia, inactivity, and what was perceived as irresponsible behavior on the part of the board during the turbulent situation.

Org. H and *K*'s CEOs experienced rough times from *diverse* perspectives within their boards. Although balancing perspectives was hard, it helped maintain a creative tension that led to

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innovation and change (e.g., the customary ways of managing database or festivals were revisited and reformed.)

Proposition 8: Deficiency can help reduce risk or threat.

(Deficient resources can allay opponent's willingness or capacity of depredation.)

In 2004, *the Partnership for Public Service* (PPS) experienced **deficient** resources from a decline in profit of the private sector sponsors of a joint venture hiring project. But the problem helped the PPS gain more trust of public partners, including those that hesitated to participate because of concerns private sponsors would sell services to them.

Org. J had **deficient** resources to meet the demands of community. But the struggle the community (including some adversaries who wanted to own *Org. J* for their own purposes) witnessed in *Org. J's* effort to serve the community with deficient resources helped build trust and relationships within the community, thus turning around the resource situation.

Proposition 9: Excess can help deepen opponent's inertia or over-commitment.

(We can do counter-offense by taking advantage of the opponent's excess momentum and the corresponding inertia or over-commitment.)

Org. F experienced a failure of a historic building preservation project due to an **excess** resistance from external stakeholders who opposed the project. But not long after that, the building users' regrets about the failed project accentuated the need and rationale for the project, which silenced opponents and led to more advocates.

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Proposition 10: Inconsistency can help discourage threat through instability.

(Unstable condition or inconsistent information can help drop out undesirable/ineffective activity, behavior or threat that is vulnerable to unstable environment.)

The Peace Games (PG) was in trouble with a **fragmented** mission that focused on developing college student volunteers and serving school age children. But such wavering orientation helped PG refine and develop a more effective mission that embraced more volunteers and partners beyond the college boundary.

Org. G and J's CEOs had to deal with both their inactive staffs/board members and challenging management environment in terms of meeting customer demands and finances. But the **turbulence** helped the CEO purge the organization of inactive and underperforming staff and board members.

Proposition 11: Deficiency can help induce external help.

(Deficient resources can prompt the willingness of reciprocal help and attention.)

The Parents as Teachers (PAT) failed to achieve their intended program quality goal to serve a wide range of families in need. The publicly announced **deficiency** helped PAT attract more external help (such as grants) to improve program quality and performance and advance the mission.

Org. A experienced difficulty when the operating budget was reduced as a result of a decline in membership and giving. But this **deficiency** helped induce inter-affiliates supports, thereby strengthening inter-affiliates networks that generated new opportunities for collaborative management.

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Org. I's deficient state of resources helped *Org. I* promote awareness of the importance of *Org. I's* mission, which generated public support. Furthermore such lack of resources stimulated collaborative efforts among organizations with the similar missions and difficulties.

Proposition 12: Excess can help draw attention or meet new demand.

(Something outrageous or edgy can help generate and grasp new interest.)

Org. E's alarming fiscal situation attracted the attention of the mayor who got involved in the organization. In the process, *Org. E* had a precious opportunity to provide the mayor with a new and deep understanding of the value and contributions of the organization to the community.

Org. K dropped an event that differed from its core mission. But there were *excess* inquiries about the dropped event and whether it would continue. Such inquiries, although burdensome to manage, attracted customer attention and provided opportunities to advertise other programs.

Proposition 13: Inconsistency can help stimulate or vitalize support.

(Unstable environment can be used to stimulate or vitalize some targets.)

The Peace Games (PG) was concerned about the *inconsistent* partnership due to conflict between the centralized program managers and the decentralized partners' discretions in the early 2000s. But such conflict stimulated discussion about PG's ultimate mission and long-term vision (beyond the partnership issue at hand), and thereby energized the PG organization and partnership.

Org. B had *inconsistent* funding sources after diversifying its fundraising strategy. But such diversified fundraising activities resulted in more public attention and support for the health problem and mission that *Org. B* advocated.

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Org. K had a charismatic leader with a powerful personal network. After *Org. K* lost their leader and the leader's vast public relations network, their traditional public relations was replaced by more diverse and *inconsistent* channels, which in turn allowed *Org. K* to access a broader customer base.

Proposition 14: Deficiency can help get and nurture complementary forces.

(Deficient resources/opportunities can help make a room for other compensating resources/opportunities to grow eventually for co-prosperity.)

The Empire Blue Cross and Blue Shield (EBCBS) found themselves operating with *deficient* technology for a web-based customer service in 1999. But such outmoded technologies forced EBCBS to start from scratch and develop unprecedented technology that propelled the organization forward.

The Partners for Development (PfD) experienced *deficiency* in experience as a result of serious turnovers in 1990. But PfD used this deficiency as an opportunity to revitalize the office by hiring "new blood."

Org. I saw their traditional customer base decline. But the *declining* customer base created room to accommodate new customers, including minorities and immigrants. The participation of various minorities brought new and diverse perspectives to interpret and enrich the historic site's legacy that *Org. I* preserved.

Proposition 15: Excess can help check, eclipse or unite against threat.

(Excess environment can prompt to collaborate among competitors, opponents or strangers in order to confront a common threat.)

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The American Red Cross (ARC) experienced *excess* costs for their blood service in the age of AIDS. The high cost of blood services helped ARC achieve economy of scale and gain market share as local blood banks that could not afford to provide blood services, closed.

Org. B had an *excess* number of competitors (i.e., many other health charities with similar mission) and limited funding. But such competition made them behave cooperatively as partners for co-prosperity. Each charity helped the other find their niche by sharing information, thereby complementing one another.

Proposition 16: Inconsistency can help offset other inconsistency by opposite pattern.

(A loss due to oscillation can be compensated for by using another oscillation with opposite pattern.)

The Community Preservation and Development Corporation (CPDC) had a chronic problem of *inconsistent* external funding since its inception in 1989. But such variation in funding helped spread risks with different cycles of cash flow. The same strategy was also used by *Org. C* and *F*.

Org. H's CEO had to deal with *diverse* governance perspectives from directors with different terms of service on the board. But alternating terms of service created complementary perspectives within the board that was more stable in its approach to governance.

The examples of failure within the propositions above provide empirical support of prospective efforts to manage failure in a sample of nonprofit organizations.

Conclusion and Limitations

“Every cloud has a silver lining.” “Every crisis is an opportunity.” “Failure is the mother of invention.” All of these well-known proverbs teach us that any reality can be both sides of a coin.

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However, unless we systematically find out in what pattern the bright side of reality would appear, the benefits of failure may not be realized.

In an effort to systematically describe the benefits of failure in a sample of nonprofit organizations, this study empirically tested a conceptual framework of failure management derived from a grounded theory review of the literature. The framework generated codes from which failure was analyzed in a sample of nonprofit organizations. The results of this study showed that nonprofits not only manage failure but that it could be systematically described.

Talking about failure is often a cultural taboo in organizations. Even when encouraged, people feel fear failure and organizations often go to great lengths to avoid or minimize the risk of failure, thus never embracing it (Isenberg, 2011; Seligman, 2011). Therefore, to help nonprofit organizations embrace and reap the benefits of failure, the failure management framework could be used a) to raise awareness of the prospective approach and b) as a practical tool to help managers analyze failure in their organizations.

Because this study is the first attempt to explore and confirm the failure management framework the findings are suggestive and informative rather than definitive and prescriptive. In order to increase validity and reliability of the study findings, a standardized questionnaire will be developed and systematically tested in a large representative sample of nonprofit organizations. In addition, using computer software for qualitative data analysis will be the next step for a more systematic analysis.

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Tables

Table 1
Two Perspectives on Failure

	Retrospective		Prospective
Philosophy	<ul style="list-style-type: none"> • Pursuing existing goals. • Analyzing the causes of failure. 		<ul style="list-style-type: none"> • Searching new goals or tools. • Evaluating failures.
Management approach	Risk management	Crisis management	Failure management
Goal	Avoid failure in advance.	Minimize failure as it happens.	Maximize the benefits of failure after it happens.

Table 2
Failure Management Propositions

Types of failure (and side-effects of failure)	Purposes to use failure					
	Internal adaptation			External adaptation		
	<i>Saving</i>	<i>Reforming</i>	<i>Learning</i>	<i>Discouraging</i>	<i>Attracting</i>	<i>Complementing</i>
Deficiency	2. Deficiency can help forgo inferior opportunity and save resources.	5. Deficiency can help improve effectiveness.	1. Failure (deficiency, excess, or inconsistency) can result in learning.	8. Deficiency can help reduce risk or threat.	11. Deficiency can help induce external help.	14. Deficiency can help get and nurture complementary forces.
Excess	3. Excess can be saved for superior opportunity.	6. Excess can help stimulate innovation.		9. Excess can help deepen opponent's inertia or over-commitment.	12. Excess can help draw attention or meet new demand.	15. Excess can help check, eclipse or unite against threat.
Inconsistency	4. Inconsistency can help conserve resources and spread risk.	7. Inconsistency can help challenge status quo and avert bias.		10. Inconsistency can help discourage threat through instability.	13. Inconsistency can help stimulate or vitalize support.	16. Inconsistency can help offset other inconsistency by opposite pattern.

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Table 3

Sampling Procedure for Nonprofits Case Study

Sampling criteria and sequence	1. Accessibility: Kennedy School of Government Case Program (As of February, 2012)	2. Relevance: Is the main topic about strategic change or performance issue?	3. Sustainability: Is it an exemplary case in terms of size or history (i.e. nation/statewide organization)?	4. Clarity: Is failure or adversity the driver of organizational change?
Cases selected	122 nonprofit cases	40 cases	17 cases	12 cases

Table 4

Twelve Cases Analyzed

Organizations	Case titles	Authors, years
American Red Cross	Tradition, Transformation and a Divided Spirit: A 21st Century Quandary for the <i>American Red Cross</i> .	Varley, 1999
CARE Thailand	Managing Change or Running to Catch Up?: <i>CARE USA</i> and its Mission in Thailand.	Tarr, 1995
CARE USA	Providing Two-Way Feedback: Assessing Headquarters and Field Service Performance at <i>CARE</i> .	Scott, 1995
Community Preservation and Development Corporation	The Test of Transition: The Case of the <i>Community Preservation and Development Corporation (CPDC)</i> .	Hoffman, 2010
Empire Blue Cross and Blue Shield	“The Worst Thing That Could Happen”: How <i>Empire Blue Cross and Blue Shield</i> Survived September 11.	Scott, 2002
Land Trust Alliance	Stepping Up to the 'Net: The <i>Land Trust Alliance's</i> Efforts to Make Strategic Use of the Internet.	Levitt, 2000
Urban League	The Challenge of Drastically Changing Times: The <i>Urban League</i> Adjusts to a Post-Civil Rights Landscape.	Varley, 2001
Oxfam America	<i>Oxfam America</i> : Becoming a Global Campaigning Organization.	Scott, 2004
Parents as Teachers	Starting Small, Reaching High: The <i>Parents as Teachers</i> National Center’s Quest for Growth with Quality.	Rosegrant, 2007
Partners for Development	Managing Success: <i>Partners for Development</i> Reorganizes its Dongola Office.	Spicer, 1996
Partnership for Public Service	Extreme Hiring Makeover, Tackling the Federal Employment Crisis— <i>Partnership for Public Service (PPS)</i> .	Lundberg, 2006a, 2006b
Peace Games	<i>Peace Games</i> : A Non-Profit’s Journey from Birth to National Expansion.	Rosegrant, 2005

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Table 5
Eleven Organizations Interviewed

Categories		Number of organization	Total
National Taxonomy of Exempt Entities (NTEE) classification	Arts, Culture, and Humanities	2	11
	Educational Institutions	1	
	Health Care	1	
	Disease, Disorders, Medical Disciplines	1	
	Agriculture, Food, Nutrition	1	
	Youth Development	1	
	Community Improvement, Capacity Building	2	
	Science and Technology	1	
Religion, Spiritual Development	1		
Years since inception	Less than 10 years	2	11
	10 – 30 years	4	
	30 – 50 years	3	
	More than 50 years	2	
Annual expenditure	Less than \$100,000	3	11
	\$100,000 - \$300,000	2	
	\$300,000 - \$500,000	2	
	More than \$500,000	4	

Table 6
Number of Incidents for Each Proposition of Failure Management

Types of failure (and side-effects of failure)	Sample group	Purposes to use failure					
		Internal adaptation			External adaptation		
		<i>Saving</i>	<i>Reforming</i>	<i>Learning</i>	<i>Discouraging</i>	<i>Attracting</i>	<i>Complementing</i>
Deficiency	<i>n_s</i>	2	2	12	2	1	5
	<i>n_p</i>	4	7	7	2	7	5
Excess	<i>n_s</i>	1	4	8	1	1	1
	<i>n_p</i>	6	10	4	3	5	3
Inconsistency	<i>n_s</i>	1	1	6	1	1	2
	<i>n_p</i>	4	7	3	5	5	3
Total	<i>n_s</i>	4	7	26	4	3	8
	<i>n_p</i>	14	24	14	10	17	11

Note. *n_s*: Number of incidents from secondary data; *n_p*: Number of incidents from primary data.

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