INSIGHTS

The Multiple Sources of Mission Drift

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This article examines Weisbrod's contention that nonprofits should avoid unrelated business activities, primarily because of their potential for mission drift. The conclusion reached is that commercial ventures are only one among several paths to mission drift, and not the most threatening. Furthermore, the bottom line retains its potential for mission drift, even in nonprofits that have no unrelated business activities. However, if mission drift has multiple sources, then the exclusion of one relatively minor source is not an adequate remedy.

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As a vantage point for observing the nonprofit sector, a medical school may seem a bit eccentric. Nevertheless, medical schools are not-for-profit organizations, some as parts of universities and some as stand-alone nonprofits. All claim that their missions are education, research, and patient care, and all depend heavily on government funding, grants and contracts, and their own clinical enterprises for financial support.[1] This article contends that all three means of support can lead to mission drift, that nonprofits generally are subject to multiple sources of mission drift. In addition, some medical schools are strongly connected with local institutions that have their own stories to tell about mission drift; such a connection accounts for the particular reliance in this piece on Pennsylvania examples.

Nonprofits often own bits and pieces, sometimes quite sizable bits and pieces, of the for-profit economy, those of other countries as well as our own. In the concluding years of apartheid in South Africa, for example, many universities in this country, including Harvard, Stanford, MIT, and Duke, came under heavy pressure from students and others to divest themselves of their South African holdings. Nonprofit pension funds and insurance companies, such as TIAA-CREF and most Blue Cross/Blue Shields, have at their disposal very large amounts of money for investment and are, therefore, positioned to exert great influence.

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In recent decades, however, many nonprofits have ventured further and more openly into the for-profit arena. Business activities unrelated to the nonprofit's mission have tripled in the past 10 years. Such activities range from thrift stores and culturally high-end travel tours to elaborate commercial ventures. Many of these ventures are innovative. For example, Pura Vida is a coffee company that attracts investors by offering to sell them securities. Pura Vida promises to pay investors 6% a year for a term of 5 to 7 years, and, at the end of the term, the investors get their principal back. The investor does not keep his or her equity stake in Pura Vida but designates a charity as its owner, entitling that charity to a proportionate share of Pura Vida's annual profits (Fitzgerald, 2003).

This boom in nonprofit money making has not gone unopposed. In a recent issue of *Stanford Social Innovation Review*, Weisbrod (2004) argued that nonprofits should steer clear of business ventures. Weisbrod's main concern was that involvement with commercial activities produces mission drift, a diversion of time, energy, and money away from a nonprofit's mission. In addition, unrelated business activities may lead to competition with for-profit companies and, if the nonprofit commits to the enterprise resources not fully funded by it (wages, equipment, real estate, etc.), to possibly successful charges of unfair competition. Furthermore, the effort to raise additional, much-needed capital may backfire. Members may allow their memberships to lapse, and potential donors may think twice before giving to an organization that seems to have other ways of raising money. People may feel that such activities taint a nonprofit's commitment to its announced purposes. "In general," says Weisbrod,

> because of the various legal and reputational risks involved, nonprofits should avoid commercial activities—whether they be joint ventures with for-profit companies, unrelated business activities that subsidize the nonprofit's core activities, or other revenue-maximizing behaviors—that distract them from providing public goods at unprofitable rates. (p. 42)

The debate about these and similar arguments is ongoing and involves several issues. Apart from mission drift, the most important is that for-profit venturing by nonprofit organizations may not make money or even lose it. Based on a 10-year review of IRS returns, Foster and Bradach (2005) report that "the lion's share of earned-income ventures [by nonprofits] do not succeed at generating revenues beyond their costs" (p. 96).[2] Plainly, there is not much to be said for unrelated business activities if they lose money. The present concern, however, is not with for-profit activities per se but with mission drift and its multiple sources.

When Milton S. Hershey died, he left a complex network of corporate entities in his wake. Three of them—the Hershey chocolate company, a residential school for poor orphan boys, and a trust company—were especially important. Hershey stipulated in his will that the board of directors of the Hershey School must be appointed from among the directors of the Hershey Trust. Thus, the two entities, trust and school, became governed by the same people. Today, the membership of the two boards is identical, save for one member of the trust board who is not a member of the school board. Their missions differ, however. One governs the school and the other serves as trustee under Hershey's will.

Hershey Foods, the chocolate company—and the third of the three corporate entities Hershey left behind—is controlled and largely owned by this two-headed corporate construct. The trust owns 77% of the voting stock of Hershey Foods. It also owns 100% of Hershey Entertainment and Resorts, which operates Hershey Park, and serves as trustee for two other Hershey trusts. Altogether, the trust represents a $5.7 billion endowment for the Hershey School, one of the largest educational endowments in the country. Hershey Foods itself is a Fortune 500 company.

In 1999, the Hershey Trust/Hershey School attempted to establish a research and teaching institute to be entitled the Catherine Hershey Institute for Learning and Development (CHILD). The institute would require more than 1,000 acres of land and was expected to cost $25 million to build, with an operating budget ramping up to $25 million in its 5th year. "It's a wonderful blend of keeping the school first and foremost, and at the same time being able to impact the lives of a greater number of kids" (Golden, 1999, p. A1), said William Lepley, school president.

The school's alumni association did not agree and challenged the proposed institute in court. As the alumni saw it, the primary purpose of Hershey's will was to provide for the school. In the preceding 30 years, enrollment had dropped 25%, from 1,600 to 1,200. So why not just enlarge the school? Father Val Peter, executive director of Boystown, U.S.A., agreed: "The world is full of people who are willing to research child care and educational problems. In my opinion, Hershey should take care of more kids" (Golden, 1999, p. A1). Judge Warren G. Morgan of the Dauphin County Orphan's Court also agreed and blocked the proposed institute as not sufficiently in keeping with Mr. Hershey's will (Golden, 1999).

It is not clear what the school's purposes were in proposing CHILD. Perhaps the trustees just wanted to do something more innovative and prestigious than running a residential school for orphaned or disadvantaged children. Whatever their purposes, the proposed institute was adjudicated as mission drift, and it was a nonprofit, not a business activity. It would, moreover, be a costly nonprofit. Lepley, the school president, assured the alumni that the institute's budget would never be more than half of the school's current budget, at the time $64 million.

This example demonstrates that mission drift can occur for other reasons than commercial adventuring. What are these other reasons, how frequently are they in play, how weighty are they compared to unrelated businesses, or, conversely, how weighty are unrelated businesses compared to these other causes of mission drift? These questions should be answered, if only to put Weisbrod's (2004) caution in perspective.

Government funding comes first to mind. Defenders of the First Amendment have long argued that religious organizations are better off not being supported by government funds, a major reason being that a church that accepts government support comes to rely on it. It risks not serving the spiritual needs of its parishioners with the same intensity it would if it had no other support than their belief and attachment. Government support is rejected on these grounds by Mormons, Seventh Day Adventists, Anabaptists, and even some Baptists.[3] Of course, other defenders of the First Amendment argue that even if government support were in the interest of religious organizations, the country's interests would be better served by separating church and state.

These concerns go beyond churches. Many nonprofits make a point out of "never having taken a cent from the government." This claim can have several implications. For example, nonprofits that do not accept government funding are not subject to the same reporting and compliance regulations as those which do, or they are so well supported by individuals and grants or contracts that they do not need government support. Almost always, however, such a statement is intended to imply that the nonprofit is true to its mission, uninfluenced by governmental agendas or priorities.

The possibility of governmental control or influence is quite real. A central claim of a democratic society is that it does not rule by command or dictate but by inducement. In research, for example, it leaves universities and other research institutions free to target and pursue their own objectives. Of course, government is not obligated to fund whatever research an individual or faculty group wants to do. It, too, can target its objectives and pursue them. The effect, however, often is to distort the mission of the nonprofit organizations it funds.

For instance, at least one third, sometimes one half, of the departments in a medical school are called "basic science" departments. As the name suggests, their mission is to do basic, not clinical or applied, research. The latter is the responsibility, in addition to patient care and teaching, of the "clinical science" departments. Grants to do basic research are competitive, however. Grants to do clinical trials, therapeutic evaluations, or epidemiological work may be much easier to obtain. The result is that many basic science departments end up doing as much clinical as basic research. No doubt, this more applied work is a good thing. Nevertheless, in relation to the stated missions of the basic science departments, it is mission drift.

What is true of government is equally true of private institutions that support nonprofit work of one kind or another. Foundations also have their own objectives, and they use their ability to fund one thing and not another to further those objectives. Their doing so does not, of course, necessarily produce mission drift in the nonprofits they fund, but it may. Although players in the nonprofit sector already recognize this risk, an example may serve to position it in relation to Weisbrod's (2004) arguments.

In the late 19th and early 20th centuries, the Slater Fund was much the largest foundation in the area of African American education. Before it ceased operations as an independent entity in 1937, the Slater Fund had distributed some $4,000,000 to Black schools and colleges, far more than any other foundation. Slater money, however, was available only for vocational education. Slater administrators were actively opposed to liberal arts or classical education for Blacks, fearing that it would breed discontent among the freedmen with their assigned position in Southern society (Finkenbine, 2003). Under Reconstruction, the Freedmen's Bureau had established dozens of colleges with more or less conventional liberal arts curricula. With the demise of Reconstruction, however, higher education for Blacks was limited to the missionary schools, for example, Fisk and Atlanta Universities. Other Black schools and colleges faced a difficult decision: either vocational education with support from Slater or no support and, quite possibly, no school. Mission drift seems too weak a phrase for this decision—"mission control" might be more like it—but foundation support or the lack of it certainly shaped or reshaped the curricula of Black schools and colleges in the decades after Reconstruction.

In short, commercial activities are not the only threat to mission integrity. Government or foundation support can also divert a nonprofit from its mission. However, if Weisbrod's (2004) caution is applied to government and foundation support as well as to commercial activities—and why should it not be because mission drift is the major threat in all three cases—then nonprofits are left with no source of financial support other than many small, anonymous, individual gifts. Plainly, any such extension of Weisbrod's caution reduces to absurdity. Some nonprofits could continue to exist on these terms, but not many, and, in some fields, for example, human services, none at all.

In part, Hershey's problem was the sheer size of its endowment. With such large resources at their disposal, the trustees were tempted to venture, as they proposed to do with CHILD, into areas not warranted by Hershey's will. Not venturing, however, can also lead to mission drift. It is a rare satisfaction to preside over a large endowment, and making it even larger makes the satisfaction even rarer. A focus, however, on growing the endowment for its own sake quickly turns into mission drift because whatever a nonprofit's mission may be, it is not simply to accumulate as much money as possible. In addition, of course, spending the money and investing it in ways not fully consonant with the organization's mission is also mission drift.[4]

Although it is much older than the Hershey School, Girard College in Philadelphia has long been regarded as a sister institution. Stephen Girard was the richest man in America, and, when he died, he left most of his money to a school for orphan boys. Girard's governing board has had a checkered history, beginning with the construction of the building in 1848. In his will, Girard specified that his school should be built "avoiding useless ornament, attending chiefly to the strength, convenience and neatness of the whole." Girard particularly disliked pillars. He so disliked them that at one point he thought of taking down the pillars of the First Bank of the United States on Third Street, which he bought after Congress refused to renew its charter in 1811. Nevertheless, when the college was finally built 17 years after Girard's death and at great expense, it was designed as a Greek Revival temple complete with 34 marble pillars, 59 feet high and 6 feet in diameter, with elaborate Corinthian capitals (Parton, 1867, p. 147).

The Board of City Trusts (BOCT) was created in 1869 and, with the exception of an 11-year period (1957-1968), has served as the governing board of Girard College ever since. In 1997 the *Philadelphia Inquirer* published an award-winning, three-part series on the BOCT's handling of the Girard Estate. In the 1930s enrollment at Girard exceeded 1,700; in 1997 it was 600. In the past 5 years Girard's portfolio of stocks and bonds had grown in value 43%, whereas the operating budget for the college had decreased 28%. "In 1992," the newspaper reported, "the Board of City Trusts began a series of cutbacks at the school—including the dismissal of 48 employees including teachers, administrators and maintenance staff. Weekend programs for students were also eliminated and some vocational training shops were closed" (Stets & Kaufman, 1997, p. AO1). The newspaper also reported that the BOCT had recently acquired several properties in which some individual board members seemed to have conflicting interests. For example, a board member who also happened to be a state senator had received substantial campaign contributions from the owner of a major but floundering center-city hotel. The senator's supporter was "bailed out" when the BOCT bought a one third interest in the hotel. The senator claimed that the campaign contribution and the BOCT's decision to buy into the hotel were not connected. It was not surprising, however, that many people in Philadelphia thought that there must have been some equally good (or better) investment that the BOCT could have made that was not connected in any way with the interests of individual board members (Stets & Kaufman, 1997a, 1997b, 1997c).

This history illustrates three ways that a nonprofit having a great deal of money can lead to mission drift, none of which depend on the distractions of an unrelated business or the strings attached by government or foundation support. First, the nonprofit can focus on growing its endowment while neglecting its primary mission. Second, it can spend money on projects that lie outside its mission (the fancy Greek Revival temple). Third, it can invest its money in projects that to some extent serve the private interests of individual board members.

Mission drift is often half intended, a by-product of policies aimed at other, typically financial objectives. Dart (2004) describes a social service nonprofit

(CS) that provided counseling focused on debt management. The clientele were "individuals and families that experienced significant financial problems, particularly and typically from excessive credit card debt" (p. 296). CS had an annual budget of approximately $1 million and was primarily funded by government. Between 1996 and 2000, CS underwent a change in leadership and management style. The intention was to become more "business-like," and the motivation was "to make up for what was described as inadequate pay for the full-time counseling staff" (p. 298). Concurrent with these changes, the counseling program switched from long-term, low-volume, individually intensive services to much higher volume, "lean-and-mean, more narrowly focused services to more specific (and more easily served) client groups" (p. 298). The new program was said to be highly effective. The issue here is not whether the changes were good or bad. The point is that pressure on the bottom line brought about an unacknowledged and, to some extent, unrecognized change in mission and with it a change in the services provided and the persons served.

In the case of CS, the change in mission was internally driven. The changes that have come over American medical schools in the past 15 years were driven largely from the outside. It began with what seemed at first a fortuitous legislative development. American medical schools have a long tradition of providing pro bono care. In the early 1980s, teaching hospitals, which had 5.6% of the acute care beds, were providing 47.2% of the free care to indigent persons in the country. Fifteen years earlier (1965), when Congress passed the Medicare and Medicaid Bill, the figures would have been even more disproportionate. The initial consequences of Medicare and Medicaid were very positive. The medical schools would now be paid for much of what had been charity care. In the next 25 years, medical school budgets increased tenfold, roughly from $20 million to $200 million; clinical revenue increased from 6% to more than half the budget; the full-time faculty increased in size from 17,000 to 75,000; their average salaries increased more than tenfold; and teaching hospitals grew into "academic medical centers," huge medical emporia, each one nestling a medical school, like a small child, within it. Then in the 1990s came the public response to escalating medical costs, the "cost containment era," and managed care (Ludmerer, 1999).

In the effort to generate more revenue and, at the same time, cut costs, medical schools in the past 15 years have drifted far from their academic moorings. Their missions have remained the same—education, research, and patient care—but what they do in pursuit of those missions has greatly changed. Education has become more clinically oriented, less focused on science, more "relevant" and "practical." The pressure on physicians to generate revenue has become overwhelming, to the point that serious research or scholarship by clinicians has become almost impossible. Academic medical practice, which once prided itself on thoughtful, deliberate care, has become hurried and "efficient."

Weisbrod (2004) is quite right to focus attention on the dangers of mission drift. But unrelated businesses are only a small part of the problem. If the solution Weisbrod advocates for avoiding mission drift because of unrelated businesses were applied to other forms of mission drift, nonprofits would also have to avoid government and foundation support. They would have to avoid all the pitfalls attendant on having a large endowment. Even then, mission drift would still occur as a by-product of otherwise unexceptionable policies or simple failure to adequately foresee the future and the traps it holds in store for us.

The multiple sources of mission drift cry out for a control mechanism, some way of keeping nonprofits targeted on their announced objectives. If it is to succeed, however, that mechanism will have to be general. It will have to contain or counter all the sources of mission drift, not just one relatively minor source.

Notes

1. Gifts and tuition are less likely to be sources of mission drift.

2. It should also be noted that to the extent of the loss, a failed venture contributes to mission drift, even if it subtracts nothing else from mission resources.

3. The argument goes back at least to James Madison (1999) in 1785. In opposition to a bill in the Virginia legislature that would have provided support for Teachers of the Christian Religion, Madison wrote,

> Nay, it is a contradiction in terms; for a Religion not invented by human policy must have pre-existed and been supported, before it was established by human policy. It is moreover to weaken in those who profess this Religion a pious confidence in its innate excellence and the patronage of its Author; and to foster in those who still reject it, a suspicion that its friends are too conscious of its fallacies to trust it to its own merits. (p. 31)

4. The mission, however, may change. Hershey's will stipulated that only Protestant White boys were to be admitted to his school. All three stipulations have since been overridden by court decisions based in part on legislative action. In these cases, there was no mission drift because the mission was officially changed. A similar case is now pending in Michigan, where the state attorney general says that in recent decades giving by the Ford Foundation has "drifted away from Michigan." His goal, he says "is to bring some of Henry Ford's money home" (Wilhelm, 2006).

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