Enterprising Community Development Corporations: Nonprofit Housing Innovation in Metropolitan Washington, D.C.

by

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Enterprising Community Development Corporations: Nonprofit Housing Innovation In Metropolitan Washington, D.C. by Hershel Saul Lipow Submitted to the Department of Urban Studies and Planning on July 31, 1990 in partial fulfillment of the requirements for the Degree of Master of Science in Real Estate Development

ABSTRACT

This thesis studied the housing development innovations of two enterprising nonprofit community development corporations (CDCs) in metropolitan Washington, D.C. Each CDC's innovations were considered in terms of design and implementation. It was hypothesized that each corporation followed similar innovative processes, which also mirrored for-profit organizational innovation, and that these innovations could be described by similar frames of reference.

Relevant literature was examined in order to explore the relationships of stages in the innovative process to four organizational frames: structural, human resource, symbolic, and political. Based on this review, two community development corporations, representing adjacent urban and suburban settings, were selected to explore innovations in their affordable housing development programs. Field research was conducted and a case study completed for each organization.

The main finding was that these entrepreneurial community development corporations, like their successful for-profit counterparts, were able to manage the interaction of their organization, task, and environment by searching for innovative solutions to problems and opportunities that served both their organizations and the community, and to remain innovative and effective by adjusting their organizational mission and objectives accordingly.

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Chapter I. Introduction

It is almost conventional wisdom to assert that "routinization of anything is self-immolating. It deadens alertness, attentiveness, imagination, energy, and reaction time". In the context of organizations, this assertion leads to the ironic conclusion that its maturation often leads to a decline in its ability to achieve its original purposes (Levitt, 1988, 7). While large corporations have historically received the greatest attention and investigation of this trend, government, public service institutions, and nonprofit organizations are also subject to similar phenomena of "entropy over-taking enterprise". Similar concerns have been raised for these organizations as they have expanded in terms of size, number, and significance:

The public-service institutions will increasingly become unable to discharge their mission as they adhere to programs and projects that cannot work in a changed environment, and yet they will not be able or willing to abandon the missions they can no longer discharge (Drucker, 1985, 186).

Within larger organizations, both public and private, this discovery and similar exhortations have foreshadowed new organizational forms and processes that symbolize a "pursuit of excellence" within them.
One of the most intriguing methods to promote this excellence is the process of institutionalizing organizational innovation (Peters and Waterman, 1982).

As Knight notes, "Many problems arise in defining 'innovation' within an organization because of the value judgments attached to the term" (Knight, 1967, 478). As a result, the term "innovation" is used in differing ways in the literature. One criterion that has reached general acceptance is the distinction between innovation and invention. Most researchers conclude that within the organizational context, "'invention' is the act of creating something novel and useful; 'innovation' is the process of developing the invention so that it can be put to practical use" (Khandwalla, 551). Synthesizing the work of several authors, Kanter offers the following definition of innovation:

Innovation refers to the process of bringing any new, problem-solving idea into use. Ideas for reorganizing, cutting costs, putting in new budgeting systems, improving communication, or assembling products in teams are also innovations. Innovation is the generation, acceptance, and implementation of new ideas, processes, products, or services. It can thus occur in any part of a corporation, and it can involve creative use as well as original invention (Kanter, 1983, 20-21).
Embedded in this distinction is the understanding that innovation centers more upon organizational acceptance and implementation than upon originality. From this perspective, innovation does not require an organization to be the first to generate a unique product, process, or idea in order to be innovative. Kash (1989, 24) has found that "(I)nnovation has one or some of the following objectives: (1) lower cost, (2) higher quality, (3) superior performance, (4) additional performance, or (5) new performance. Collectively, Kanter and Summers (1987, 161-162) have concluded that:

Innovation is a crucial element of organizational effectiveness because it addresses the organization's potential to meet future demands, to take advantage of opportunities and resources within the environment, and to use resources (both human and material) to generate new products and services.

Within this context, one of the most effective organizations to emerge in recent times is the nonprofit community development corporation (CDC). Acting as an entrepreneurial community-based development organization (CBDO), these innovative organizations may be defined as "a private, locally based nonprofit organization committed to serving a low-income population" and "having an ongoing direct involvement in development" (National Congress for
Nonprofit community development corporations as an entrepreneurial organizational configuration itself may be considered an innovative response to the types of entropy that have denied more traditional bureaucratic organizations the opportunity and resourcefulness to creatively address such issues as affordable housing and urban blight (Roberts, 1980). In addition, the entrepreneurial activity of each individual community development corporation may also be considered an innovative local response to such factors as recent federal cutbacks, the growing needs of lower income Americans, and the resilient spirit of community self-help (Peirce and Steinbach, 1987).

As an entrepreneurial organizational form, innovating nonprofit community development corporations often exhibit many structural and behavioral characteristics of for-profit firms. As described below, they exhibit life-cycles and stages of organizational growth similar to these organizations, and like these organizations, they are also subject to the same forces that result in periods of lessened responsiveness and productivity as they grow larger and more mature. In enterprising organizations, the type of innovative activity and growth that occurs is dependent upon a complex interaction of factors internal and external to the organization (Timmons, 1990, 517), but according to Drucker (1985) "it makes little or no difference whether the
entrepreneur is a business or a nonbusiness public-service organization, nor even whether the entrepreneur is a governmental or nongovernmental institution. The rules are pretty much the same, the things that work and those that don't are pretty much the same, and so are the kinds of innovation and where to look for them."

In examining the question of how enterprising community development corporations innovate and why some factors become barriers to innovation, this thesis will review the innovative processes of both for-profit and nonprofit organizations. It will then argue that similar to for-profit organizations, the type of innovation an entrepreneurial CDC experiences is a function of, and is determined by, the interaction of the CDC's environment, task activities, and organization. The innovating CDC continues to succeed in its growth and enterprise by successfully learning to manage this interaction and adjusting its mission and objectives accordingly. This interaction may be described or hypothesized as the search for innovative solutions to problems or opportunities that serve both the organization and the community.

To support this argument and test this type of proposition methodologically this thesis will examine two nonprofit CDCs in the metropolitan Washington, D.C. area representing adjacent urban and suburban settings. Each
CDC's innovation case study will be prefaced by a brief description of its activities, organization, and environment. To analyze the dynamic processes of each organization's initiatives and to determine the factors that supported and inhibited their innovation from design to implementation this thesis will investigate each CDC's progression into affordable housing development through the common frames of organizational structure, human resources, symbolic culture, and political environment.

The chapter that follows begins with a brief overview of the innovation process, a descriptive review of general theories and research pertaining to innovative organizations, and a focused review of the literature pertaining to nonprofit innovation. The next chapters introduce the research framework and methodology, provide a summary description of the two CDCs and present the findings of the field research. The final chapter offers a conclusion and recommends areas for further research.
Chapter II. Conceptual Framework

Innovative Processes

In summarizing the nature of innovation, Becker and Whisler state, "Innovation appears to be not a single variable but an attenuated and complex process in which a number of critical variables are likely operating" (Becker and Whisler, 1967, 469). From a similar analysis of this process, Rowe and Boise conclude that while "there are a number of statements of innovative processes in the literature on organizations," the "analytical components of these formulations ... are sufficiently similar to suggest a generic innovative process" (Rowe and Boise, 1974, 285). Within complex organizations, these variables are often difficult to define and to measure. For many theorists an area of common interest, if not terminology, appears to be the "process which hooks up particular inputs and outputs" of the innovative process (Becker and Whisler, 466). This notion of "total process" centers on two dimensions that define the processes and stages of organizational innovation: temporal and content (Clark and Starkey, 1988, 194).

Zaltman et al. (1973) summarize many of the early theories of innovation and offer their own paradigm of organizational innovation, which includes an initiation and
an implementation stage and five substages. Rowe and Boise suggest that "a simple yet comprehensive conceptualization of the organizational innovative process would include the following broad temporal stages: (1) knowledge accumulation, (2) formulation (of an innovation), (3) decision, (4) implementation, and (5) diffusion" (Rowe and Boise, 286). Becker and Whisler define the stages of this process as "stimulus, conception, proposal, and adoption" (Becker and Whisler, 466). Munson and Pelz (1980) also adopt a process of innovation, but define their classification as: diagnosis, design, implementation, and stabilization. Kanter (1987, 6) offers (1) idea generation, (2) coalition building, (3) idea realization, and (4) transfer. Finally, Nord and Tucker reduce the process even further by summarizing two major stages of innovation: design, "a series of early events in which members of the organization create, search, evaluate, and decide about the innovation" and implementation, "steps taken to introduce innovation" (Nord and Tucker, 1987, 8).

Characteristics of Innovation

In assessing the content of the innovation process, Rowe and Boise offer "two concepts which seem important in categorizing organizational innovations. These are: (1) the
amount of organizational and/or societal space, i.e., activities and interactions, affected by an innovation, and (2) the degree of radicalness, i.e., extent of change in activities and interaction, of an innovation." The first element of organizational space was illustrated by Wilson who found that innovations represent significant changes in organizational tasks and their societal impact. "Thus, potential organizational innovations might be considered in terms of their potential to affect the activities and interactions of a small or large number of organizational participants and/or their potential to affect a small or large number of persons outside the organization." (Rowe and Boise, 289).

Nord and Tucker, stating that "a number of characteristics of an innovative idea may have important effects on the implementation process," restate the concept of organizational and societal space in terms of whether an innovation "is administrative or technical, and whether it is part of the major tasks of the organization or peripheral to those tasks" (Nord and Tucker, 11). Following a conceptualization by Daft (1978), they state "technical innovations tend to originate in the technical core (of the organization) and include ideas for a new product, process, or service. Administrative innovations, on the other hand, originate in the organization's administration and pertain to specific policies of recruitment, resource allocation,
and the structuring of tasks, authority and rewards. Based on this distinction, Daft proposed a dual-core conceptualization and suggested that different principles might apply to innovations in the different cores" (Nord and Tucker, 12).

In discussing central innovation, ones that are "integrally related to major tasks a unit exists to perform," Nord and Tucker conclude that "to date, most studies of implementation have examined secondary concerns of the units involved rather than the primary tasks." Their work focuses on central function innovation. These functions "differ from more peripheral ones because they affect the major day-to-day work of the organization and involve activities critical to the performance of almost all concerned. They are apt to be viewed as extremely important to everyone; and because they affect the well-being of the entire firm, their consequences are perceived as more significant than peripheral innovations initiated in staff units (Nord and Tucker, 12-13).

Rowe and Boise point out that organizational and societal space, i.e., the dimensions of technical versus administrative and central versus peripheral innovation, "provide a measure of an innovation's scope," while the concept of radicalness "provides a way to consider the effect of an innovation." Pelz and Munson apply this
distinction of radicalness in postulating three levels of innovation development based upon how well developed an innovation is when an organization tries to introduce it. The first, initiation, refers to an innovation where "no solution to a problem is known to exist elsewhere." The second, adaption, refers to cases "when a few prototype solutions exist, but are not well packaged," and the third, borrowing, applies to cases where "many well-packaged innovations exist; the organization copies one and applies it with little modification" (Pelz and Munson, 3).

Knight (1967) was one of the first to apply the concept of radicalness as a method of measuring internal changes in an organization's ability to perform a task (performance radicalness) and in an organization's structural arrangements (structural radicalness) (Rowe and Boise, 289-290). Normann's (1971) study of product development followed with a comparison of the requirements for radical innovations (what he called "reorientations") and more routine innovations (called "variations"). Zaltman et al. (1973) concluded that "the more an innovation differs from existing alternatives, the more it is said to be radical. The closer the innovation is to what the organization has done or experienced before, the more it is said to be routine." Nord and Tucker surmise, "In short, the degree of radicalness is likely to have a major impact on what organizations must do to implement (innovation)
Drucker introduces the cross-cutting concept of systematic innovation to describe an on-going process by which organization's may exploit change. Systematic innovation "consists in the systematic analysis of the opportunities such changes might offer for economic or social innovation." Drucker identifies seven sources for innovative opportunity, four from within the enterprise and three from changes outside the enterprise or industry (Drucker, 1985, 34 - 35).

Kash (1989) furthers the concept of continuous change by introducing the theory of continuous synthetic innovation. In a process described by Waterman (1987, 41-42) as "informed opportunism", synthetic innovation "requires experiential learning and trial and error as well as scientific knowledge and information" (Kash, 38). In one sense, this type of continuous innovation is both planned and routine. Since change becomes continuous as synthetic innovation, it tends to become more incremental than radical. However, by emphasizing change, this type of innovation also potentially shortens the innovation - to - obsolescence cycle, inviting competition and more radical innovation.
Innovative Organizations

While the above section provides an overview of the stages and content of the innovation process, it does not focus upon how individual organizations innovate. One method of further reaching this understanding is the use of organizational frames. Bolman and Deal (1984, 4 - 5) introduce the concept of an organizational frame to consolidate "the major schools of organizational thought into four relatively coherent perspectives." These frames are: structural, human resource, political, and symbolic. "Frames are windows on the world. Frames filter out some things while allowing others to pass through easily. Frames help us to order the world and decide what action to take" In terms of the analytical components of a generic innovative process advanced by Rowe and Boise (285), frames clarify each level of analysis, "e.g., individual, organizational, and extra-organizational". From this perspective, innovative organizations are knowable as the collective activity at each level of analysis discernable through each frame.

The Structural Approach

The structural view of organizations has its beginnings in the search of industrial psychologists and sociologists
for scientific management and the ideal form of organization that would maximize rationality and efficiency. Emphasis was placed upon forming functional specializations (functional departmentalization) and grouping them into autonomous divisions (divisionalization). Chandler (1962) documented the divisionalization that many American corporations experienced in the 1940s and concluded that it was essential to their continued growth. Building upon this proposition of structural development, Thain, Scott, and Tauson delineated three distinct structural stages which have since been expanded to include new corporate forms (Wheelen and Hunger, 1990). This approach led further to describing corporate development in terms of organizational life cycles. Churchill and Lewis demonstrated that these concepts of organizational life cycles and stages of development were also appropriate to small business growth (Churchill and Lewis, 1983).

From the perspective of the structural frame, Lawrence and Lorsch (1967) note a dilemma in structuring work. Within an organization, it is necessary to differentiate work or divide responsibilities among individuals and organizational units, but the more an organization differentiates, the more difficult it is to integrate all the different parts. As Bolman and Deal note, "Achieving a balance between differentiation and integration is one of the most fundamental issues of structural design, and every
organization develops its own unique pattern" (Bolman and Deal, 33).

Wilson demonstrates that this basic dilemma also makes the combination of creative and innovative organization structures extremely difficult to obtain. His hypotheses state that "the greater the diversity of the organization, the greater the probability that members will conceive of major innovations;" "the greater the probability that major innovations will be proposed;" and "the smaller the proportion of major innovations that will be adopted" (Wilson, 200-204). Sapolsky examines Wilson's hypotheses in a study of innovation in large department stores and confirms the effects of diversity upon the implementation of innovation. Sapolsky concludes that "there appears to be no obvious way to resolve this dilemma." " . . .since a conflict exists between search and adoption, it may not be possible to structure an organization that has both a wide range of search and a high rate of adoption" (Sapolsky, 509).

Resolution of this dilemma is central to the structural approach to innovation. Early research by Burns and Stalker (1961) confirmed that the type of organizational sub-structuring often dictated the organization's suitability to its environment. They proposed that "a 'mechanistic' structure, with its emphasis on the
centralization of decision-making and bureaucratic rules and procedures, appears well suited to organizations operating in a relatively stable environment," while "a more 'organic' structure, with the decentralization of decision making and flexible procedures, is more appropriate" in a constantly changing environment (Wheelen and Hunger, 250-251). A model developed by Utterback (1971) deals with similar conditions at the level of the entire organization. It describes three sub-processes of technical innovation: (1) idea generation, (2) problem solving and (3) implementation and diffusion. "One obvious conclusion to be drawn from Utterback's model is that for innovations beyond the level of the individual and perhaps small groups generally, specialized functions will be required from various organizational sub-processes (Rowe and Boise, 286).

Structuralist repeatedly make the jump from specialized functions to specialized units within a complex organization. Nord and Tucker cite numerous works that support conclusions similar to Burns and Stalker's regarding the design and implementation of innovation (Nord and Tucker, 16). For example, Duncan concludes that organizations must be ambidextrous if they are to innovate successfully. "(T)he organization has to shift its structure as it moves through the various stages of innovation" (Duncan, 179). Mintzberg (1989), whose work
also bridges the structural frame, suggests that simple structures within a larger organization, small and relatively undifferentiated, may hold the key to successful implementation of change.

This orientation to change was most evident in the study of entrepreneurship. Schumpeter (1949) was one of the early researchers to explore innovation from the perspective of organizational managers and entrepreneurship. Works by Bennis (1966) introduced the concept of change in terms of adaptive temporary systems. This is similar to the concept of parallel structures developed by Stein and Kanter (1980) "who suggest that a formally sanctioned but temporary organization - the parallel organization - existing side by side with the more permanent formal organization can aid implementation of innovation" (Nord and Tucker, 18). Later work by Kanter (1983) introduced the concept of entrepreneurial change within organizations that foreshadowed the more general interest in intrapreneurship (Pinchot, 1985). These works supplanted the findings of contingency theory, which focused upon "a conceptual framework with which to design organizations according to the tasks they are trying to perform" (Lawrence and Lorsch, 1967, 158).

As a bridge, the contingency theory emphasizes "that the appropriate pattern of organization is contingent on the nature of the work to be done and on the particular needs of
the people involved" (Morse and Lorsch, 1970, 62). On this basis, Mintzberg derives five natural organizational configurations: simple structure, machine bureaucracy, professional bureaucracy, divisionalized form, and adhocracy (Mintzberg, 1981). Johnston and Lawrence (1988) have added the value adding partnership to symbolize the network as a new organizational form. "The fact that each company in a VAP is free to be different from the others creates a diversity that can be the seedbed of innovation. . . . To a great extent, VAPs have the best of both worlds: the coordination and scale associated with large companies and the flexibility, creativity, and low overhead usually found in small companies (99).

Structure and Nonprofit Organizations

The value added partnership appears especially well suited to the nonprofit organization. Cook (1988, 114) notes that for small nonprofits, "the avenues for long-term improvements generally require increasing the scale of effort." Peirce and Steinbach (1987, 38) found that "the question of scale, of critical impact, has returned to the front burner of CDC concerns in the 1980s." Both Cook and Vidal (1989) suggest possible strategies to achieve scale which include growth, merger, and cooperative networking with other organizations. Vidal further describes several
ways in which existing CDCs can "go to scale", including increasing output and productivity by increasing the number or size of projects "so as to make the most efficient use of resources" or alternatively, increasing "the resources devoted only to one or two activities, thus changing the organization's program mix" (II 5-6).

Increasingly, community-based development groups have been collaborating to promote their efforts and to gain financing from local and state governments and businesses (Peirce and Steinbach, 1990, 250). An Urban Land Institute Study (Suchman, 1990, 1) has noted "public/private housing partnerships are considered by many to be the most promising approach to providing low-income housing. . . . . (T)he term partnership is used somewhat loosely to refer to any ongoing collaborative venture involving public and private sector participants in pursuit of common societal goals. Program-based public/private housing partnerships . . . typically systematize and centralize the functions common to the low-income housing projects they support. These partnerships generally aggregate resources for several projects at a scale and in a manner that would be impossible for a single project. They attempt to create efficiencies in financing and/or in the development process and to establish an ongoing production system that can support a wide variety of efforts within the geographic area they serve."
Aiken and Hage (70) have noted the "importance of mechanisms to introduce new ideas into an organization and the way that such ideas can be synthesized and (can) contribute to innovations." McClendon and Quay (1988, 172) have found that "to be capable of innovation, an existing (public service) entity must create a structure that requires its staff to abandon outmoded priorities and to be innovative and entrepreneurial in pursuit of activities, products, and services that meet current and future priorities." Angle and Van de Ven (1989, 668 - 669) conclude "the organization must also structure a context that enables innovation to happen." It is the organization's context that "largely enables and motivates individuals to be innovative."

For neighborhood development organizations this context might be considered a series of common processes that lead to more successful revitalization - project development. Mayer and Blake (1981, 41-42) describe "seven processes that seem common to NDO (Neighborhood Development Organizations) growth patterns." The significant processes include: formally establishing an organization, deciding to carry out programs and to create institutions, confronting the difficulties of early neighborhood - revitalization projects, becoming competent in specific project work, developing a network of relations with outsiders, building a
diverse range of projects, and institutionalizing a diverse range of projects. These patterns are best described as "the development of key characteristics of capacity."

Clay (1986) identifies five stages of organizational development that are based upon revision and elaboration of this study: Advocacy and the Establishment of a Development Organization, Project Development, Building a Track Record, Institutionalization, and Consolidation. Both studies recognize that "not all organizations will go through the stages in as clear and neat a fashion as is suggest by the model. Circumstances sometimes allow CBOs (Community Based Organizations) to skip or combine stages" (Clay, 1986, 15). Mayer and Blake note "(W)e cannot be certain that younger NDOs will in fact repeat them in similar fashion as they grow, even though they may be poised to do so" (Mayer and Blake, 1981, 41).

Angle and Van de Ven (668) restate that "the more complex and differentiated the organization, and the easier it is to cross boundaries, the greater are the potential number of sources of innovative ideas. However, with increasing organizational size and complexity comes segmentation and bureaucratic procedure, which often constrain innovation unless special systems are put in place to motivate and enable innovative behavior. Key motivating factors include providing a balance of intrinsic and
extrinsic rewards for innovative behaviors." McClendon and Quay (1988, 166) state that "when trying to create a "loose/tight" atmosphere to sponsor creativity and innovation, one needs to be aware that the tight is as important as the loose. . . . Organizational structures must give entrepreneurs the freedom to be in charge of the creative process. They work best under loosely designed management, but entrepreneurs may need help to know when to let go or when to delegate."

Vladeck (1988, 73-74) states "the most important difference between nonprofits and other kinds of organizations, from the perspective of day-to-day management, lies in the issues of governance and accountability. . . . The relationship between the board chair and chief salaried officer is thus the most important relationship within a nonprofit." Vidal has found "the composition of the board varies with the program agenda of the CDC. . . . Professionals and religious leaders (and, to a lesser degree, donors and local government officials) are more common on boards of organizations more heavily focused on housing. The extent of professional representation on the board is also related to an organization's operating style." Groups that were characterized as having a mostly cooperative style have more professionals serving on their boards. "We cannot determine with our data whether CDCs add professionals to their boards
as their operating style shifts, or whether they add professionals in response to the need for technical expertise and adopt a more cooperative style as a consequence" (III - 8-9). Nonetheless, Vidal has concluded that "the operating style of CDCs in dealing with 'the establishment' has become more cooperative over time" (III-6).

The Human Resource Approach

"Compared with the structural frame, the human resource view is less formal, more focused on people and relationships, and more focused on influencing or educating people than on changing the setting in which they function. The human resource frame focuses on the fit between individual and organization" (Bolman and Deal, 107). The early work of this approach, often described as the human relations orientation, dealt with such topics as group dynamics, the informal organization, and styles of supervision and management (Khandwalla, 177). The overall objective of the human resources approach is to design organizational processes and structures that enable the organization's members to actualize their potential. From this perspective, human motivation within organizations becomes the paramount concern of organizational development (O.D.)
As defined by the human resource approach, organizational development refers to an evolving set of techniques designed to increase the capacity of an organization to accept change and to increase its effectiveness. Bennis defines organizational development as "a complex educational strategy intended to change the beliefs, attitudes, values, and structure of organizations so that they can better adapt to new technologies, markets, and challenges, and the dizzying rate of change itself" (Bennis, 1969, 2). Knowles emphasizes that "the key concept in this definition that differentiates organization development from other kinds of interventions in organizational life is educational strategy. OD is an educational intervention in contrast to an engineering intervention, a financial intervention, or a political intervention. The fountainhead of its theoretical sustenance must, therefore, be the body of theories about learning and teaching" (Knowles, 1974, 115).

This learning function became a key component of the Carnegie theorists' model of organizational decision-making which focused on experiential learning (Khandwalla, 207-209). It also became a potential key to resolving Wilson's dilemma of diverse organizations both promoting and rejecting innovative proposals described above by providing a method for developing consensus on broad organizational
purposes and goals. "Broad awareness of the existing and evolving interests within an organization might then serve to expand the range of possibilities for potential innovation (Rowe and Boise, 291). The work of Argyris and Schon (1978) demonstrated the difficulty of translating individual manager behavior, controlled by personal "theories for action" into non-impeding organizational learning. "The result is that many change efforts will fail not because the intentions are incorrect or insincere but because managers lack the skills and understandings necessary for implementation" (Bolman and Deal, 79-80).

Argyris describes a process of innovation to reverse these problems called double loop learning. He defined learning as "a process of detecting and correcting error" and double loop learning as a process of not only detecting error but also of questioning underlying organizational policies and goals. Argyris further suggests that "the chief executive officer and his immediate subordinates are the key to success, because the best way to generate double loop learning is for the top to do it." (Argyris, 1977). This conclusion follows earlier research on top management that discovered that "(C)hanges in the interpersonal environment are not accepted lightly by subordinates. Few subordinates will alter their behavior until they have clear evidence that they will be rewarded for doing so" (Argyris, 1965, 3). Mohr's (1969) work also concluded that innovation
is associated with the chief executive's ideology and commitment of resources toward innovation.

Human Resources and Nonprofit Organizations

Vladeck (80) has concluded "the central importance of leadership is far greater for nonprofits than for either business or government agencies...." Vidal (III 5-6) has determined that substantial growth is associated with high leadership stability. In this context, leadership stability becomes a particularly important issue. Fortunately, Young (1983, 126) has determined that "those entrepreneurial types with the strongest tendencies toward long-term consistent venture commitment - the believers and conservers - will gravitate to the nonprofit sector, whereas those with the strongest transient tendencies - the income seekers and power seekers - will tend to concentrate outside the nonprofit sector."

Kanter and Summers (1987, 162) describe the impact of this leadership upon organizational innovation. "First, innovation was far more likely when there was a significant amount of senior-level management sponsorship, interest, and support for the accomplishments of middle-level managers and professionals. This often involved persons at the top directing their subordinates to produce certain results, leaving it to their discretion to invent and develop the
actual methods. Second, innovation was more likely to occur when teamwork and collaborative mechanisms existed that brought together individuals from across internal organizational boundaries and functions. In most cases this occurred through such formal structural vehicles as established task forces, committees, and review boards."

Kanter and Summers (163 - 164) further discovered that often "professional standards create rigidities and interfere with new responses to changing constituency needs. Where professionals hold power, as many sociologists have pointed out, they often operate to maintain a monopoly on delivery of particular services by restricting entry, requiring that preexisting standards be met that reinforce repetition of past behavior, and erecting legal barriers to clients seeking services elsewhere."

These barrier often extend to relations with the board. "Nonprofit managers, whose career backgrounds tend to be in the independent professions or other nonprofits, often resent the degree of authority and informed involvement that boards should exercise as a condition of legitimacy. Conversely, norms of formal authority and legitimacy are inadequately developed in many nonprofit boards. Individual board members may involve themselves inappropriately in seeking to evaluate or even direct staff . . . ." (Vladeck, 1988, 74).
The theories of organizational learning and human resource development that have followed from this type of analysis concentrate upon this relationship of leadership to individual motivation and organizational morale but extend the focus to individuals and structures throughout the organization. These roles and situations have become the subject of the new management style, blending the more subtle differences between the structural and human resources approaches. Under this paradigm, learning is considered as "the expansion of one's capacity - to create, to produce results" (Kiechel, 1990, 133). Bennis and Nanus note the distinction between maintenance and innovative learning. Innovative learning centers upon "the ways organizations learn how to reconfigure themselves, replace old rules, improve their information flows, and revitalize their creative abilities." They believe organizations become more receptive to this type of learning by "designing open organizations in which participation and anticipation work together to extend the time horizons of decision makers, broaden their perspectives, allow for the sharing of assumptions and values, and facilitate the development and use of new approaches" (Bennis and Nanus, 12 - 13).

The New Management anticipates a new organizational form, the metanoic organization, which in many ways mirrors the nonprofit community development corporation in which
"people truly believe that they can determine their own destiny." Vision and purposefulness are considered the core of these non-authoritarian organizations. "Alignment around a common sense of purpose places the task of management in a new context, shifting the orientation from control to commitment" (Senge, 1986). In turn, the behavioral aspects of the learning process strongly influence the organization's strategic planning processes (de Geus, 1988). The challenge for the organization becomes "discovering new management tools and methods to accelerate organizational learning, build consensus for change, and facilitate the change process. Management innovation and organizational learning become an umbrella to unify an organization's approach to "systems thinking, planning, quality improvement, organizational behavior, and information systems" (Stata, 1989, 64).

The Symbolic Approach

The symbolic frame introduces an organization's culture, its shared faith, belief and meaning, to organizational structure and processes. While based upon nontraditional canons of rationality, strong cultures appear to have a direct effect upon organizational performance. In reviewing the works of Peters and Waterman (1982) and Deal and Kennedy (1982), Bolman and Deal (152) conclude:
In companies where these cultural elements are cohesive, consistent, and widely shared, people know what is expected and what needs to be done and are motivated and committed to doing a good job. Little time is wasted on politics, sabotage, or figuring out how to beat the system. Rather each individual's identity is fused with the culture. The symbols and symbolic activity give meaning to the workplace and provide opportunities for anyone—from boardroom or executive suite to factory floor—to be part of a dynamic social institution.

Schein (1985) has found that an organization's character is largely a leadership responsibility of transmitting an organization's vision. "Vision is the ability of top management to articulate a picture of what the organization should be and how it should operate in the future. Without such a picture, the wellsprings of creativity are cut off. The vision should recognize the need for new ways of managing, and it should reinforce those beliefs by rewarding managers for reducing barriers to change and empowering people to create. . . . All employees, from hourly workers to top executives, must believe in the vision and be committed to making it come alive" (Tracey, 1990, 132-133). Schon (1971) describes the process of managing ideas. Policy-relevant ideas are thought to have their own life-cycle, which begins with public awareness of a threatening or disruptive event or condition and moves through the adoption, legitimization, and institutionalization of a solution. As the problem
changes, the idea and the policy solution it symbolizes decays and becomes outmoded. Old ideas will eventually be supplanted.

Schwartz and Davis point out that organizational culture may be a conserving force, reflecting choices that have worked in the organization's past. "It is these choices that continually reaffirm the corporation's culture and reinforce the expected behavior across the organization. (C)ulture is capable of significantly altering the intended impact of even well-thought out changes in an organization. A lack of fit between culture and planned changes in other aspects of organization may result in the failure of a new measure to take hold" (Schwartz and Davis, 1981, 35). In contrast, an organization's culture may play an important role in innovation by "making it possible for focused efforts to occur at times when the novelty and uncertainty involved in innovation precludes formal procedures or even moderately firm guidelines. Like strategy, structure, and leadership, culture may function to help people attend to certain important variables and ignore others. Moreover, the shared meanings, goals, and commitments may facilitate integration (Nord and Tucker, 31).

The "fit" of an innovation to an organization's culture may prove to be a strong determinant of organizational effectiveness. Schwartz and Davis (43) introduce the
concept of cultural risk which may be used to assess the compatibility of such a strategy to an organization's culture. "Anything that makes the implementation plan more compatible with the culture or reduces the strategic significance of the behavior sought, tends to reduce cultural risk". A cultural risk analysis "provides a practical way to evaluate cultural change options against possible changes in the strategy to create a better match with the existing culture" (48).

One outgrowth of an organization's culture is the related concept of organizational climate. "Climate is a measure of whether people's expectations about what it should be like to work in an organization are being met". Climate measures the fit between the prevailing culture and the individual values of the employees. "If employees have adopted the values of the prevailing culture, the climate is "good". If they have not, the climate is "poor," and motivation and presumably performance suffer" (Schwartz and Davis, 33). Climate is considered to be a crucial element in human resources development. "If the climate is not really conducive to learning, if it doesn't convey that an organization values human beings as its most valuable asset and their development its most productive investment, then all the other elements in the process are jeopardized. There isn't much likelihood of having a first-rate program of educational activities in an environment that is not
supportive of education (Knowles, 119). Tracey (133) has determined that "a proper organizational climate is essential for creativity and innovation to flower. An organization where company politics is the way of life - where managers are more concerned about protecting their turf, covering their rears, and enlarging their power than about achieving the goals and objectives of the organization - is one that stifles creativity and innovation."

A somewhat paradoxic argument pertaining to organizational climate and innovation, which has its antecedents in the earlier debate over organizational design and structure, is presented by the organizational excellence researchers. Their arguments assert that the innovative process requires both an encouragement of experimentation by skunkworks "those small off-line bands of mavericks that are the hallmark of innovative organizations" and "a climate that nurtures and makes heroes of experimenters and champions (skunks)." The paradox is resolved with the understanding that under this paradigm the organizational culture is presumed to endorse an organizational climate of constant experimentation:

If it is a messy world, the only way to proceed is by constant experimentation.... If constant experimentation is the only antidote to a messy world, then we need experimenters - or champions (skunks). And if we need champions, we must realize that the
most effective environment for champions is almost always an abundance of skunkworks. . . .

Finally, and this is the $64,000 issue: if the messy-world-experiment-champion-skunkwork paradigm makes sense, then we need to create a climate that induces all the above to occur... (Peters and Austin, 1985, 136).

Entrepreneurial activities especially benefit from this sense of teamwork. "Entrepreneurship involves building a team of people with complementary skills and talents; of sensing an opportunity where others see chaos, contradiction, and confusion; and of finding, marshalling, and controlling resources (often owned by others) to pursue the opportunity" (Timmons, 6).

Symbols and Nonprofit Organizations

Palumbo et al. (1986, 77-78) describe this process among public sector entrepreneurs acting as "internal program advocates" in the corrections field. "Getting public workers crucial to the operation of community corrections to believe that they are working toward a common goal important to society, rather than simply meeting daily work requirements, is one of the most important tasks of entrepreneurs." Bryson (1988, 213) concludes:

The management of part-whole relations can be made much easier if the organization has a widely agreed-upon mission, even easier if it has a widely agreed-upon vision
of success. Agreement on mission and vision will embed the whole into the parts, make the management of transitions easier, assure that a concern for the whole will limit macro-nonsense, and will facilitate the achievement of the collective success.

This symbolism also leads outside intermediaries like the Ford Foundation - sponsored Local Initiative Support Corporation to believe that "CDCs are especially effective providers of low-income housing and other economic development in this era of federal cutbacks. First, they know community housing needs, markets and opportunities and can draft flexible programs to respond to them. Second, they are willing to undertake projects in distressed neighborhoods that profit-motivated developers consider too small or risky or insufficiently profitable. Third, they have unique political and technical skills in assembling public, private and charitable resources and community support at the local level to make projects feasible" (Grogan, 1989).

McNeely (1985, 1) has found that "community based organizations (CBOs) have demonstrated remarkable capability for producing innovations in housing planning, finance, construction and management, many of which were later adopted by the mainstream." As a result of this building ethos of public acceptance, and growing fiscal necessities, CDCs and other nonprofit organizations "have increasingly
turned to enterprise ventures to enhance their funding for social service programs. More nonprofits will look to private developers for expertise, additional financial leverage, and tenant linkages to create new public/private partnership vehicles" (Finkle and Munkacy, 25). While these resources have expanded the potential development capacity of CDCs, they have also begun to erode the symbolic distinctions between many public, nonprofit and for-profit organizations (Ferris and Graddy, 1989). As the National Academy (1989, 22) notes "the concerns of the nonprofit executive are (now) somewhere between those of managers in the private sector and the public sectors." In summary, these concerns require that:

- Special attention and effort must be focused on knowing who the customer or client is and what needs and expectations he or she has.

- A clear vision of the values that undergird the organization must be articulated and, in some cases, accommodated to conflicting values.

- A climate that nurtures innovation and positive response to change must be created. The workplace must offer opportunities not only to perform professional services, but to learn - and learning requires risk taking and making mistakes.
The Political Approach

"The political frame views organizations as 'alive and screaming' political arenas that house a complex variety of individuals and interest groups." From a political perspective, conflict is considered a natural and inevitable consequence of power and decision-making. Its prevention is not the focus of the political frame as it is in both the structural and human resource frames. "Since conflict is not going to go away, the question is how individuals and groups can make the best of it. Several bodies of literature have evolved that deal with the question of conflict strategies and tactics, including the literature of 'game theory,' theories of bargaining, and theories of coalition formation" (Bolman and Deal, 119).

The political perspective suggests that the allocation of scarce resources occurs through "ongoing processes of bargaining, negotiation, and jockeying for position among individuals and groups" and the formation and maintenance of coalitions and interest groups, both within and outside of the organization. "Because of scarce resources and enduring differences, power and conflict are central features of organizational life" (Bolman and Deal, 109). "Innovation introduces many of the elements that contribute to conflict. Because it often involves moving resources from some units to others, some people will be faced with giving up
resources" (Nord and Tucker, 36). As Schumpeter initially argued, innovation is also a response to these economic discontinuities. While this exchange is often associated with individual risk-taking and entrepreneurial behavior, it also applies to an organization's commitment and control of resources (Stevenson, et al., 1989).

Theories of bargaining and coalition building have also yielded insight into the external or environmental support for organizational innovation. On the one hand, studies of community support for innovation tend to confirm that experienced and extensive inter-organizational networks or linkages were more likely to generate the resources required for innovation within a community (Peirce and Steinbach, 1990). From the system dynamics perspective, on the other hand, there is usually a conflict between the goals of a subsystem, such as affordable housing, and the welfare of the broader system in the hierarchy of systems found in a community (Forrester, 1971). From Merton's perspective of social adaption, innovation is the individual and organizational acceptance of a culture's goals, but rejection of "the institutionalized means of achieving the goals in favor of new or even nonlegitimate means" (Khandwalla, 114 - 115).
In terms of nonprofits, this theory of innovation is loosely advanced by Weisbrod who "essentially asserts that nonprofits have arisen as a consequence of unsatisfied demands for public goods. This is a kind of government failure argument, wherein the public sector is seen as unable to satisfy the demands of some groups who desire a greater quality or quantity of some public services. Hence these groups organize on a voluntary basis to satisfy the collective demand neglected by government." Hansmann offers another explanation of nonprofit response to market failure by arguing that "nonprofits arise in areas of activity where the consumer is disadvantaged in his ability to discern or evaluate the quality of services. In essence, Hansmann observes that nonprofits are viewed as more trustworthy by the consumer ... ." (Young, 13-14).

Bingham et al. (1981, 10-11) cite a number of political and institutional reasons why municipalities have difficulty adopting innovation. "Most of the barriers to innovation and improved productivity are political not technical. The political risk of failure is a powerful constraint on innovation." Reference is also made to the absence of short-term benefits, bureaucratic, civil service and labor opposition, and a shortage of expert advice.
McLendon and Quay (1988, 166) note that "the difficulty in introducing innovation in public planning agencies cannot be overestimated." Some of the more significant impediments to innovation cited include: a basic inertia in government that generally discourages innovation and change; a public that doesn't expect innovation and entrepreneurial behavior from local government, and decisions that are made on the basis of existing interests. Mintzberg (1989, 172) adds that "governments and other public-type institutions that wish to divisionalize to avoid centralized machine bureaucracy may often find the imposition of performance standards an artificial exercise. They may thus be better off trying to exercise control of their units in a different way," such as creating independent, quasi-public entities.

Bryson (42) states, "It is particularly interesting to note that nonprofit sector innovations may be the answer to many public sector problems. The nonprofits may be able to provide the services more efficiently, effectively, and flexibly than would be possible if the government delivered the services directly. Self-help and community-based development are good examples of non-market approaches to finding solutions to community problems through nonprofit organizations. "In an age of social fragmentation and indifferent bureaucracies, the (community development) movement promises a personalized, neighborhood-based renewal
for the most disadvantaged Americans" (Peirce and Steinbach, 1990, 73).

In asking "What is the explanation for the new housing roles adopted by not-for-profits in Chicago?" Kelly et al. (1988, 12) concluded that nonprofit groups "could become catalysts for neighborhood renewal by intervening in a local housing market shunned by conventional lenders and developers . . . . The housing initiative of a not-for-profit sponsor released the market forces necessary to spur neighborhood revitalization." In this sense, nonprofit organizations provide a framework for innovation by creating systems that prevent centralization and bureaucracy from stifling growth and change and promoting creativity and entrepreneurship at the local level.

Bryson (107) has found that "most of the information critical to innovation usually comes from outside the organization. The more people in the organization as a whole attend to external needs and problems, the more likely a climate conducive to innovation will prevail and the easier it will be to justify desirable innovations to internal audiences" "A major strategy often used by not-for-profit organizations to enhance their capacity to serve clients or to acquire resources is developing cooperative ties with other organizations." Wheelen and Hunger (365) describe this process as interorganizational
linking. "Experience indicates that there is a mutually reinforcing relationship between institutional support and the number of CDCs in a city. Institutional support contributes to the scale of the CDC community and, in turn, the scale of the CDC community contributes to the strength of that support. The more funds are available for social and economic development and the more committed governments, foundations, and businesses are to the CDC community, the more CDCs a city is likely to have. In this way support contributes to scale" (Vidal, VI-1).

Historically, among themselves, "nonprofits have a poor record of collaboration, in part because it is more difficult for nonprofits to share. In profit sector collaborations, the division of investment and income is relatively easy: It is a matter of dollars and cents. In the nonprofit sector, a whole range of nonquantifiables enter the formula - pride, mission, responsibility, prestige, service - and make division an almost impossible task. In addition, there (have been) no mechanisms to ease the way for cooperation, to mediate misunderstandings, and to clarify the confusion inevitable in any cooperative venture" (Crimmins, 1983, 114). (Vladeck, 76) has hypothesized that "one reason nonprofits have proliferated numerically to such an extent is that the birth rate so exceeds the death rate, and new problems or 'markets' tend
to be filled by new nonprofits rather than by strategic entry from older ones."
Chapter III. Methodology

Framework and Hypotheses

Palumbo et al. (1986, 6) have concluded that "entrepreneurship is recognized increasingly as an important determinant of innovation in the private sector. In studying the role of innovation in the public sector, they have also concluded that "the concept of the public sector entrepreneur is similar to that of business entrepreneurs. Championing an innovation, risk taking, setting bounded goals, and bringing together a support group of people are all characteristics of the effective public sector entrepreneur." Drucker (1985, 30) calls innovation the "specific instrument of entrepreneurship" but he also warns that "public service institutions find it far more difficult to innovate than even the most 'bureaucratic' company (177)."

As enterprising organizations, nonprofit community development corporations were created to break away from the traditional beliefs that "nonprofits are excessively risk-averse" (Vladeck, 76). This thesis first hypothesizes that enterprising nonprofit community development corporations, like other entrepreneurial organizations, are an organizational form that promotes innovation.
In focusing upon the incentives and constraints of innovation, Downs and Mohr (1976, 706) conclude that "it is helpful to employ an innovation - decision design, a consideration of the unit of analysis as an organization in relation to an innovation. Within this framework, each organization experiences the various stages of innovation within its specific organizational context. "The unit of analysis is no longer the organization but the organization with respect to a particular innovation, no longer the innovation, but the innovation with respect to a particular organization" (Ibid.). Kanter (1987, 5) suggests innovation study "requires a dynamic model - a combination of a 'variance' model of the factors influencing innovation and a 'process' model showing how innovation unfolds."

In terms of process, numerous authors have noted the uncertain path organizations follow in their development and in their implementation of innovation. Slevin and Covin (1990) introduce the concept of "cycling" to describe "the evolution of strategic and structural arrangements in organizations" as they proceed through periods or stages of stability and innovation in their development. Kanter (1987, 5) recognizes that "stage models do not always adequately capture the give - and - take of innovation, and they risk artificially segmenting the process. But I propose that the structural and social conditions for
innovation can be understood best if the innovation process is divided into its major tasks."

Numerous researchers of innovation have drawn the same conclusion. In adopting Pelz and Munson's (1980) four stage process of innovation in their own research, Nord and Tucker (9) explain that it was "because it links the stages systematically to particular types of innovation and because our pilot work suggested their model fits well with the particular innovation we studied." As a second hypothesis, this thesis postulates that the factors influencing innovation within enterprising nonprofit community development corporations follow generic stages of innovation that can be chronicled from design to implementation.

In the context of these stages of the innovation process, Bolman and Deal's four frames for understanding human organizations are utilized by this thesis to describe the factors influencing innovation within each nonprofit community development corporation observed. While each frame is considered individually, their interaction is also critical to a full understanding of organizational innovation, since "all organizations are multiple realities. Every event can be interpreted in a number of ways. The comparison across the frames helps to clarify many cases of confusion and conflict" (Bolman and Deal, 246).
As a third hypothesis, this thesis postulates that the factors influencing innovation within enterprising nonprofit community development corporations are discernable as a collective vision of the four organizational frames: structural, human resource, symbolic and political.

The Study Design

Investigation of organizational innovation represents "a kind of detective work in which the author sets out to investigate in detail the workings of a particular institution or program with a view towards uncovering the life history and evolution of some deliberate attempt to innovate and implement" (Nelson and Yates, 1978, ix).

Minkes (1987, 85) states:

The study of innovation and of its management involves a variety of disciplines and business functions: economics, organization theory, psychology, marketing, and so on. It is also part of the process of strategic change, because innovation introduces new products and methods and changes in corporate structure. Moreover, innovation can be looked at as a question of how organizations learn, how the managers within them come to make changes and to adapt to them.

Yin et al. (1977, 19) have found that the case study is an appropriate methodology for this type of exploration.

"(T)he case study has had wide use because it can focus on
an organizational change and can cover the peculiar flavor, setting, and people that are likely to explain what happened and why. A good case study attempts to capture the unique blend of events occurring in an organization, much as the clinical approach in psychology is able to present the unique situation and personal background involved in analyzing an individual's behavior."

The aggregation and analysis of the evidence in case studies involves two procedures: "(1) the definition and the identification of case studies describing factors in the innovative process, and (2) the systematic extraction of the information from each case study to allow subsequent aggregation" (Yin, 20). A general problem applying to most innovation studies is the need to study the process during a sufficiently long period of time (Vedin, 1980, 18). Because the evidence of change must be examined over time, this study often takes a narrative, longitudinal view (Jelenik, 1979, xx). This process is similar to the four step design utilized by Mintzberg and Waters (1982, 466-467) "to track strategies and the processes by which they form in organizations." These steps involved: collection of basic data, inference of patterns and periods, investigation of each period, and building of theory.

Because of its duration and the complexity of its concepts, innovation studies often require the utilization
of conceptually defined variables, such as attitudes and opinions, gained through interviews and surveys, as well as more directly measurable indicators gained by observation. To obviate these difficulties, this study utilized several methodologies including review of written materials, participant observation, and the use of open-ended research questions. Each case survey was designed to cover both the characteristics of the organization and the innovation being studied, as well as the outcomes of the innovation experience.

For this study, the steps in the research process involved selection of the nonprofits to be investigated, the identification of the innovation to be studied, definition of the innovation stages to be utilized, and the exploration of the innovation through the four organizational frames: structural, human resource, symbolic, and political. The final step in this research process is the analysis of the field data from the perspectives of the innovation stages, representing the innovation process, and the organizational frames, representing the factors promoting or inhibiting innovation.

Nonprofit selection

Two nonprofits in the metropolitan Washington, D. C. area, the Montgomery Housing Partnership (MHP) and
Ministries United to Support Community Life Endeavors (MUSCLE), were selected for this study. The latter represents the inner city orientation of central Washington and the former, the suburban focus of adjacent Montgomery County. While different in many aspects, the city of Washington and Montgomery County share a common economic base and the political culture of the nation's capital. The two community development corporations also share affordable housing as a principal focus of their organizational mission and a reputation for being innovative and entrepreneurial.

Innovation identification

As described above, this thesis considers the organization in relation to an innovation as its unit of analysis. Within this framework, each nonprofit's decision to design and implement a housing development program has been chosen for investigation. In each nonprofit, this program area represents an innovative approach to reaching the organization's affordable housing mission.

Stages of innovation

While utilizing different terminology, most innovation research has identified similar stages of the innovation process which move from design to implementation. For
reasons of fit with the organizational frames of analysis, similar to those of Nord and Tucker described above, Kanter's (1987, 6) four stages of innovation are utilized for this study as follows:

1. idea generation and activation of the drivers of the innovation (the 'entrepreneurs' or 'innovators');
2. coalition building and acquisition of the power necessary to move the idea into reality;
3. idea realization and innovation production, turning the idea into a model - a product or plan or prototype that can be used.
4. transfer or diffusion, the spreading of the model -- the commercialization of the product, the adoption of the idea.

These stages of innovation "correspond roughly (but no where exactly) to the logic of the innovation process as it unfolds over time and to empirical data about the history of specific innovations" (Kanter, 1987, 5 - 6). As such, they represent, in Kanter's terms, a connection of "the major tasks in the innovation process to those structural arrangements and social patterns which facilitate each" (57).

Organizational Frames

The four frames of organizational analysis - structural, human resource, symbolic, and political - were chosen for their ability to describe and explore the factors of innovation in general and within each nonprofit. By
combining the frames, cross-cutting issues can be examined within each organization and comparisons made across cases. In addition to field observation and review of documents, the four research questions utilized by Nord and Tucker (52) were employed to explore these frames through open-ended interviews conducted at each case site:

1. What types of structural arrangements facilitated implementation of innovation?

2. What types of interpersonal transactions were more or less conducive to effective implementation?

3. What types of personal and political actions were more or less conducive to effective implementation?

4. What import did various factors such as the organization's history, culture, environment, and strategy have on the process of implementation?
Chapter IV. Ministries United to Support Community Life Endeavors (M.U.S.C.L.E., Inc.) Case Study

Context

Throughout the 1980's, the District of Columbia increasingly became a city of sharp contrasts. Poverty grew to include more than 104,000, or one in six persons, while property values in wealthy portions of the city appreciated several hundred percent. Over half of the District's children lived in poverty areas, where at least one person in five was poor. More than 40% of the District's poor population were of working age and many of these persons were already working full-time.

Drugs and related homicides and convictions completely debilitated many poverty neighborhoods. Washington's Mayor Marion Barry's own drug trial made national news in 1990, and in its notoriety, disrupted local government's ability to deliver services and administer programs. In 1990, the city faced an enormous fiscal deficit, and because of federal control and budgetary constraints, had limited hope of balancing its own budget in the near future. At the same time, many of the surrounding suburban communities had grown
more wealthy and continued to attract many of the District's middle class residents.

Many of Washington's more historic areas experienced a renaissance as preservation became fashionable among the city's abundant young professionals. Pioneers ventured into many transitional areas, significantly improving the physical environment but also inflating property values and speculation. At the same time, riot torn areas remained desolate as residents fled, and many speculators and investors refused to sell their abandoned properties.

Neighborhood associations, largely unknown in the 1960s, proliferated into a citywide system of Advisory Neighborhood Councils. In 1990, twenty seven nonprofits provided housing services within the District. Seven acted as developers, but only four, Manna, Marshall Heights, Jubilee, and MUSCLE, had significant track records.

Organizational History

Ministries United to Support Community Life Endeavors (MUSCLE) was formed in 1978 by nine churches in Southwest Washington to prevent the displacement of low and moderate income persons. At that time, a proposed redevelopment project, South Capital St. Capital Gateway, was escalating land values and threatening the eviction of thirty area
families. The original board quickly expanded its membership to include lay persons with an interest in the community. At the same time, the Board expanded its mission of assisting displaced persons in finding suitable housing to include promoting employment opportunities, community recreational facilities, and the welfare of senior citizens and the general community.

MUSCLE began its operations with volunteers and small denominational contributions. It grew rapidly to seven full and one part-time employees in 1980. A board committee captured this period in reporting, "At present, there are no standard personnel policies and procedures by which to deal with the basic work environment on a day-to-day basis. Individual and unique employment and/or personnel arrangements have the potential to administratively and financially contribute a burden to the organization."

Staff members prepared grant applications to local foundations and the federal government to fund MUSCLE's activities and staff growth. Board members contacted Marion Barry, the newly elected mayor of Washington, and HUD's newly formed office of neighborhoods and voluntary associations. MUSCLE was successfully designated a Housing Counseling Agency by HUD and received a $25,000 housing counseling contract soon after these contacts were initiated.
In 1979, after a year of intensive counseling work with MUSCLE, the Tel-Court Tenant Association successfully executed a 56 unit low-income housing cooperative conversion in Washington. MUSCLE began consulting citywide for the D. C. government's Tenant Purchase Program as a result of this project. MUSCLE has secured million of dollars in public and private financing enabling hundreds of families in low and moderate income tenant groups to buy, rehabilitate, and convert their buildings to affordable housing co-ops since the program's inception.

MUSCLE teamed up with the D. C. Housing Department, and representatives of the co-ops to investigate formation of a permanent source of technical assistance. Another nonprofit, University Legal Services, was added to provide legal services to tenant associations as a subcontractor to MUSCLE. This research also led to the formation of the nonprofit District of Columbia Mutual Housing Association (D.C.M.H.A.) in 1984, which was designed to manage property, train and inform its tenant association members. MUSCLE's 1984 - 1985 Annual Report observed that "MUSCLE's development services for tenant groups and the D.C.M.H.A.'s ongoing management services now complement each other to comprise a homeownership program which ensures the long-term success of tenant-sponsored conversions."
In this early period, MUSCLE's Board described the organization as a comprehensive home purchase coordinating agency providing a "full range of inter-related, comprehensive consulting and counseling capabilities offered by the agency. This accounts for both MUSCLE's uniqueness, as well as its unique effectiveness in the area of homeownership for low-income persons."

In 1984, MUSCLE initiated its Vacant Housing Program to revitalize low-income neighborhoods and expand the supply of affordable housing by rehabilitating vacant buildings and reselling them to low and moderate income families. Its 1984-1985 Annual Report stated, "This expansion into vacant housing development has made MUSCLE more than a development consultant. MUSCLE now acts as both a development consultant and developer and has become the only nonprofit housing developer in Washington working on a citywide basis."

The program began simply with purchase of three 3-bedroom townhouses in the Shaw neighborhood. MUSCLE secured rehabilitation financing with a zero-interest loan from the District's Housing and Community Development Department (DHCD) and permanent financing with the D.C. Housing Finance Agency's (HFA) tax-exempt single-family mortgage bond issue. The financing package enabled MUSCLE to include an additional 1-bedroom rental unit in each rehabilitated
townhouse.

MUSCLE quickly developed a more complex 21 unit vacant apartment building limited equity cooperative project in the Columbia Heights neighborhood brought to MUSCLE by WISH (Washington Inner City Self Help), another of the District's nonprofit housing groups. WISH contacted MUSCLE about participating in a joint venture to convert a vacant building at 1106 Columbia Rd. "because it had a commitment of permanent financing from Aetna Life Insurance Company but didn't have the development experience to successfully close any deals." An option to develop an adjacent building, 1108 Columbia Rd., awaited the development team upon successful completion of the first building. MUSCLE staff noted that "the $20,000 of income from the developer's fee could be used to develop the second building."

In analyzing this project, MUSCLE staff expressed the dual objectives of: increasing housing opportunities for low - and moderate - income people and providing a potential income source for other MUSCLE ventures. As one Board report noted,

Tenant purchase is fine but it is slowing down. It is better to get into the rehabbing of vacant buildings. We can get money for this from foundations, insurance companies, and the banks. Through real estate development we can make some money/profit and this is a step toward financial independence.
MUSCLE's director and Board began soliciting funds from area corporations and foundations to "enable MUSCLE to develop several properties simultaneously rather than developing one building at a time." Grants and loans received totaled $89,000 from The Public Welfare Foundation, the Cafritz Foundation, C & P Telephone Company, IBM Corporation, the Hechinger Foundation, and the Mary Reynolds Babcock Foundation. By its 6th annual meeting MUSCLE was able to report to D.C.'s deputy mayor for economic development:

This year we have begun to implement our goal of taking the boards off of vacant buildings here in the District of Columbia to begin the process of revitalizing depressed neighborhoods and strengthening the economic base of the city.

MUSCLE's staff received extensive training to perform their work attending workshops and conferences. MUSCLE's executive director also served as the Vice-Chairman of the D.C. Housing Finance Agency's Advisory Committee and as a board member and treasurer of the D.C. Mutual Housing Association. Five MUSCLE staff with "the capability to organize tenant groups, collect financial data, perform feasibility analyses, conduct market surveys, obtain preliminary rehab costs and prepare development plans and loan packages" were assigned to the development function.
The Board also expanded to twenty four members to garner "additional expertise and perspectives" and included lay members representing the broader views of the entire community. The Board formed several working committees to execute its duties: executive, budget and financial oversight, fundraising and public relations, and long range planning and project development. The long range planning and development committee developed project review criteria for the Vacant Building Program with staff and presented its findings to the Board.

The Board's committee workload increased tremendously when the program began operation and members expressed the need for additional operating procedures and role clarifications: "The problem has been new projects keep cropping up that need action taken within a short time frame." The committees required pertinent information regarding initial upfront costs sooner and questioned delegating approval authority to the executive director. Key Board members strongly urged the Board not to relinquish this important task, and a check-off system was "worked out to avoid this problem in the future."

At the request of MUSCLE's Long Range Planning Committee, the staff prepared a report "which we believe constitutes a reasonable organizational plan for MUSCLE from
the present time (1985) through December 1989." The staff noted that the agency was "in a very good position to steadily increase MUSCLE's financial independence and production of quality low-cost housing."

Our Vacant Housing Development Program is underway and promises to provide the needed revenue over the next few years to fund itself as well as provide surplus unrestricted revenue. We have also narrowed the focus of our work to housing development and development counseling, allowing staff members to sharpen their skills in specialized areas rather than splitting their time between development and support services.

Staff growth over the next four years mirrored the anticipated growth of vacant housing development. Projections included bringing a staff architect and construction manager on board to facilitate MUSCLE's expanded development activities. According to a staff report,"The budget figures we are projecting for the next four years represent the income which must be generated through vacant housing development each year to meet anticipated expenses. The figures are not cash amounts we expect to have on hand at the beginning of each fiscal year. The cash flow situation during a period when a large time-consuming project is being pursued can be helped by charging personnel costs directly related to each project to the project's lender and setting development fees at levels sufficient to cover other expenses which can't be directly
charged to individual projects."

Staff recognized the Vacant Building Program as "MUSCLE's major source of unrestricted revenue over the next four years" and that "the goals of the program are goals which require risk" in the form of legal and financial concerns that had not been present in MUSCLE's tenant consulting activities. Staff also sought to address the Board's concerns, stating "these (development) goals and MUSCLE's growth as a nonprofit housing developer can be attained through this program with wise management of our Venture Capital, or Risk Capital Fund. The challenge for this type of development and planning for it, lies in maintaining sufficient cash flow to meet ongoing overhead expenses while being able to budget for steady annual growth."

MUSCLE staff concluded that the "role of MUSCLE's Board of Directors will have to change as well over the next four years. As the DHCD contract changes, the volume of vacant projects grows, and the Colonnade (project) requires ongoing attention, the board and its committees will have significantly more planning and decisionmaking tasks to perform. Especially on vacant housing projects and the Colonnade, the board will have crucial financial decisions to make and will have to interact with the staff on a regular basis. We foresee the need to create
project-oriented task forces of the board to work on individual development projects."

Development staff members also foreshadowed "our growth over the next four years requiring increased coordination between the staff and the board to reach both short - and long - term objectives in all areas of MUSCLE's work."

Finally, they recognized a contrary view that "the potential need and/or desire for a 'for profit subsidiary' of MUSCLE to carry out the development activities has been mentioned in the past" and recommended "formalizing the investigation of this matter and the effects which revenue producing activities might have on our 501 (c)(3) tax exempt status. We suggest that a task force of the board look into this matter and produce recommendations for the June 1986 Annual Meeting."

The Board also grappled with the Vacant Building Program's implementation philosophy during this time. The Board and the agency began emphasizing the importance of the program to neighborhood revitalization. MUSCLE's executive director appeared before a community development block grant (CDBG) public hearing and urged D.C. government involvement because vacant buildings are "a blight on the whole block where it occurs. The D.C. government must develop a process, rethink tax structure, provide money for low interest rehab loans, and encourage people to work on vacant
building projects."

MUSCLE selected Columbia Heights "as a target area for vacant housing development because of MUSCLE's work on the building at 1106 Columbia Road and because of the many vacant buildings in the area." Muscle also took an interest in the Knox Hill area of Southeast Washington when approached by representatives of the Housing Industry Corporation (HIC) to "help formulate a revitalization strategy for the neighborhood." Knox Hill contained approximately 83 multifamily buildings with 531 units. Twenty-four of these buildings, containing 185 units, were totally vacant, and several others were partially boarded.

The Board also tackled the "difficulty of acquiring and rehabilitating vacant buildings and making them affordable for low income persons." Several Board members felt that there was merit to making housing available for moderate income persons as well, in light of the deep subsidies required for low-income units. Others suggested that "perhaps middle income projects are needed first to provide a financial base so we can do low income projects." Another member suggested that "we consider developing buildings with a range of incomes for the potential occupants."

MUSCLE's Board Chairman concluded that MUSCLE's mission had not changed after nearly a year of such internal debate:
"We are still committed to providing housing for low and moderate income people. However, we might have to provide housing for higher income people to be able to provide for low and moderate income people." Staff reported "the addition of vacant housing development as one of MUSCLE's major activities will direct the organization over the next four years towards continuing to meet these original goals, but on a much broader scale. Specifically, this program will allow MUSCLE to 'buy and sell real property to assist in the general welfare of the community.'"

The Board's newly formed Development Activities Oversight Committee issued recommended criteria and guidelines in December for implementing MUSCLE's vacant housing development program in 1986: "We view the purpose of deciding upon such criteria and guidelines as: a) providing a common framework for the Board and staff to work from in addressing the goals and implementation of the program and b) to allow the staff to move quickly and efficiently to decide whether or not to recommend submitting contracts for particular buildings once they have been identified and initial rehab analyses have been performed."

The Committee recommended:

1. Target Population: up to 100% of the median income with at least 40% of the units developed for families 80% or less of the city's median.
2. Building characteristics: multifamily buildings 15 to 50 units; unit mix based on particular project and a market analysis of the neighborhood.


4. Type of ownership: emphasis on limited equity cooperatives, but will entertain other development options in the following order of preference: leasehold cooperative, nonprofit rental, market rate cooperative, investor-owned rental, condominiums.

In 1986, the Development Oversight Committee began work "with the staff to develop a format for reporting to the committee on each building's feasibility." The committee's chair, vice president of a local mortgage company, felt that "this committee and the staff members involved in the Vacant Housing Development Program have moved quickly to establish a very productive working relationship." Mayor Barry attended the groundbreaking of 1106 Columbia, and the D.C. government announced that $5 million would be available to purchase vacant buildings under its new Development Opportunities Program.

By year's end, a report on 1106 - 1108 Columbia Rd. revealed that "construction costs for the project were increased from the $990,000 agreed on in March to $1.2 million, largely due to DHCD's delays and DHCD's regulatory and cosmetic design requirements written into the commitment
letter. We communicated this fact to DHCD as well as the fact that the income in construction costs rendered the project financially infeasible without certain changes in DHCD's financing."

A project on Gainesville St. brought to MUSCLE by the D.C. Foundation for Vocational Training was also delayed because of the complications related to site control and a tax lien. The Gainesville St. project had received a preliminary funding commitment from the D.C. government for rehabilitation. DHCD designated MUSCLE the project developer after a public hearing.

The Board clarified its position on MUSCLE's investment in this type of project: "MUSCLE is not in a position to risk $20,000 - $30,000 to purchase the notes and begin the A & E work unless a clear indication of city support for this project is available. Even with a clear indication of support, this is a risky project for a non-profit developer to undertake particularly given the uncertainty of the results of the foreclosure process; and the use of trainees for aspects of the rehabilitation. MUSCLE is prepared to accept exposure and risk, however, because this project is critical to the overall success of the Knox Hill redevelopment efforts but MUSCLE must be able to feel that the public support necessary will be available and provided in a timely fashion."
MUSCLE also began its most publicized project in 1986. The District selected MUSCLE to administer a five million dollar HHS grant to the District's human services agency to renovate the building at 435 2nd St., N.W. for use by The Community for Creative Non-Violence (CCNV) as a homeless shelter. MUSCLE negotiated a one percent fee to administer the six month construction contract as a subgrantee. The shelter project was executed through a specially created MUSCLE subsidiary, MUSCLE I, which generated a development fee and public recognition for MUSCLE but did not increase the Development Fund's capital base.

MUSCLE began such a project in 1987. The Atlantic Terrace Apartments, a 198 unit complex built in southeast Washington, was structured as a joint venture with Winn Development Company using tax credits and Section 8 rental subsidies to generate revenues for MUSCLE long-term. Acquisition and renovation of the complex was to be "achieved via the Atlantic Terrace Limited Partnership to be formed between Winn Development, as managing general partner and MUSCLE, Inc., general partner."

The partnership intended "to raise the equity necessary for the project by syndicating low-income tax credits (both those available to for-profits, as well as non-profits) and to support the necessary mortgage by use of rental subsidies
under the moderate rehabilitation Section 8 program.

Section 8 certificates also assured that there would be no permanent displacement of any current residents. However, a financial analysis indicated that if the Section 8 subsidies were not awarded, the project would not be financially feasible.

Winn, as a well known, large scale developer of Section 8 projects, had been able to secure rental subsidies to produce or restore units for low-income households on a high cost, high gross rent basis. MUSCLE had always tried to develop low cost housing without rental subsidies by using low-interest public financing. A MUSCLE staff report noted that the Atlantic Terrace project illustrated a basic difference in the development philosophies of Winn and MUSCLE. "Our gross rents are much lower but our target population has been more the modest income working family. MUSCLE participation on the project will add a 100% low-income housing project to our portfolio."

MUSCLE staff concluded that, if successful, this project "would be the 1st 1988 project, and have us on a track to earning 50% of the programmed development fees for projects started in 1988 and paying out in 1990. Given market competition, and MUSCLE's lack of venture capital, this is currently the only real project for 1988." The Development Oversight Committee regarded the venture as "a
unique way for MUSCLE to earn a substantial developers fee without the risk of any capital; and as a good opportunity to build its resume as a HUD participant while producing over 100 units of low income housing." The Committee described the project's fit with MUSCLE's long-range plans. "The Board has recognized the wisdom of joint ventures with stronger partners as a way to reduce MUSCLE's risk (capital or otherwise) on a project; as a way to get MUSCLE involved with larger scale projects; and as a way to achieve HUD previous participation status. This project accomplishes all three."

In 1987, Vacant Building Development represented approximately 35 percent of MUSCLE's budget. The Development Oversight Committee began meeting monthly and described its role in monitoring MUSCLE's various projects. "Once a project has been reviewed and recommended as a viable development activity by the committee, upon the authority to move forward, a member of the committee is assigned to the project to work closely with the staff on its progress." Committee members learned that even though development activity had increased, their original goals relating to self- sufficiency and reducing the budgetary dependence on DHCD "were not realistic and need to be revised in light of MUSCLE's actual experience over the last 2 1/2 years." Analysis of the agency's development performance found that the "program in 1987 is where it was
supposed to be in 1985." Staff offered these reasons for the program's problems:

1. lack of capitalization to underwrite the start-up costs of a development program; the difficulty of the development projects attempted (The reality is that 2.5 years is the norm for completion of the projects MUSCLE attempts, not 1 year.);

2. lack of equity capital to reduce reliance on public financing for both project writedowns (equity) and rental (unit) subsidies;

3. a lack of diversity in the type of development ventures undertaken.

Staff recommended that MUSCLE continue raising venture, working, and equity capital, generating cash flow to cover operating expenses by acquisition of income producing properties, maintaining a zero growth operating budget for development staff, and clearing all accumulated debt by either paying or writing it off to reach its development objectives. They also recommended deciding by spring 1988 on whether to sell or substantially improve MUSCLE's largest asset, the Colonnade Apartments, which were donated to MUSCLE in 1982.

MUSCLE sold the project in April, 1988, for $907,500, and staff concluded that the development program had reached a point of short-term stability. Nonetheless, staff cautioned that "only careful planning of what projects we do
will get the program past the hump of 1990, and into a period of long-term stability. Reducing overall operating costs is dependent on MUSCLE developing other programs that produce income and share the overall organizational operating costs. Right now in terms of capital and labor the development program is at capacity."

MUSCLE's staff vice president for development requested guidance from the Development Oversight Committee "as to which type of projects should be my priority." He outlined several important issues for the committee to address:

The more costly the land, the greater the reliance becomes on public financing and rental subsidies. Is this what we want to do or not? Should all potential projects be judged by whether or not some percent of the units are to be set aside for low-income households? Should we risk venture capital on buying occupied buildings in decent condition and slowly upgrade them? Should we venture into single-family development, retirement homes, or SRO hotels for homeless men? With our visibility in the community we are always being approached by somebody to "get involved with a project". I need to know what the parameters are so I can say no, yes, or maybe. As the program had goals for 1987 and into 1988, it needs goals for 1988-1990. I look forward to working with the committee to develop priorities, and to formulate program goals.

Throughout the remainder of 1988, the Board planned for new development projects and reflected upon MUSCLE's future
with staff. In July, Board members reaffirmed that "the principal must be maintained and the board must make a statement on what portion the board will commit to development and be at risk. Once guidelines have been established then information on the amount available can be given to the Development Committee. In developing guidelines for types of projects, the Board must take into account, long term vs. short term and low vs. moderate income projects."

Some Board members expressed other concerns: "There is concern on the part of many Board members that our development projects are not serving a truly low-income population. While the position of many members of the Development Committee is that given federal subsidies we are doing the best we can in a difficult environment, the view of other Board members is that if we cannot serve the truly low-income population, perhaps we should not be doing new projects. Another concern is whether neighborhood revitalization should also be an important goal." After several months deliberation, the Board Chairman responded that "our policy, until further defined, is that low income housing is the first priority, but if a good opportunity comes along we should take it."

MUSCLE began to diversify its portfolio by retaining ownership of some properties and rehabilitating occupied
buildings in addition to vacant properties. A 13 rental
unit Knox Hill property at 2907 Gainesville St. represented
a first effort to rehabilitate units with tenants in place.
The development staff selected this property for "the next
stage of MUSCLE's work in Knox Hill for two reasons. First,
the deteriorated properties on the street will negatively
impact on the renovated MUSCLE property, and secondly,
treatment . . . will continue the revitalization of the
neighborhood. 2907 happens to be the best of the group, and
has been picked as the leading candidate because the risk,
while substantial, will be manageable given the overall
condition of the property and what appears to be a fairly
stable and reliable tenancy."

Upon this recommendation, the Board authorized spending
$60,000 of grant money and up to $40,000 of Colonnade
proceeds, and directed staff to obtain Section 8
certificates for the project and to negotiate a sale price
up to $.25 on the $1.00 of existing debt. Before approval,
Board members "asked how the building will tie into our
other projects." The vice president for development gave the
Board another overview of the project. " We will own the
building, upgrade the building, leave the tenants in the
units; small cashflow the first year. We own three
buildings on the block already. In the first year, $40,000
of our capital will be at risk. After refinancing, within
the first year, none of our capital will be at risk - the
$40,000 will be returned."

The Development Program staff "considered management of our assets as the next logical step in becoming an integrated development entity." The Development Oversight Committee endorsed this strategy as a goal for 1989. "MUSCLE now has the opportunity to take the first step into management under a proposed co-management venture with Barkan Management Company, an experienced firm located in Boston but operating in four states including Georgia. . . . We will be involved in the management without having to capitalize administrative start-up costs of our own management. We will provide some services to this co-management deal (space) and our person on staff will be the property manager and learn from Barkan. We will get 50 percent of the management fees on our properties, plus, if we bring in other properties (other than our own) we would get a fee for that also." The Board supported this assessment and reached agreement with Barkan for MUSCLE's property management.

In the fall, one of MUSCLE's general contractors, Rise, defaulted on payments to his subcontractors. MUSCLE was forced to bring a $200,000 breach of contract suit, hire a new contractor to complete the work, and obtain a certificate of occupancy once all of the liens on the property were removed. The Development staff stated that
even though the contractor had worked with MUSCLE for 8-9 years, on 1106 Columbia Rd. "his company wasn't in the best of shape to begin with. There were delays, plumbing problems. The help he was supposed to be getting seemed to fall through."

Funds to pay RISE's obligations were issued from the Columbia Rd. project account and did not include any MUSCLE assets. The Board realized that "MUSCLE will therefore earn little or no fee from the project rather than the $65,000 - $80,000 that was anticipated in early August." The staff stated, "The loss of the fee is a tremendous loss to MUSCLE but there are still reasons to be satisfied with our efforts. First, MUSCLE has provided 40 units of very affordable housing to lower and very low income households. We have removed an eyesore from the Columbia Heights neighborhood. We have demonstrated our capacity to perform in a crisis situation and meet our obligations, and lastly by meeting the the obligations left to us by RISE we have maintained our credibility in the business and development community."

Board members nonetheless asked how MUSCLE could select the right contractor and protect itself against losses when a contractor failed to perform. MUSCLE's Board Chairman stated that "as a result of this situation we have learned a lesson: we need to establish a screening process for hiring
contractors." The Development Oversight Committee was requested to "work on a process for dealing with contractors," and staff soon offered the Committee the following guidelines: (1) submit invoices and add them up to make sure everything adds up; (2) review the contractors financial statements with credit references; (3) payment and performance bond; (4) an unconditional letter of credit; and (5) the issuance of joint checks to the general contractor and his subcontractor and suppliers.

Staff expressed the belief that MUSCLE's development program was at a critical juncture in its existence. "It is clear . . . that without major new initiatives and ideas the program will not become self-sufficient by the end of 1990, and may perhaps become a net drain on MUSCLE's assets. To a large extent this is related to MUSCLE's overall need to generate more revenue and create new programs if its is to continue to sustain its current staffing pattern and operating budget." Finding available vacant buildings had become more difficult "as both private developers and the City have been scooping up these buildings."

In preparing an action plan for 1989, MUSCLE's vice president reflected on two current developments: "The management venture (with Barkan) is potentially a genuine money-maker for MUSCLE as well as insurance that our portfolio properties will be well run. I would recommend
that MUSCLE commit whatever resources are necessary to make this effort work, including actively soliciting business for the venture. In terms of the future, some genuine possibilities for future growth seemed plausible. The City is likely to pass a linked development program this year which will require developers who receive density bonuses... to either make a cash contribution to a housing trust fund or build (or contract with someone to build) a certain number of housing units. As one of the City's prominent non-profits we should be in a position to benefit from this if we have product to work on. It also appears likely that some housing program will emerge from Congress in 1989. From our perspective the smaller the better because a small program is not likely to engage the interest of big developers."

In 1989, the Board recommended the following elements of an action plan:

*Land banking to insure a stream of product for the next 3-5 years, and an ability to more quickly to capitalize on new developments on the housing scene;

*Orderly expansion of the MUSCLE / Barkan management venture cooperative development of cooperatives with neighborhood groups through the Homestead Program (2525 Minnesota); and,

*Creation of an equity fund to be used to write down rents / project costs for certain percentage of units in a building or project.

MUSCLE's vice president stated, "As I believe MUSCLE's long-term success in housing development will be tied to the
raising of capital, and the purchase of land, I consider these great priorities."

MUSCLE staff and Board began 1989 with renewed enthusiasm. The Board Chairman remarked in a meeting notice that "the spirit of renewal and rejuvenation that has swept the Board since our retreat has resulted in an extraordinary amount of work in the first two months of this year. Thanks to the involvement of many of us, we have a new mission statement, we have trimmed down and reorganized our board to a more workable size, we have revised our by-laws and we have the beginnings of a new advisory board." Throughout the many revisions, "the goal of MUSCLE in assisting families of limited income on the road to gaining self-sufficiency was thought to be very important." After a few minor amendments, the new mission statement read:

The mission of MUSCLE is to help people of limited income achieve economic independence by developing affordable, decent and safe rental and homeownership opportunities; by providing technical assistance and training to community groups; and helping to revitalize neighborhoods.

After these exercises, one Board member expressed concerns about MUSCLE's potential involvement with an elderly program in Prince George's County, Maryland "because it doesn't generate any money. Also MUSCLE doesn't have any experience in that area." A Board survey was conducted in April "to give guidance to the Development Oversight
Committee as it plans for development activities in the short and long term." The survey results "indicated, on the whole, that the Board would like MUSCLE to continue the same type of development activities and options it has pursued in the last 3 years along with a willingness to do joint ventures and pursue providing development services for non-profits when the opportunities present themselves. Overwhelmingly the preferred projects require vacant buildings. This is precisely the commodity that is in rare supply in the District at the current time, and when available is very expensive. However the survey at least shows that the types of projects that the staff is pursuing is compatible with the preferences of the Board."

In discussing the survey, Board members felt "we need to be market sensitive. We need to move forward, keeping our goals in mind. Our marketplace is the city but if an opportunity shows up in Maryland or Virginia we should take advantage of it." The Board also discussed pursuing public housing and Single Room Occupancy (SRO) turnkey projects. The Board Chair didn't feel SRO's were part of MUSCLE's mission, yet another Board member mentioned that "SRO's are an inexpensive form of housing and shouldn't be overlooked." At the Board meeting, "the consensus was if it was similar to the shelter project and included an intensive social services component it would be considered." The Board considered options for new construction, leaseholds, land
banking and acquisition of occupied buildings without resolution but agreed that commercial/office space development was not something it wanted to do. It would, however, "entertain any project that is feasible and in concert with our mission."

Minutes of the meeting reported that the Development Oversight Committee followed with a "lively discussion about projects that could be done in order to generate income from the development program. The committee was told that the program had operating funds that would last until May 1990. Joint ventures with non-profit providers of homeless services was supported as the most likely way to get a project off the ground quickly as there is lots of money around for homeless services. The committee instructed staff to be aggressive in pursuing opportunities, and to assume that MUSCLE would invest equity in new projects, and leave cash in to make a deal work." Staff reported on a potential HUD/MUSCLE effort in Knox Hill to create ten townhomes from HUD owned property, and on a MUSCLE building search for the House of Ruth. Additional discussions centered on the purchase and upgrade of existing occupied buildings and MUSCLE's future needs to build a management and maintenance staff capacity and an ability to deal with other government agencies.
The Board soon recast MUSCLE's development activities to include both projects initiated by MUSCLE for its own portfolio or for transfer to resident owned coops and MUSCLE's tenant purchase activities under its contract with DHCD. MUSCLE's Vice President for Development was retitled Vice President of Programs and the Board's Standing Committees reduced to three: Corporate, Resource, and Program Oversight.

Staff continued to be actively involved in community and professional activities. MUSCLE's president sat on the Mayor's Committee on Budgetary Priorities and its subcommittee for government direction and was appointed to the newly formed advisory board of the Federal Home Loan Bank Board (FHLBB) of Atlanta. Staff was also very active in Washington's Coalition of Economic Development Organizations and the newly formed Coalition of Non-profit Housing Developers.

The newly formed Program Oversight Committee (POC) reviewed the purchase and redevelopment of the Sussex / Northfield Apartments in Landover, MD. as one of its first proposals. The project consisted of two apartment complexes with nearly 1100 units. The properties were suffering from financial distress and were near foreclosure due to "deferred maintenance, social problems, and inadequate management." Unlike previous proposals, "MUSCLE will be a
general partner but would not be responsible for financial guarantees. MUSCLE's primary role would be to create the positive living environment necessary to have a healthy rental property. MUSCLE would be responsible to create an effective resident association, create a neighborhood watch program, and bring site services such as day care, leaving centers, and after school care to the properties. MUSCLE would also be responsible to create a project-based community and family services program. The costs of implementing and managing these programs would be borne by the operating budget of the property."

The proposal called for MUSCLE working with Edmonson & Gallagher (E & G) and others as a general partner. A new nonprofit 501 (c)(3) would be formed to take advantage of nonrecourse financing. As a general partner, E & G proposed that MUSCLE receive 20% of the developer fees or $100,000 in 1990 and 1991; 10% of the development management fees or $84,000 in 1990 and 1991; and 12 1/2% of the property management fees approximately $35,000-$40,000 per year. In addition, MUSCLE would receive 20% of the cash flow available to the general partners after the equity partners have been paid and have realized the recovery of their investment plus their residual value. Cautioned the Board, "MUSCLE has few hard risks. MUSCLE's greatest risk is "political" or "soft" risk if the project fails. We will be associated with a project that has failed which could damage
our reputation, and hurt our credibility as financing was sought on other projects." The Board agreed to pursue the project.

In October, the Program Oversight Committee discussed the merits of a similar joint venture with Sigma for Barnaby Gardens. MUSCLE would be responsible for marketing and DHCD interaction. Most members felt it was a project that was within MUSCLE's mission, despite concerns expressed generally about the neighborhood. However, "the committee felt that without a development budget no reasonable answer could be given to SIGMA about the percentage of MUSCLE's ownership." The Committee decided to recommend to the Board that "the staff pursue the venture and bring back a real deal before a final decision as to the form of MUSCLE's participation was debated."

Once again, the Board and staff held lengthy discussions about the "need for an equity capital fund that would be available to allow MUSCLE to continue development projects in a market where public resources were diminishing and land costs were rising." Staff pointed out that MUSCLE must either "fund new deals and earn some fees or it might have to get out of the development business." At the same time, MUSCLE was awarded a small training contract with the Prince George's County to implement a 50 unit HUD Turnkey III homeownership program. The training contract budget was
for $12,775 with a 20% fee, and would be conducted with P.G. County officials.

MUSCLE faced another transitional year in 1990, and one of the chief issues was the "need to invest our capital in projects, not operations." The Board also discussed the need to generate fees to support development activities; to assess the controls and the number of units needed to support property management; and the need to plan to turn the deficit around. The Board's goal anticipated half of MUSCLE's operating budget being funded by development. In 1989, 44 percent came from development activities, but 1990 development projections dropped funding of operations to 35 percent. Projections for development staffing in 1990 also dropped, from three full-time and two at half time in 1989 to two full-time and three half-time.

Another issue the Board assessed was how to continue the DHCD contract more profitably. MUSCLE's DHCD tenant purchase consulting contract was scheduled to expire September 30, 1990. According to staff, "Financially the contract does not fully cover the costs MUSCLE incurs to provide the tenant purchase services. Furthermore the contract administration is becoming more rigid (a combination of DHCD fiscal constraints, and HUD oversight), and will force us to subsidize the program more and more each year." In evaluating MUSCLE's future in the program,
staff concluded "tenant purchase will continue as a significant non-profit development activity in this city in the production and preservation of affordable housing. However, less public money will be available and more groups will be doing it. If MUSCLE is to continue the activity it will have to be within this framework. Ultimately the Board needs to decide what place tenant purchase should have in our program mix, how we should do it, and whether we want to do it as a DHCD contractor."

The Board began discussing a solution to tenant management problems at its annual retreat in March. "Essentially we are proposing to enter into a JV agreement with the TA (tenant association) to buy and renovate the property under coop ownership. This is similar to how we functioned on Columbia Rd. and we are functioning with (the) 15th P1. (project). Using this method we could move the project much faster, make the key development decisions, and prepare the residents more slowly and carefully for ownership. MUSCLE would secure the financing, guarantee completion, fund pre-development costs. MUSCLE staff time would be covered by the DHCD contract. If no JV agreement was reached then MUSCLE would end its activities with the group. This method would allow both parties to choose a continuing relationship, but allow MUSCLE to truly function as a developer."
MUSCLE staff calculated that "if the staff resources were 3 project managers then 12 projects could be underway in feasibility, presettlement and construction." MUSCLE staff also concluded "the emphasis on realistic project feasibility, real commitments from tenants to paying certain levels of carrying charges, and more internal discipline on MUSCLE's part in reducing the number of cases . . . . This argues for a smaller, but more skilled staff, to work on tenant purchase cases whether or not a DHCD contract exists."

New opportunities, years in the making, were also taking shape. MUSCLE was awarded the development rights by HCD's Program Administration to the first multifamily property to be developed through its Homestead (Housing Preservation) Program, under which the city takes delinquent properties and sells them for $250 per unit to lower-income households or nonprofit housing developers. MUSCLE's plans included redevelopment of the three vacant 13-unit buildings as one 24-unit limited equity housing cooperative. "MUSCLE will coordinate the marketing process, homeownership training, property management, and physical renovation. MUSCLE is considering being the GC on this project in conjunction with a construction management firm. Our architect will use UDC students to help in the actual preparation of the drawings."
The Affordable Housing Program (AHP) also drew closer to implementation in 1990. Billed as a program for neighborhood preservation and homeownership, AHP centered around a two million dollar equity fund (MUSCLE Partners I) which would be leveraged to "invest in the acquisition of vacant and occupied multi-family properties." According to a staff report, "The vacant building program, and/or MUSCLE direct development needs a large injection of equity capital if it is to become a viable program able to cover its direct costs, and some fair share of MUSCLE's overhead. To this end we are pursuing MUSCLE Partners I, an equity fund that will allow us to aggressively create development opportunities without reliance on public funds, and excessive debt financing."

The report also analyzed the impact of the Affordable Housing Program on MUSCLE's property management program. "Looking to the future we developed a cooperative management agreement with Barkan Management. A change in their personnel this past December left us with the decision to either manage our own properties or get someone else to do it. We have looked into the cost of starting to do management on a broader scale. . . . If the Affordable Housing Program is started because we are successful in generating equity for MUSCLE Partners I, then we have to have a property management operation to protect and nurture the projects. It should be able to operate at breakeven if
growth of the operation is managed carefully."

A major focus of 1990's annual planning retreat was the outline of an action plan for MUSCLE's next three years. "The need for a new organizational plan is based on the expiration of the last long-range plan in 1989 and the realities facing the organization at the beginning of a new decade." The Board chose "four priorities for MUSCLE activity in the coming years. These are: the development of buildings for sale or rental to low-income residents; the continuation of tenant purchase counseling; finding ways to address the homeless problem; and increased services for low-income tenants." The Board also confirmed that "MUSCLE should: develop projects that are diverse in the people and income groups served and are of different sizes; be flexible in the types of housing projects it seeks to develop; continue with churches and religious organizations; play a continuing advocacy role in housing affairs; and pursue sources of income which are continuing and close the gaps in other programs it undertakes."

Reflecting upon the Board's deliberations, MUSCLE's president commented, "It is good to think in multi-year terms and to develop long range plans. The Board needs to maintain its consensus to support MUSCLE's affordable housing program. We need to broaden our base of operations. It is too hard to remain solvent otherwise. We're better
off than any other CDC in town. We have money in the bank, money for operations, but our development arm needs projects to do."
Chapter V. Montgomery Housing Partnership, Inc. (MHP) Case Study

Context

As part of the metropolitan Washington, D. C. area, Montgomery County enjoyed the benefits of a growing regional economy and a high per capita income. The County's 1988 per capita income of $27,831, which ranked 16th nationwide, was the third highest in the Washington area. However, this prosperity had also brought growth pressures, taxpayer resistance, and an uneven distribution of wealth. County Executive Sidney Kramer stated at the time, "Our taxpayers are already overburdened in Montgomery County and pay more than any other jurisdiction."

In 1990, a citizen's group, Fairness in Taxation, had turned tax relief and growth management in Montgomery County into a volatile political issue and was seeking a new tax on development and construction. Also supporting the tax were the League of Women Voters, union leaders, and a variety of civic groups. Past efforts to impose such a tax, which had been estimated to add $4,000 to the sale price of a typical single family house of 2,400 square feet, were opposed by the Chamber of Commerce and the County Executive. The County Council was exploring alternative tax measures, as well as plans to reduce the County's
budgetary expenditures. Ironically, the development tax came at a time when the County was downzoning land and imposing building moratoriums, which covered about 50 percent of the county's developable land, due to overburdened and inadequate public facilities. Developments in the pipeline continued, but at a slower pace.

Even with the moratorium, County planners made a forecast that "the area's labor market will be characterized by a continued labor shortage in the future." According to the Maryland Department of Economic and Community Development, Montgomery County had the lowest unemployment rate in the state. A news article reported, "The Greater Washington Board of Trade has urged businesses and local governments to help employees pay for housing as one way to halt the growing shortage of workers in the metropolitan area. Business leaders believe the high cost of buying and renting housing is driving away workers, and discouraging others from moving into the area."

A planning report added, "Compounding this problem is the rising price of housing in the area. The median price of a single-family house in Montgomery County jumped nearly 17 percent to $145,000 between 1987 and 1988. The median price of a new, single-family detached house increased over 28 percent to $232,000 for that same period." A survey also showed that the rental market was similarly expensive.
and tight. Between 1988 and 1989, rental rates for efficiency and one bedroom unit types increased by 4.9 percent and 6.4 percent respectively. In addition, the countywide rental vacancy rate declined between April 1988 and 1989, from 4.3 percent to 3.9 percent.

County corporate leaders were very aware of the issue of affordable housing. Numerous studies reported on the lack of affordable housing throughout the metropolitan Washington area and its effects on economic, social, and quality of life matters. Montgomery County's Economic Advisory Council (EAC) selected affordable housing as the theme for its 1990 Consensus Conference. The Conference recognized that "affordable housing affects all sectors of the County -- business, community, and government. Thus, while the Consensus Conference was originally initiated to elicit the advice of local corporate officials, civic, religious, and public sector leaders" actively participated.

Elected officials also were involved actively in the pursuit of affordable housing solutions for Montgomery County. County government established an affordable housing task force, and the former Council President set forth a Productivity Housing Plan. The County's Department of Housing and Community Development teamed up with the city of Gaithersburg to renovate a Quality Inn into approximately 120 furnished efficiency apartments for service and
entry-level employees at a cost of $5.2 million. A three-member governing board of the city, county, and the Housing Opportunities Commission of Montgomery County (HOC), a public corporation which financed, owned, and managed a variety of county housing projects, was formed to oversee and manage the project.

Such initiatives followed a history of government housing programs developed by the County, including a condominium transfer tax targeted for the assistance of multi-family rental housing enacted in 1981. The Moderately Priced Dwelling Unit Program (MPDU) was enacted in 1974 to provide moderately priced sale and rental units in new developments. Over 8,000 units had been produced since 1974. Under this program, developers of over 50 units were initially required, in exchange for a 20 percent density bonus, to allocate 12.5 percent of the development to moderately priced units. Under the law, the Housing Opportunities Commission maintained an option to purchase one-third of the MPDUs in each subdivision for its use. The density bonus and MPDU requirement percentages were revised in 1988 to go up to 22 percent and 15 percent respectively. A second amendment provided that 40 percent of the MPDU units be set-aside for purchase by HOC and local nonprofit organizations for permanently affordable housing.
According to MHP staff, passage of this amendment represented both a growing recognition of the affordable housing problem in Montgomery County and a legitimization of the role of nonprofits in providing this type of housing. Four nonprofits were qualified to purchase MPDUs in 1988. Each of these nonprofits undertook a somewhat different path to providing affordable housing. When a MPDU became available, these nonprofits negotiated among themselves to determine the buyer of the unit. HOC developed a strong working relationship with these nonprofits and became "a valuable resource of knowledge and expertise."

Organizational History

The group which formed the The Montgomery Housing Partnership, Inc. (MHP) during the fall of 1988 also proposed the MPDU amendment providing the nonprofit purchase option. MHP had its creation in the concerns and commitment for affordable housing expressed by dedicated citizens and clergy at that time. Two persons who became MHP Board members and MHP's first executive vice president, who had been a manager at the Montgomery Housing Opportunities Commission and a successful housing consultant, spoke on behalf of the MPDU amendment at the Council's legislative hearing in July 1988. MHP's president also played a key role in adoption of the amendment in his capacity at that time as Chairman of the County Planning Board. Following
the July hearing, the Community Ministry of Montgomery County, representing the group forming MHP, forwarded a letter to the Montgomery County Council in September suggesting "one of the greatest features of the Montgomery Housing Partnership - besides being a way to keep MPDU's affordable - is its potential for expanding the base of support for affordable housing" and requesting the Council's "support and critical review."

The original proposal was to establish a nonprofit mutual housing partnership, an approach patterned after the European concept of mutual housing associations. Organizers proposed the County join "a collaborative effort by religious and civic organizations, employers, bankers, business groups, (and) charitable organizations, including the housing beneficiaries themselves." The initial target population was planned to serve households at or slightly below the income of those served by the unsubsidized portion of the MPDU program, with contributions reducing the housing costs of some residents.

The Community Ministry of Montgomery County continued its support. Interested parties held initial meetings throughout the autumn of 1988, with articles of incorporations and by laws adopted on January 9, 1989. Discussion of potential Board members reemphasized the need for representatives from the business, civic, lending,
building, and religious communities, as well as from potential program beneficiaries. Over the next several months, proposals to create an action plan were introduced and coordination with other groups planned. A finance committee was also formed, followed by the appointment of tenant selection/occupancy and fund raising committees. HOC offered the first unit in May under the MPDU nonprofit amendment. The Montgomery Housing Partnership served as the back-up purchaser to the Bethesda Interfaith Housing Coalition, an ecumenically-backed group focusing primarily upon transitional housing for the homeless.

In May, the Board also turned once again to discussions of MHP's overall direction. The May Board meeting minutes stated that "a lengthy discussion of the issue ended with no specific votes taken. The general direction was toward MHP serving broad based affordable housing needs within the County, rather than attempting to develop programs comparable to those of other organizations presently serving special needs groups, and including consideration of homeownership as well as rental and cooperative approaches."

At the end of May, MHP began preparing for MHP's first purchase of its own MPDU.

Following this purchase, the Board selected a private management agent in July, based upon a below-market bid, the firm's experience in managing lower income units, and
discussions of specific tenant selection policies and leasing requirements. The Board's Management and Tenant Selection Committee proposed numerous guidelines which were debated by the entire Board. The Board agreed to make County residency "a preference . . . with a particular preference for those who work or have been offered jobs in the County." Discussions of tenant selection criteria focused on "the desirability of maximizing uses of the units in terms of the priority for addressing other needs; for example, single parent households and families paying a high percentage of income for rent. Ultimately, the Board determined that these priorities could be sorted out in the future, with the tenant selection policy to be implemented in a flexible manner for the Normandy Crest unit now available." The Board also ruled out a specific rent to income ratio requirement, allowing a tenant to pay a higher percentage of income for rent in limited situations.

During the summer, MHP consolidated its relationship with the County's Department of Housing and Community Development and with HOC. While MHP continued to assist and coordinate its activities with other nonprofits, it deferred a request to participate in a Single Room Occupancy (SRO) proposal with Shepherd's Table, a local nonprofit, and limited its participation in Neighborhoods Together, a nonprofit coalition. In July, Friends of MHP formed, and the Board planned a fund-raiser for October. Additional
Board member appointments and a search for permanent office space also began.

The fall was spent primarily in further delineating the authority and responsibilities of MHP's Board, executive, finance, and management and tenant selection committees, and staff. MHP's president and one of its Board members, serving as members of a County Council technical committee created to review the Productivity Plan, became actively involved in bringing recognition to nonprofit housing development. A memo to the Board from MHP's president noted the Plan "gave no recognition either to HOC or to non-profit groups in terms of housing development. The Technical Committee immediately expanded the scope to include reference both to HOC's activities and to non-profit efforts."

A combination October fundraiser and retirement tribute brought MHP favorable recognition. The tribute recognized MHP's new president, who had recently retired from public service, having been a member of the County Council and later Chairman of the County's Planning Board. A memo to the Board's Finance Committee noted the additional support of MHP's activities from local banks. "We find ourselves in the unexpected position of being courted by our local lenders. This is undoubtedly due to the influence of the requirements of the Community Reinvestment Act and the more
sweeping mandate for affordable housing contained in the recent Federal bail-out legislation, spurred by publicity about the tribute to Norm earlier this month. Given the level of support expressed by the banks, we would like to solicit your thoughts on a strategy for working with the banks, keeping as many as possible involved and interested."

Local bankers expressed "ready recognition of the strength of our Board of Directors, commenting "specifically on the broad range of experience and expertise in the Board. All of them were impressed by our report that much of our original seed money came from a group of developers and that our recent fundraiser assured the funding of our first year's operating budget. The bankers were also receptive to MHP's objective to address the "strong low - to - moderate income housing need for support, custodial, and service personnel (including bank tellers) as well as entry - level professionals. They quickly acknowledged the problem of service and support staff, saying that they were forced to provide 'combat pay' adjustments to keep bank staff in Bethesda in particular."

During this period, staff also developed a preliminary outline of a business plan for MHP delineating program goals and objectives, target markets, administration and staffing, permanent financing, and special outreach to employers. Plans referenced proposals to "increase staff as
developments reach feasibility stage, use of consultants, advisory committees, volunteers, and interns and to support the operating budget long term through combination of ongoing local contributions and revenues from acquisition/development activities." In terms of target markets and specific implementation plans, recognition was given that a higher percentage of lower income could be served by joint venture developments," using tax credit financing.

Staff met with legal counsel, who had previously advised the Enterprise Foundation, to determine the tax consequences of MHP creating for-profit subsidiaries and developing joint venture arrangements with for-profit corporations. "We assume at this point that MHP would serve as a limited partner in the development, but in any case, not as the money general partner. Staff does not envision MHP serving as a general partner at this stage for a variety of reasons, including our lack of net worth." Legal counsel recommended "establishing a paper trail documenting our policies and procedures," and staff concluded, "Over time, it would be helpful to establish general policies regarding our goals and minimum requirements for developments in various forms of ownership, e.g. MHP-owned rental; MHP/privately owned rental; and MHP-sponsored sale and cooperatively owned housing. Within this framework, we can then set specific objectives for individual developments."
From its inception, MHP had the dual goals of creating and preserving "more affordable housing for families unable to compete in Montgomery County's high priced housing market." MHP's participation in the MPDU program was planned to facilitate the goal of preserving affordable housing. In addition, MHP made offers to purchase existing apartment projects in order to preserve their affordability. These activities did not directly serve the goal of creating additional affordable housing, since developers still provided these units if they were not optioned by HOC or a certified nonprofit organization. The goal of providing additional units required MHP to "look for opportunities to build new housing."

In September 1989, MHP was approached by Orchard Development Corporation headquartered in Columbia, Maryland, to participate in a joint venture to develop a 67 unit garden apartment complex located on Robey Road within Montgomery County's Route 29 corridor. Due to inadequate public facilities in the corridor, preliminary development plans for the site had been held up at the approval stage for several years. Initially, Orchard was interested in responding to HOC's request for proposals for affordable housing developments that would meet the guidelines for exceptions to the Annual Growth Policy in areas presently closed to additional development and which could reach subdivision approval by June 30, 1990. Since each planning
area was limited to 250 units each year under the affordable housing exception, HOC used the RFP process to weigh the merits of competing developments.

After further consideration, Orchard Development's staff decided too many issues were outstanding to consider submitting a proposal on their own. Orchard then turned to MHP to facilitate development of the parcel. MHP's staff questioned the threshold criteria for its involvement "in terms of the basic objectives the project must achieve." The two threshold objectives discussed with Orchard were:

1. The development must achieve a higher public purpose than the minimum required, i.e. either a larger number of units serving lower income households, or more very low income households served than would otherwise be the case.

2. The units serving lower income households must be retained permanently in the affordable housing stock, as opposed to the 20 year period now typical.

Orchard was willing to accept these conditions "assuming we can make the numbers work," and MHP was faced with a major question of how best to structure the Partnership's involvement. "Orchard is willing to consider a wide range of options from having MHP serve as a consultant, assisting in obtaining tax exempt financing for example to 100% initial ownership by MHP if needed to obtain the financing and other assistance that would make the deal viable, with a resale in the future." Orchard proposed splitting equally the $50,000 developer's fee "to help cover
our costs of working on the deal, even if we have no equity stake, along with the possibility of either or both a share of annual cash flow and residual value at the resale."

In December, Orchard Development withdrew from negotiations to acquire the Robey Road property after extended negotiations with the owner failed to reach an acceptable purchase price. Orchard approached MHP to continue the project alone. MHP's president wrote, "Unable to convince the owner to accept the purchase price, they believe there may be a higher chance for success if MHP approaches the owner directly with a proposal based on 100% nonprofit ownership of the development." Orchard agreed to serve in a development and management role on a fee basis to the extent desired by MHP if the sale were successful. Orchard's withdrawal raised "the threshold question of is MHP interested in pursuing this development on its own, recognizing that we would need somewhere in the range of $40,000 to $80,000 in upfront capital to do so, and that the risks - as well as the rewards - would be borne solely by the Partnership."

Once the Board approved the decision to proceed alone, MHP began preliminary negotiations to acquire the property. In gaining the owner's agreement, MHP staff detailed the complexity of the local development approvals process and the "several factors that must be taken into account in
evaluating the situation." These factors included the residential subdivision moratorium and the limited affordable housing exception. Most critical to the detailed structuring of a project on this site were the presence of a 70 foot master plan road right-of-way that limited design options and the below-fifty-unit size of the original Orchard proposal.

Negotiations over specific sales terms continued until the end of February when a contingent sales agreement was reached for purchase of 3.8 acres, 0.74 acre more than the original Orchard parcel, for $600,000. The terms provided that "if fewer than 67 units are approved at site plan review, the price will be adjusted to $10,800 per unit exclusive of the required MPDU's." The agreement also provided MHP with 150 days from execution of the contract to verify title and to seek approval of the affordable housing exception by HOC, financing, environmental reviews, and subdivision preliminary plans, including the abandonment of the right-of-way.

The Board and the property's owner agreed to a contract in late March, and MHP turned to the tasks of revising the pending subdivision plan and applying for a certification of the project as an affordable housing exception to the County's Annual Growth Policy. The approvals process required submission of numerous studies,
including environmental, traffic engineering, wetlands delineation, and a title report. MHP staff felt confident that "we are likely to be successful in avoiding the street extension. It would provide a connection to Robey Road that is of questionable value, and construction would be expensive because of a sharp grade change on the adjacent property."

To keep costs to a minimum and "fast track" the approvals process MHP contacted the original engineers who had worked for Orchard and considered utilizing Orchard's original building plans. MHP's president also suggested submitting the project to HOC for certification before completion of the revised preliminary plan, "because there is now great competition for the affordable housing exception to the subdivision moratorium in this area. We also propose to ask HOC to waive the $1,000 application fee and to assist us in expediting the subdivision plan."

In applying to HOC for the affordable housing exception in early April, MHP again affirmed its commitment to "providing more than the minimum qualifying number of below market units." MHP's transmittal letter to HOC reflected MHP's thinking:

It is our intention to keep this project in the 'affordable' category permanently and to increase the number of below-market
units as project economics permit. Since the equity needed will be raised through a variety of sources, including grants and loans from corporations, individuals, and foundation, the decision whether to use the cash flow increases to subsidize more units will be influenced by our need to repay loans or our need for capital for other projects. The decision will be made in the context of maximizing our ability to increase and preserve the County's supply of affordable housing.

HOC approved the affordable housing exception to the annual growth policy and waived its $1,000 application fee in April, and MHP's Board approved a search for a development consultant to expedite work on the Robey Road project. In May, MHP agreed to employ DeSantis Investments, Inc., whose president had been affiliated with Orchard, to undertake a variety of assignments including preliminary design and feasibility and financing.

While MHP was negotiating its purchase contract, HOC successfully acquired an adjacent 2.21 acre parcel. Upon learning of this acquisition, MHP staff suggested the desirability of coordinating project design and possibly joint development. HOC was also negotiating with another adjacent property owner, The Milton Company, who was developing the Vineyards condominium community, and HOC had suggested that "HOC sell its land to Milton and buy condominium units throughout the Vineyards project." MHP staff met with HOC in May to discuss development
alternatives and learned of HOC's possible interest in acquiring MHP's parcel. HOC's Executive Director then raised the possibility of selling their site to MHP. In a response to HOC which profusely expressed appreciation of HOC's support and "interest in serving as a public partner in MHP's efforts," MHP's president reiterated:

We consider it absolutely essential that MHP establish its identity with this first development project. This objective is, in fact, the driving force behind our decisions on these alternatives. From this discussion, I am sure it is obvious that the strongest preferences of our Board would be for us to develop the larger project that would result from our purchase of the HOC land. If the Commission is interested in this approach, we would very much like to pursue this alternative as soon as possible.

At their May 30 meeting, the Housing Opportunities Commission authorized their staff to negotiate for the sale of their parcel to MHP to cover its purchase price plus costs incurred up to closing. This price represented a significant opportunity for MHP to increase the number of anticipated affordable housing units, since HOC had originally purchased the property at a bargain sale price equivalent to less than $8,000 per unit. HOC requested that MHP submit a contract outlining its public purpose objectives and giving HOC the right to step in if MHP failed to move the project forward. HOC also requested MHP to
consider including a small community room planned for the use of residents and HOC, which MHP found acceptable.

In July, MHP submitted a preliminary subdivision plan for the combined MHP/HOC parcels to the Montgomery County Planning Board. MHP's board approved a tax-exempt financing plan for the Robey Road site. As a significant new construction project, Robey Road offered both the opportunity and necessity of seeking new financial and organizational resources. MHP staff identified two financing options: tax-exempt bond financing and low-income tax credit syndication. Staff explored these options with analytical help from the Enterprise Social Investment Corporation (ESIC), the wholly owned for-profit subsidiary of the Enterprise Foundation. Staff expected ESIC to bring both objective expertise and valuable credibility to the deal structuring. It had been very active in syndicating tax credit projects throughout the country and had gained an excellent reputation in Maryland. Through its contacts, ESIC could also introduce MHP to the larger world of foundations and corporate philanthropy. However, MHP experienced long delays in obtaining the requested credit pricing information.

The bond financing approach required less front-end analytical support, although this alternative also required extensive outside technical expertise in its implementation.
As structured, MHP staff anticipated the bond option would require a temporary loan to cover front end costs, a deferred payment second trust, and a loan guarantee from the County to reach an acceptable 1.1 debt service coverage, which they thought would be forthcoming as a contingent liability. To achieve financial feasibility the development also required the assistance of a site acquisition bargain sale, a payment in lieu of taxes for very low income units, and partial deferral of servicing fees. Staff postulated that the more creative loan guarantee approach would be especially welcomed, since it expended fewer funds than the equity approach to increasing the debt coverage.

MHP staff also considered the bond financing's relative ease of implementation. Several Board and staff members were concerned about the legal complexity of syndication, although they had considerable tax credit experience. In a memo to the Board, MHP's president stated, "I do not think we should take the route that is more complicated, demanding greater staff time and effort." Nonetheless, both MHP's staff and Board expressed interest in attempting a tax credit project in the near future.

The type of financing selected had a direct impact on the project's feasible mix of unit types and sizes and the acceptable range of tenant incomes. The tax credit project was structured to offer all of its units at below market
The bond project contained 74 market rate units which could become below market units as the project's debt is repaid. Some Board members expressed concern that market rate units were being offered, but the Board consensus reflected the sentiments of MHP's president who concluded:

There are real social benefits to having a wider range of incomes in such a project, and there is a public image benefit to MHP. If our first project is 100% below-market, then neighborhood objections to future projects will be strengthened. I believe we and the community are better off if we have six projects with 50% of the units below market than three projects with 100% below market. I believe we will also be in a stronger position to attract grants or loans from employers if we are serving a broader spectrum of people who cannot afford to live in the County.

The tax credit also represented a potentially more risky financing approach, since the allocation of credits available to nonprofits each year in Maryland was limited. Timing of a tax credit project was more critical and award less certain given this restriction. Tax credit projects also represented a less secure investment strategy for long term affordability until MHP could gain control of the terms of syndication.

Summarizing the Board's actions regarding Robey Road's financing and subsidy alternatives, minutes reported: "The
Board unanimously approved moving ahead with 501 (c)(3) bonds to finance the Robey Road development with 70% of the units at market rents, 20% affordable to households at 50% of area median income and an additional 10% of the units affordable to households at 60% of median. Three key reasons were cited by various Board members in selecting this approach in lieu of the tax credit approach, under which all of the units would serve households at 60% of median: ease of implementation, particularly in light of MHP's limited staff resources; a desire for a development of this size to serve households with a range of incomes, recognizing that the market rents proposed are not at luxury levels, and the ability to retain long-term control over development." With the method of financing and unit mix determined, MHP staff began negotiations to select a builder, management agent, and market analyst-appraiser.

"It looks like we have a 'go' Project."
Chapter VI. Case Analysis

This chapter will utilize the four stages of innovation (idea generation, coalition building, idea realization, and transfer) and the four organizational frames (structural, human resource, symbolic, and political) to analyze the findings of the field research described above. General findings for each stage and frame will be explored, followed by a more specific discussion of the findings regarding each organization.

Stages of Innovation

Each stage of innovation reflects the chronological and substantive progress of an organizational innovation. To document the progress that each housing development program innovation, the unit of analysis, makes as it moves from design through implementation, each organization's innovation is examined utilizing the stages of innovation process. These findings are summarized in Table I. As reviewed in the literature, the development of innovation, like the development of organizations, is not often a linear or continuous process. Innovations, and entire organizations, often cycle back and forth between stages, and some portions of the organization and the innovation may lag or accelerate beyond others. Nonetheless, the stages of innovation proved to be a highly descriptive and useful
method to track innovation through each organization's history and development.

Idea Generation

In this first stage of innovation, an idea moves from conception to activation of the innovation. This phase represents the triggering of the innovation idea into action. In both MUSCLE and MHP, the first key innovation action was the decision to pursue an individual development opportunity. For MUSCLE, it began with the purchase of three townhomes in the Shaw neighborhood. MHP began with a joint venture proposal to develop the Robey Rd. apartments. As a housing counseling agency, MUSCLE's decision to undertake its own development was more radical than MHP's decision, which was predicated more directly upon MHP's founding objectives. It took MUSCLE six years to undertake its first development; MHP took less than a year.
## Table I. Stages of Innovation

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<th>Stage</th>
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<th>MHP</th>
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<td>Idea Generation</td>
<td>Vacant Housing Program</td>
<td>Robey Rd. Joint Venture</td>
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<td>Coalition Building</td>
<td>Creation of Fund</td>
<td>&quot;Threshold Criteria&quot; Developed</td>
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<td>Board Expansion</td>
<td>Decision to &quot;Go It Alone&quot;</td>
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<td>Implementing Philosophy</td>
<td>Contract Negotiation</td>
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<td>Idea Realization</td>
<td>Development</td>
<td>HOC Approvals</td>
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<td>Oversight</td>
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<td>Committee</td>
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<td>Sale of Colonnade</td>
<td>Plans and studies</td>
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<td>Transfer</td>
<td>Portfolio Diversification</td>
<td>Financing</td>
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<td>Equity Fund</td>
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Coalition Building

After moving from conception to action, the innovation must gain support and backing from key organizational players, both from within and outside the organization. This sponsorship symbolizes the "championing" of the innovation past its first tests of legitimacy and feasibility. Once again, development represented a bigger "stretch" for MUSCLE. After approving the townhouse development, it moved to a larger and more complicated vacant apartment conversion. These early efforts to move into development were bolstered by community support and the creation of a development fund, but its internal organization struggled to accommodate these projects. During this period, MUSCLE's Board was expanded to attract additional funding and to represent the broader interests of the larger community MUSCLE was beginning to serve. The Board spent considerable energy developing and approving MUSCLE's "implementing philosophy" and rules of procedure.

MHP's support also began with the development of "threshold criteria" to guide selection of development projects, but its staff and Board were able to approach the project decision much more like a business planning decision given housing development's prominence in its original mission and objectives. Its lines of support and access to the community were also more established as a result of the
professional background and orientation of its Board and staff. MHP's broad support from a cross-section of Montgomery County's leadership greatly facilitated its entry into its first development project.

Idea Realization

The third task of the innovation process turns the innovation into reality. In the case of MUSCLE, this phase occurred with the formation of a Board Development Oversight Committee and dedication of funds generated from the sale of MUSCLE's largest asset, the Colonnade Apartments. With these events, MUSCLE completed the transition into housing development and was positioned to secure the program's short term future.

MUSCLE, on the other hand, was able to end its successful contract negotiations for the Robey Rd. property and move immediately into predevelopment submissions and approvals. In the process of deciding to "go it alone", it had won HOC's agreement to sell MHP its adjacent parcel, creating a significant development opportunity and building goodwill and access to local funds as it proceeded.

Transfer

The culmination of innovation production is the diffusion or
institutionalization of the innovation throughout the organization. This is a process which extends the innovation beyond implementation and requires many other "people, activities, patterns and structures to change to incorporate the innovation" (Kanter, 1987, 47). It is an integrative process, although it may also set the stage for the next innovation idea to begin its way toward implementation. MUSCLE's transfer centered on its decisions to diversify its portfolio and to establish an Equity Fund. MHP's transfer focused upon its selection of funding alternatives and its creative strategy to add lower income units over time to its projects.

Organizational Frames

The four organizational frames serve as independent lenses to describe organizational innovation from different perspectives. For purposes of analysis, each frame has a unique comparative advantage. Each emphasizes a different aspect of the organization, and as a result, "each perspective enacts a different image of the organization" (Bolman and Deal, 237). In total the frames produces a useful analytical perspective of organizational innovation as a "cross-cutting" phenomenon affecting the entire organization. These findings are summarized in Table II.
Table II. Organizational Frames

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<th>Frame</th>
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<th>MHP</th>
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<td>Structural</td>
<td>Representative Board</td>
<td>Professional Board</td>
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<td>Move toward development staffing</td>
<td>Experienced development staff</td>
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<td>Top down</td>
<td>Organic</td>
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<td>Human Resource</td>
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<td>Task differentiation</td>
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<td>Advocates</td>
<td>Service Providers</td>
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<td>Charismatic leader</td>
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<td>Job creation and recruitment</td>
<td>Use of consultants</td>
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<td>Symbolic</td>
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<td></td>
<td>Very low income</td>
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<td></td>
<td>Ownership, community</td>
<td>Affordability, permanence</td>
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<td>Strategic alliances</td>
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The Structural Frame

The structural frame concentrates upon the scope and the effect of innovation upon organization. Its concerns are with the central and peripheral activities of the organization and their interactions with both the administrative and technical aspects of the organization's structure. In this sense, this frame is concerned with both the structure and the functions of the organization.

Both MUSCLE and MHP exhibited organic structures common to entrepreneurial organizations. Organization was both simple and dynamic with little job hierarchy. As an older and larger organization, MUSCLE exhibited more differentiation in both its activities and its efforts to specialize staff functions. The primary structural emphasis in both organizations, as Valedeck suggested in his general discussion of nonprofits, was the staff relationship to the Board. Board members were actively involved individually and through committee structures in both policy development and on-going project monitoring throughout the innovation process. However, MUSCLE's Board was more interactive and policy-oriented due to the greater uncertainty surrounding the organization's entry into development. MHP's Board also debated policy, especially regarding prospective tenant income mixes, but was able to focus more directly upon the "business" decisions of development without restructure or
radical change to its composition or relations with MHP's staff.

MUSCLE

MUSCLE began its operation relying on volunteers and borrowing heavily from the resources of local churches. It grew rapidly. Its early years, which were extremely productive, might be characterized as a period of maturing administrative and financial transition. MUSCLE began its innovation into housing development as a result of a growing number of vacant buildings and Washington's urgent need for affordable housing.

MUSCLE also recognized the development of vacant housing as a vehicle to assist itself in becoming self-sufficient. Projects such as the rehabilitation of the CCNV shelter generated fees and brought MUSCLE favorable press, but did little to increase its capital base. The move into the redevelopment of occupied housing was a further effort to advance MUSCLE's dual goals of providing affordable housing and creating a revenue base to fund its on-going operation.
Montgomery Housing Partnership

MHP began with similar support from Montgomery County's religious community. It also was created with the dual objectives of providing affordable housing and becoming self-sufficient, but its innovation of moving into large-scale housing development was included as a goal of its original mission statement. Rather than defining its mission, MHP spent most of its early years in delineating program objectives and developing a business plan. Although limited, its funding sources were more secure than MUSCLE's. In this sense, it acted more like an organization "born mature" (Clay, 1986).

In many ways, MHP's entry into development was a less radical departure from its original mission. Since it came earlier in its organizational history and was more central to its original mission, MHP also placed greater symbolic importance on its first development project. Like MUSCLE, however, MHP was also aware of the limits of its staff capacity. For this reason, its choice of funding for its first large scale development project, Robey Road, was predicated in large part upon its relative ease of implementation.
The Human Resources Frame

The human resources frame focuses upon the interpersonal elements of organizational leadership, motivation and morale, and professional standards. It also considers the manner in which an organization learns from its experiences and transmits this knowledge to its members and constituents. MUSCLE and MHP are both organizations led by charismatic leaders with long tenure and experience working in their respective communities. Both organizations emphasize their unique competence and professional ability to produce affordable housing. However, this convergence emerged from diverse beginnings. MUSCLE's Board originally consisted of ministers representing congregations located in southwest Washington. Its lay representatives were added to reflect its expanded scope of service and its increased needs for professional advice and funding. MHP's Board began with both clerical support and professional representation. Its membership search has been principally to expand its community representation.

MUSCLE

With its beginnings as a housing counseling agency, MUSCLE's initial staff and Board orientation was closely aligned to its original clients. As its mission shifted to housing development and partnerships with the private
sector, these new sensitivities and skill requirements were necessarily added to their agenda. MUSCLE instituted a multi-year planning process and an annual Board retreat which reaffirmed the agency's mission and facilitated project reviews and program innovations. The Board turned to written staff reports and detailed guidelines to improve its monitoring of projects and to further facilitate implementation of these innovations. This searching has made the innovation process more difficult as the Board and staff have attempted to align their priorities and awareness.

MHP

Even though MHP also began as a community-supported organization, it has always been a more professionally interactive organization, and staff activities reflect this orientation. Its staff background includes extensive involvement with Montgomery County's governmental agencies and business community, with whom it began to interact immediately. As a former member of the County Council and Chairman of the County's Planning Board, MHP's president was able to turn his retirement into a successful fundraiser for MHP. Its Board also represented the County's professional and political "movers and shakers". As a result of this integration, MHP has moved more quickly to initiate
projects, engage professional consultants, and to develop partnerships within the community. Staff has related well to this process and has guided the Board through its decision-making utilizing extensive project reporting and site visits.

The Symbolic Frame

The symbolic frame concentrates most directly upon organizational culture and climate and its representation in the development and execution of the organizational mission. The nonprofit aspects of MUSCLE and MHP symbolically nurtured their innovative development activity by attracting and retaining staff and Board members that related well to each organization's purpose and practices. Externally, it also legitimated the organizational search for projects and funding within the community and provided a vehicle for promoting each organization's public purpose. This symbolism also represents a potential barrier to innovation, however. Nonprofit organizations are often prevented by popular belief, conventional wisdom, and legal restrictions from taking undue development risks or competing unfairly with for-profit businesses. Both MUSCLE and MHP were served well by the legitimating symbols of nonprofit enterprise, but as a result, they were also held to a higher
standard of developing more affordable housing than the market or government acting alone could provide.

MUSCLE

From its inception, MUSCLE's has worked to position itself as a competent housing crusader. Its initial religious support formed the underpinnings of its orientation and casts its mission in the twin beliefs of neighborhood preservation and homeownership. These beliefs led MUSCLE's staff and Board to serve the lowest income groups feasible and to undertake projects in areas that were not marketable because of substandard housing conditions.

As federal funding for low income housing diminished, MUSCLE continued to maintain its original mission of serving the lowest income groups possible, but project feasibility began to direct MUSCLE toward projects that assisted greater numbers of moderate income persons. This turn of events led MUSCLE's Board to question involvement in these projects. This questioning led to MUSCLE's innovatively seeking development projects and alternative funding sources that would bolster its founding mission to serve the very low income, while allowing MUSCLE to respond to a broader range of project opportunities and development initiatives.
Montgomery Housing Partnership

While targeting the income groups to be served was not as much an issue with MHP, its mission to provide affordable housing reflected similar concerns. At the hearing amending MPDU guidelines, MHP was originally cast as an organization that would promote mutual housing, an ownership concept much like MUSCLE's initial cooperative approach. While this approach was tabled, the symbolism was retained. MHP staff and Board reaffirmed this commitment soon after incorporation. The provision of permanently affordable housing units became a threshold criterion for MHP entering into a development project. As a further condition, MHP's involvement must also attempt to add value by increasing the number of affordable units within each project over time through the use of creative financing or other means of subsidy.

The Political Frame

The political frame relates the organization to its external environment. Sources of support and conflict with other organizations and the larger community are considered within this frame. Joint ventures and collaborations with government, local funders, and other nonprofits are the principal domain of the political frame. The focus is upon
the relationship and the process of its development. Both MUSCLE and MHP exhibited a high degree of innovation and cooperation in their relations with their external environments. Both organizations quickly broadened their bases of support and their entrepreneurial involvement in innovative development projects, although both set limits to their collaboration based upon organizational mission and resources.

MUSCLE

As described above, MUSCLE's early political support came principally from the religious community. It quickly extended to the larger community. As its participation in the District's housing programs evolved and its staff began contributing its talents to other local housing initiatives, MUSCLE's support and endorsement also expanded. This support, and its willingness and creative ability to structure tax credit and bond financed projects, have led MUSCLE to increase its innovative involvement in development projects. This involvement grew to include joint venture projects with private developers and most recently, with limited equity cooperative groups. Its association with local banks has also led the way to creation of a privately financed equity fund.
Montgomery Housing Partnership

Perhaps MHP's greatest strength is its strong support from such quarters as Montgomery County's Housing Opportunities Commission and many of its private developers. Coming from a local government planning and development background, MHP's staff has been able to maximize its contacts and knowledge of local development regulations. Its Board also has been actively involved in this process. This involvement has greatly leveraged MHP's ability to negotiate development projects entrepreneurially and to access local funding sources innovatively.
Chapter VII. Conclusions

This concluding chapter reexamines the earlier hypotheses regarding innovation based upon findings of the literature review and analysis of the field data. It is followed by a closing observation regarding the importance and future study of innovation within enterprising nonprofit community development corporations.

Hypothesis
Enterprising nonprofit community development corporations, like other entrepreneurial organizations, are an organizational form that promotes innovation.

As described in the literature, nonprofit community development corporations represent a unique organizational form created to respond to the urgent needs of many inner city neighborhoods left unserved or underserved by the shortcomings of other public and private institutions (Clay, Mayer and Blake, Pierce and Steinbach). This failing suggests an entrepreneurial mandate, but not necessarily an innovative one. Numerous forces act to impede CDC innovation, including lack of funding and expertise, community resistance to change, and legal restrictions.
applying to nonprofit enterprise. Other factors, such as risk-taking, organizational flexibility, Board support, and collaborative partnerships tend to support their innovation.

This thesis has revealed the innovative accomplishments of two enterprising CDCs from very different environments. MUSCLE began as a participatory housing counseling agency that has moved toward professionalism in its affordable housing development programs. MHP began as a more professionally oriented nonprofit that is moving toward a more representative and inclusive affordable housing development strategy. The move into development was more radical for MUSCLE and has taken longer to accomplish, but both organizations have moved beyond the risk-taking characteristic of entrepreneurial organizations.

Both organizations have been successful in their push to move beyond "basic job - as - given accomplishments" to innovation. Their Boards and staffs have worked closely together to assume the challenges of innovation. Similar to Kanter's (1983, 378) findings in the corporate world, their innovations have included "new policies, new structures, new methods or technological processes, and new products or market opportunities." In support of their missions and in the face of great uncertainty, they have been both entrepreneurial and innovative.
Hypothesis

The factors influencing innovation within enterprising nonprofit community development corporations follow generic stages of innovation that can be chronicled from design to implementation.

This thesis has embraced the expansive definition of innovation as the generation, acceptance, and implementation of new ideas, processes, products, or services. Under this definition, an invention, which may be any new problem-solving or goal-serving opportunity, must move from creation to execution to be considered an innovation. While the innovation process may appear non-linear, and may have occurred differently in another organizational setting, most classic organizational studies have found that innovation follows predictable stages from design to implementation. As a result, the stages of innovation process may be utilized to track organizational events to determine if in fact an innovation did occur, and in conjunction with organizational frames analysis, to explore the factors contributing to the innovation.

In exploring the innovative processes of MUSCLE and MHP, this study has found the stages of innovation approach to be a useful descriptive tool to delineate the paths of nonprofit organizational innovation. Both MUSCLE and MHP
exhibited discrete periods that could be easily categorized as idea generation, coalition building, idea realization, or transfer (Table I). From the perspective of those who participated in the events, these stages were discernable through field research, interviews, and document reviews.

However, individual events often exhibited some characteristics of both the stage that proceeded and the stage that followed the event. For example, MHP's Robey Road plan approvals, described as part of the idea realization implementation stage, were initiated during the coalition building stage as part of the contract negotiations process. Innovations, like organizations, appear to cycle within and across stages, suggesting the opportunity within nonprofit research to further refine these stages to include substages of innovation similar to Zaltman and Duncan's (1977) model.

Hypothesis

The factors influencing innovation within enterprising nonprofit community development corporations are discernable as a collective vision of four organizational frames: structural, human resource, symbolic, and political.

Organizational frames serve to reveal the factors and conditions of innovation within each stage of the innovation
process. As the innovation travels from design to implementation and transfer, each frame takes on a different prominence, focusing upon the different factors of innovation featured within that frame. Consequently, each frame's descriptive powers reflects the prominence of that frame's activities within the organization during that stage of innovation.

As nonprofit organizations, the structural and symbolic frames assumed greater prominence for both MUSCLE and MHP during the idea generation and consensus building stages. This was especially true for MUSCLE, which struggled more in the beginning to modify its mission to include citywide housing development. As entrepreneurial organizations, the political frame assumed greater significance during the coalition building and implementation stages as both organizations sought collaborative support and funding from the community. The human resource frame appeared of greater significance to MUSCLE as it professionalized its staff and Board during these same stages. MHP's human resource frame appeared less prominent throughout and did not vary significantly from its professional orientation during any of the innovation stages, although this may change as MHP grows.

These findings reflect the same commitments to opportunity and resources that Stevenson, et al. (1989)
recognized as pulling individuals toward entrepreneurial behavior. From a broader perspective, they also reflect the organizational and environmental commitments and the "cohesive pattern of managerial behavior" that appear to support organizational innovation. These summary findings suggest that organizational frame analysis is an appropriate and productive vehicle to explore the factors of innovation within nonprofit community development corporations. Further research should continue to explore the sensitivity of frame analysis to variations in individual organizations, the nature of the innovation, and the stages of innovation process.

Epilogue

Like most dilemmas facing enterprising nonprofit community development corporations, the management of their innovation is not a simple matter of clearly "understanding one's strategic options," for "old and new technology, and old and new markets," as is the recommended strategy for managing innovation within high technology firms (Patz, 1986, 59). Among other environmental factors, chronic capital shortages have made program innovation difficult for these community development corporation. As Vladeck (77) concludes, "organizations that budget to break even at existing operational levels, (which) have little by way of reserves, and have difficulty obtaining access to venture
capital cannot innovate as well as they should." On the other hand, many theorists have expressed fear "that as nonprofits increasingly generate revenues through charges for services, they may neglect their original mission and ultimately lose their legitimacy" (Ferris and Grady, 129).

As Drucker (1985, 30) has concluded, "Innovation is the act that endows resources with a new capacity to create wealth. Innovation, indeed, creates a resource." As such, nonprofit innovation is both the source and palliative of these "revenue-dependency theory" concerns. A search of the literature on nonprofit profit management reveals very little case material based upon community development corporations dealing with these issues. Evidence of the impact of enterprise and innovation on the behavior of these nonprofit organizations is even more limited.

Enterprising community development corporations offer great hope to affordable housing and to community problem-solving and great challenge to organizational theorists, community funding sources and public policy makers. In essence, there is potential conflict within every enterprise and with every innovation, but there is also potential for what Kanter has called "the blooming of a thousand flowers."
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