Building an Organization to Last

Reflections and Lessons
Learned from SeaChange

Purpose

The purpose of this report and sharing this story is simply to understand what happened—how the story of SeaChange unfolded—and how lessons learned can inform the Kellogg Foundation and others in future efforts.

SeaChange was founded in 1999 with funding from a number of national foundations and corporations, including the W.K. Kellogg Foundation and the Ewing Marion Kauffman Foundation. By the fall of 2002, SeaChange had shut its own doors and merged with another nonprofit organization, the National Gathering of Social Entrepreneurs, to create a new enterprise entitled, Social Enterprise Alliance.

The story of SeaChange offers an important case study in organizational development. Lessons learned from the experience can be applied to other enterprises. These are lessons about leadership, governance, management and accountability—and how they influence the development of an effective and successful venture.

The information contained in this document is based on a review of materials as well as on interviews with former board members, staff, funders and close observers. This document is not meant to be a comprehensive accounting or full chronology of the SeaChange story. Rather it is designed to provide a "high altitude overview" of the story, a synthesis of the experiences and impressions of some people who were closely associated with the story, and an extrapolation of the key lessons that were learned and may be transferable to others. The report, based on work done by BTW Consultants, was prepared at the request of the W.K. Kellogg Foundation, one of the original investors in SeaChange.

Background

SeaChange offered great promise when it began during the late 1990s as "an entrepreneurial nonprofit marketplace designed to provide access to expertise, collaboration and capital" for enterprising nonprofits. With the creative use of information technology, SeaChange intended to provide a virtual marketplace where "social investors" could be introduced to "social entrepreneurs" in a non-threatening environment that maximized efficiency and minimized transaction costs.

The idea emerged from a group of individuals who were working in the field of social entrepreneurship and social enterprise development. These were primarily individuals who were funding, operating, or developing social purpose ventures, alternative revenue generation streams, or cause-related marketing. They identified the need for an ongoing network—an infrastructure that would support those in the field doing social enterprise work.

In 1998, the Echoing Green Foundation, with funding from the Ewing Marion Kauffman Foundation and the W.K. Kellogg Foundation planned a Wingspread conference to test and more fully develop the idea of a new networking organization for social entrepreneurs. The conference was attended by approximately 45 leaders in the field. Among these leaders was Jim Pitofsky, who was with the Echoing Green Foundation. Jim's commitment and passion made him a strong candidate for helping to launch the new venture.

Following the Wingspread conference, and again with funding from the Ewing Marion Kauffman Foundation and the W.K. Kellogg Foundation, Jim took a leave of absence from the Echoing Green Foundation to conduct a "listening tour." The tour was intended to be a platform for sharing the concept of a new networking organization. It also served as a forum for collecting the best ideas from the field about the work that such an organization might perform. The listening tour exposed the concept to more than 1,000 people nationwide.

As a result of the listening tour, there was greater definition of the concept: social entrepreneurs wanted access to capital; social investors wanted access to innovation. This became the organizational framework for SeaChange.

Chronology
From 1999 until July of 2000, when SeaChange received its 501c3 status as an independent nonprofit, it operated under the auspices of the Echoing Green Foundation. Jim Pitofsky served as its leader. In September of 2000, SeaChange hired four vice presidents. The staff recruited and formed the board in November of 2000 and the board, which was organized to meet quarterly met for the first time in January of 2001. Board officers were elected in March of 2001. In February of 2002 the board was downsized from twenty to seven members. In May of 2002 SeaChange approached the National Gathering about a possible merger.

The Concept

As the concept evolved, SeaChange developed a multi-pronged approach to meeting the needs of social investors and social entrepreneurs. The approach included venture fairs, social investor training sessions, and collaborations with existing associations and organizations. Central to this work was a fee-based "web portal" aimed at giving nonprofits an opportunity to submit their organizational profiles. The idea was to vet these profiles according to standards and definitions for what constitutes social entrepreneurship that would be established by SeaChange. Once vetted, the profiles were included in a database to which social investors had unfettered access. In this way, SeaChange would facilitate access to capital for the social entrepreneur and access to innovation for the social investor.

The Influence of Time and Money – A Synopsis

SeaChange was launched at a unique moment in time where money was plentiful and technology reigned. The organization's total funding was $2.45 million, with $735,000 of that coming from the W.K. Kellogg Foundation. By early 2002, the economic tides had shifted and what had begun with endless optimism about the transformative power of technology gave way to an appreciation of its limits. This new experiment, designed to capitalize on the abundance of resources and the potential of technology, faltered.

SeaChange pre-launched its web portal in August of 2001, just two weeks before September 11th. About that time, SeaChange leadership was beginning to recognize a mistake in its technology focused business model. Following September 11th, SeaChange revised its approach, focusing on personal relationships rather than a technology driven matchmaking effort. Specifically, SeaChange provided customized assistance to funders who were looking to invest resources in support of 9-11 related needs.

In the spring of 2002, SeaChange began to seek potential merger partners that would be capable of complementing its mission and assets. In May of 2002, SeaChange approached the National Gathering about a merger and the board made the difficult decision to discuss the possibility of putting new leadership into place.

By the fall of 2002, SeaChange had ceased to be an independent entity. It merged with the National Gathering of Social Entrepreneurs to create a new organization known as Social Enterprise Alliance. As a result of the merger, elements of SeaChange endure and are reflected in the mission and the work of Social Enterprise Alliance.

A Review of the Challenges

Despite the timing, the rise and fall of SeaChange was not due solely to a change in the economy. Many other factors were at play. The SeaChange story is as much about what it takes to create an effective and sustainable organization as it is about outside influences. It is about what happens when one or more steps in the organizational development process are overlooked.

The questions are many. The answers are both simple and complex. At its most basic level, SeaChange is the story of an organization built on an idea, but one that ran out of funding before it was able to prove itself and validate its approach.

But why? Did SeaChange stumble because it tried to do too many things at once? Was the effort too ambitious? Did the organization lack a focused mission? Did SeaChange have trouble defining its primary audiences? Did the organization's board pay too little attention to finances? Were the right people in the right positions? Did funders provide enough support, or pay enough attention to the organization and the outcomes? Did SeaChange lose traction because resources became scarce, or because it took too long to demonstrate success?

Conversations with key players have provided some insight into these questions. In addition to personal reflections, those interviewed for this report considered the functional roles they played and the extent to which they lived up to their own expectations in those roles. In the course of the interviews, there was almost always a moment when the interviewee reflected on his or her own participation in the evolution of SeaChange.

- ***Board members*** were most likely to speak about how they should have committed more time or attention, asked more questions, offered more of their knowledge and experience, and exercised more governance control.
- ***Staff members*** were more inclined to reflect on the degree to which they knew early on that the organization was challenged. They talked about the reasons they didn't express their concerns effectively, or why those concerns may not have been fully heard, or acted upon.

- ***Financial supporters*** spoke most often about how they exercised less-than-optimal oversight in their work with SeaChange. They talked about having too much on their plates, about not being able to keep up with the ambitious SeaChange agenda, and about taking comfort in knowing that the investment was high risk and, thus, being prepared for possible failure.

The personal insights demonstrate that an organization doesn't just wake up one day bereft of capacity, or options. It is a process that occurs over time and involves the complicity of the individuals involved. The challenge is to recognize and address problems soon enough to preserve as many options as possible.

Such options might include ways to support the most effective engagement and contribution of those involved. Staff members need opportunities to contribute their experience in honest discussion. Board members need to assert leadership—holding to the mission and guiding the organization through a careful and timely review of programmatic and financial progress. And financial supporters need to establish clear parameters for their engagement in the organization. They must ensure that they have not only the money, but also the time, to effectively oversee the investment and provide the necessary support to ensure success.

Key Influences – Reflections

A number of things influenced the evolution and development of SeaChange. Some of those influences were forces outside the organization others were forces from within.

Outside Influences

The late 1990s was a time when abundant resources collided with new ideas. Numerous forces and values were at play. It was a time of great possibility when there was confidence that technology, resources and entrepreneurship could help generate new solutions to old problems. These forces and values played a significant role in the evolution of SeaChange:

Technology – There was a societal push for applying technology to every conceivable problem. And there was significant pressure within the nonprofit sector to find ways to apply technology to improve efficiency and reduce costs. There was almost an implicit assumption that the effective use of technology would be part of long-term sustainability. This was most pronounced in the sub-sector of social enterprise development and social entrepreneurialism—the area from which SeaChange emerged.

According to one interviewee, the overall discussion at the Wingspread conference—where the SeaChange concept was first developed—was "*…much less about using technology to increase access to capital and much more about creating an organization that would connect the social entrepreneurs so that they could collaborate. The organization became enamored with technology…*"

It was that kind of time. Early on, members of the SeaChange board had concerns. "*Fundamentally, I didn't think the technology would work," one board member said. "The specific technology didn't work, but even the idea that you could create a funding vehicle through technology alone was flawed.*" In the push to use technology as part of the solution, the problem it was meant to solve became less clear.

Resources – Ordinarily, a start-up nonprofit would begin small, build its value proposition and demonstrate success before attracting large sums of support. By most accounts, SeaChange had substantial financial backing at its launch. This created a problem for the organization in the sense that there was pressure to spend the funding before there was clarity about priorities, organizational capacity and benchmarks for success.

While the governing board wasn't organized until November of 2000 and didn't actually convene until January of 2001, SeaChange hired four vice presidents on September 1, 2000. One board member expressed the views of several when he said, "*I found an organization that was just incorporated and had four or five staff hired – four of whom were executives. It didn't get much bigger than that—maybe seven—six of whom were executives. They were all good people, but they were hired before they were needed.*"

At start-up, the organization (with an active and engaged board of directors) should have been working through a business plan and setting measurable goals for itself. But SeaChange was so successful at raising money that spending it became a focus. As one board member noted, "*We made the mistake of thinking that cash flow was a business plan…*" And from the perspective of another close observer, they "*…should have bootstrapped the operation. Instead, it burned through cash … too many people on line too soon…*"

Entrepreneurial Spirit – On one hand, SeaChange was a product of an entrepreneurial spirit: the positive optimism that helps to create new solutions to old problems. But that spirit and vision, so common during that era, compromised the organization's ability to focus. Those involved described an organization with a tendency to "jump from one good idea or opportunity to the next" without an internal compass to guide or constrain its pursuits.

The energy of a visionary leader can sometimes interfere with the ordinary practice of organizational operations and structure. According to several interviewees, the lack of structure reflected a lack of coherence about what exactly SeaChange was holding itself responsible for doing, in what time frame, and with what results. "*There were no boundaries between responsibilities—there were different ideas within the organization about who should be doing what. Roles were not clearly defined.*"

Inside Influences

One of the lessons of the "dot com" boom and bust was that technology alone could not substitute for a strong business plan. A company without a healthy financial model could not survive, despite the frantic energy associated with its launch. In the nonprofit sector, a comparable lesson was being learned during that same period.

Even with resources, technology and energy, a healthy and sustainable nonprofit organization still needed a clearly defined mission, good governance, capable organizational and financial management, and a plan with measurable outcomes. The essential ingredients of a healthy organization remain the same. The internal influences that contributed to the challenges SeaChange confronted include:

Mission – SeaChange emerged through a consultative process that was managed by a visionary leader. According to some who were there for the earliest discussions, the mission of the organization was to "connect social entrepreneurs—both literally and figuratively." To some extent, the application of technology as a strategy eclipsed the mission. Even some board members were not always clear about the organization's mission, as reflected in this comment: "*What is the mission—what are the goals? It never made any sense … to me and to at least several other board members. Even when we were doing the articles of incorporation, people were saying they didn't understand what it was.*"

The confusion about the mission was associated with the lack of clarity about what constitutes a "social entrepreneur." This question plagued SeaChange throughout its existence. "*We spent a great deal of time struggling with the definition of a social entrepreneur … The more you try to define it, the tougher it is.*"

Further confusion about defining the primary constituency that SeaChange was created to address was a serious problem, both philosophically and operationally. "*We couldn't come to agreement about what a social entrepreneur was, or even what made someone a social investor. If you can't define who it is you are trying to match—and you are at the same time trying to match them through a technology that hasn't been built—you end up with a big mess.*"

Governance – The legal obligations of a nonprofit board involve establishing its fiduciary role in resource management and protecting the public charitable purpose of the organization. An effective board holds the organization's mission, creates standards of accountability and oversight, and balances the role and power of professional staff with the interests of the community served.

In the absence of a clear and accessible mission, the board recruitment process for SeaChange relied heavily on the credibility of the foundations investing in the organization, and in the quality and appeal of its chief executive officer. The board was recruited by staff leadership rather than the other way around, and a primary objective in the recruitment of the SeaChange board was diversity. "*We wanted a diverse board—one that would include representatives of the field we were established to serve; social entrepreneurs and social investors, foundations and private donors, the whole gamut.*"

The emphasis on diversity resulted in the formation of a large board—20 members to start. "*It was a board without a rudder,*" said one insider. According to one board member, "*The staff leader was also (like) the board chair.*" (In point of fact, the record shows that the board chair was elected at its second meeting.)

A good governance model ensures that the board plays a role in balancing the interest and power of the staff leadership with the interest and needs of the community.

"*The board was absolutely absent,*" one observer said. "*Part of the problem was that the board belonged to the CEO. He started the organization by hand picking the people he wanted … They could have asserted themselves, but the only common denominator they had was their* *personal relationship with him. It wasn't until the last couple of months that the board started to act like a board when the financial situation went over the top. It became a crisis moment.*"

To correct for the "crisis moment," the Executive Committee began to meet weekly beginning in November of 2001. In February of 2002, the board membership was downsized from 20 to a more manageable and engaged seven members. "*The board was having philosophical conversations and we didn't have the luxury for that anymore,*" one board member asserted. The smaller board consisted of individuals who were prepared to commit the time and effort required in a challenging start-up environment. But by the time this shift occurred the organization was dealing with tough issues of survival. And according to some, the board—even as reorganized—was more deeply committed to the people than the concept. "*When we all checked our pulse on what we were all doing here, we were here as much to support the CEO as to support the organization, which created havoc in our ability to be strategic …*"

"*Staff were way out on a limb—too many people, no business plan, no revenue model that was remotely real and a board that was feeling really disconnected." By the time the organization found its way to a governance model that held promise, it was too late.*"

Management – A well-managed organization has a clear mission, well-defined program goals and strategies, measurable outcomes and staff members who possess the skills required to effectively execute their responsibilities. In addition, a well-managed organization has a defined structure with lines of supervision, and clear roles and responsibilities.

By all accounts, SeaChange was led by a visionary. "*He was absolutely enthused and generated a tremendous amount of excitement—much of my attraction revolved around his personality, his optimism and his connections…*"

While the CEO possessed passion for his work and inspired those around him, he was young and lacked the operations skills and experience that were best suited for this particular enterprise. "*He should be a chair of a board that has a strong CEO, or vice president of an organization that has a strong CEO. He should not have been leading an organization … it's not where his talents lie. He's an incredible spokesperson. I'd hire him here in half-a-second. He's passionate about social change … but CEO, setting up operations … not his strongest suit.*"

There was a lack of clarity among those hired about lines of supervision, roles and responsibilities, and the organization didn't have anyone responsible for financial management. This lack of clarity led to a diffusion of responsibility, where everyone assumed—or hoped—that someone else was taking care of the hard issues. Early on, for example, some staff members were concerned about issues related to financial management, but felt that it wasn't part of their own job responsibilities.

SeaChange began with a full plate of activities, instead of focusing on one or two programmatic elements at a time and demonstrating success. "*The idea was that (SeaChange) was going to build a community of social entrepreneurs and social investors, and provide all the resources that an entrepreneur would need to become sustainable—both financial and* *nonfinancial. If you saw the original list of things that (SeaChange) was going to start with, it was so unrealistic … there was no way on earth … local chapters, Business for Social Responsibility, Young Entrepreneurs Organization, financial, salons, venture fairs, chat rooms … so many different things.*"

SeaChange was filled with inspiration, but it was falling behind on execution. "*The amazing vision of a founder can at times be problematic, because it can create such strong relationships that it deflects from other important variables like business plans …*," noted one interviewee.

Financial Supporters – Several funders became interested in SeaChange in part because of the significant credibility that the Kellogg and Kauffman foundations brought to the table. This motivated some investors to support the effort. They assumed—based on a solid first year of listening and design work prior to implementation—that issues related to due diligence were covered. Nevertheless, they knew that SeaChange was a high-risk investment. No one was certain that it was going to work out and neither were they shocked when it didn't. The experience of SeaChange does raise questions about the degree to which funders were examining the project themselves. Were they exploring the issues of governance, mission, or accountability in this start-up organization?

According to some funders, they considered SeaChange to be a high-risk effort and believed that the SeaChange board was thoroughly governing the organization's activities. It appears that some financial backers were more inclined to use funding as an intervention strategy than to employ their own knowledge, skills or experiences.

Naturally, the reports funders were getting from SeaChange emphasized the positive. But the funder has a role to play in encouraging grantees to share less glowing reports – the "hardest issues faced," the "insolvable problems," the "greatest concerns."

Lessons Learned

The SeaChange story helps reveal some critical questions that need to be considered when examining an organization and trying to understand its power, its position and its long-term viability.

1. **Does the organization have a clear mission?** Is the mission about a vision for a changed/improved world, or is it about strategies for getting there? A mission should be about how the world will look different because it exists. In addition, every organization needs to have the flexibility to adjust its strategies to accommodate a changing environment. An organization that grounds itself too deeply in one strategy (technology in this case) risks losing sight of its primary purpose and instead substitutes how it does its work for the actual work that must be done.

2. **Does the organization have both vision (leadership) and management?** These qualities are not necessarily, or even likely to be, held by the same person, but a healthy organization will require both—particularly at start-up. Vision will set an organization on a path, but management will keep it there.

3. **Is there a realistic plan for action?** Are there clear (written) expectations for outcomes and benchmarks for progress? Is the role (and responsibility) of the foundation investor clearly defined in terms of level of engagement beyond financial resources?

4. **Is the board sufficiently engaged?** There is no substitute for a board of directors that is actively involved in the organization, especially in a start-up venture. Beyond the duties of legal and financial oversight, the board serves a critical role in assessing the business model, monitoring progress and ensuring timely course corrections.

5. **If the model involves transferring practices from one sector to another, is there an analysis of how the sectors differ and will influence the transfer process?** To what extent do the sectors vary in ways that might influence the successful transfer of practice?

6. **Are there mechanisms in place for honest dialogue and ongoing reflection?** Do you have confidence that the leader of the organization is capable of reflecting critically and systematically on how things are going, and to make adjustments in the face of new information, or a changing environment?

7. **Is the organization prepared to share the hard lessons it is learning?** Sometimes, good news isn't great news if it obfuscates bad news. How are lessons and new information influencing the organization's approach to, or perception of, the problem it set out to address?

One more lesson worth noting…
The SeaChange experience offers insight into an option that is often overlooked by nonprofit organizations—the option to engage in a strategic merger as an alternative to either competition or closure. The leadership of SeaChange made an important and critical decision when it chose to merge with the National Gathering for Social Entrepreneurs. By doing so, SeaChange was able to preserve and convey the knowledge and experience it had acquired. A merger may offer an inspired alternative during a time when resources are scarce and needs are great; it may provide an opportunity to combine the capacity of two organizations to create one stronger, more viable organization, better positioned (in the longer term) to deliver and compete in the marketplace.

Conclusion

This report was prepared to capture some of the lessons that SeaChange offers in its evolution and process of transformation in order to inform future endeavors. But what exactly are the lessons? They are valuable instructions in what it takes, not only to launch, but to sustain, an organization. Essentially, it is one part inspiration; two parts execution. A great idea will not survive if basic management protocols are not firmly in place.

Here are some thoughts about these lessons from the Kellogg Foundation perspective:

Good ideas, access to technology and abundant financial resources may be necessary, but they are not sufficient. In the case of SeaChange, the organization might have sustained itself in its original form if:

- The positive economy had endured.
- The SeaChange board had been engaged earlier and more actively.
- Staff members had clearly defined roles and regular opportunities to inform the direction of the organization.
- Leadership had stronger management skills.
- The funders had paid closer attention.

But those things didn't occur. The following mechanisms need to be in place for positive engagement and contribution of those involved with this or any other effective organization:

- Staff members need opportunities to contribute their experiences in honest discussions.
- Boards need to assert leadership within the organization, hold to the mission and monitor activities through careful and timely reviews of programmatic and financial progress.
- Financial supporters need to establish clear parameters for their engagement in the organization, ensuring that they have not only the money to give, but the time required to effectively oversee their investments.

Some of the experience of SeaChange is unique to a start-up organization in an environment fueled with resources and confident in the transformative power of technology. If one subscribes to the notion that SeaChange is just the victim of a particular moment in time, then the lessons may be perceived as transitory. But we would argue, instead, that the experience of SeaChange is not unique to a moment in time, or circumstances beyond its control.

SeaChange is one modest example of an organization that too often substituted vision for rigor, intention for action and conviction for evidence. In the world of effective execution—where good ideas achieve great results—nothing substitutes for strong leadership, accountability and good management.

And so we are reminded, some things never change.