HOW DID THE SANTA CLARA UNITED WAY, SMACK IN THE MIDDLE OF BILLIONAIRE COUNTRY, GO THROUGH $12 MILLION AND COME INCHES FROM BANKRUPTCY? LETHAL LEADERSHIP AND A BOARD THAT SHOULD HAVE KNOWN BETTER. **BY JOHN SEDGWICK**

GIVING, GIVING, GONE

AFTER UNITED WAY OF SANTA CLARA County burned through about $12 million, laid off half its employees, doled out eye-popping severance packages, and then nearly went broke in spring of 1999—all without arousing suspicions from its ever-optimistic board of trustees—it was possible to

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think that maybe United Way simply didn't belong in Silicon Valley at all. Sure, United Way had 1,400 other organizations all across America, some of them in high-tech centers like Seattle and Austin, but despite the recent Nasdaq swerves, there's still only one Silicon Valley. It's California's California, a place where the Porta Potties at glitzy benefits actually flush, where option-laden techies plunk down an extra $1 million for their houses to avoid the hassle of further negotiation.

Dreams are so big and shiny here they can eclipse reality altogether. And that sure-you-can spirit persisted on the board—which included executives from Nasdaq, Silicon Graphics, and Hewlett-Packard—even in the face of mounting evidence that the organization was headed for disaster. "There was always the expectation that we would grow our way out of debt," says Roy Avondet, an accountant at Deloitte & Touche in San Jose who headed the board's finance committee. "There was hope and hope and hope and hope. It was hope eternal."

It's a sad case, United Way's collapse, and not just because it brought grief to virtually everyone who left their fingerprints on it. Thanks to $5 million from the Bill and Melinda Gates Foundation, and millions more from other high-tech highfliers, United Way has been made whole again, and its hundred social-service agencies have had their funding restored at least for now. But the old board is gone: the members having resigned after firing the executive director.

United Way's travails have raised troublesome issues that will surely linger on. There are questions about the future of meaningful board service in a new economy that can provide the most desirable benefactors with oodles of money to lavish on their charity of choice yet may leave them with no time for the thoughtful participation that would be more beneficial. The United Way example also makes you wonder about the place of philanthropy in today's point-and-click culture, where charity can become just another purchase. And, finally, the episode raises doubts about the long-term viability of United Way of America itself, already racked by the scandal that sent its national president, William Aramony, to prison in 1995 for lavishing United Way funds, Humbert Humbert–like, on his teenage inamorata, among other gross financial indiscretions. If Silicon Valley is indeed the future, United Way might not have one.

But then, it has been a while since United Way seemed to be of the moment, and in the tomorrowland of Silicon Valley, United Way may look like a patch of yesterdayville. "It's your father's Oldsmobile," staffers sometimes sigh. In an era of boutique-style philanthropy, with chic, single-interest causes, United Way is like a department store in an old, crumbling downtown. Its Santa Clara branch directs $10 million a year to a variety of social services for that other Silicon Valley, the one without the stock options. Silicon Valley philanthropists don't give to problems, it's been said, but to solutions. That's trouble, because United Way addresses the problems that defy easy solutions, like homelessness, alcoholism, drug addiction. The awesome difficulty of its task makes the enterprise seem uncool, almost depressing. The problems, one might say, are too close for comfort.

It's one of the ironies of the whole debacle that the dream meisters of Silicon Valley were themselves duped by a dreamer. In this case, the dreamer was United Way of Santa Clara president and CEO Eleanor Jacobs, a mammoth, glossy-cheeked, all-smiles dynamo of a woman who'd grown up in poverty in St. Louis and remade herself as a "turnaround" expert after working for a variety of social service agencies in the Bay Area. As such, she was the perfect person for a United Way that had financial difficulties, had survived upheaval after the quick departures of two previous directors, and was desperate for some upward mobility. (Now, after the calamity, some questions are being asked about which way, exactly, those previous agencies of hers were turned.) In classic California fashion, Jacobs has written a self-help book called *Ten Pearls of Wisdom,* which trumpets the power of belief in achieving success. "I only read half that book," says Michael E. Fox Sr., a distributor for Anheuser-Busch and a noted Valley philanthropist who served as board chairman when United Way of Santa Clara went down. "If I'd read the whole thing, I'd have known exactly where she was coming from, and I'd have known that it was all BS." (Reached by phone in San Francisco, Jacobs

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refused to comment for this story. "I'm trying to get on with my life," she said. "I'm being with my family and enjoying my family more than I've been able to do in years.")

When Jacobs arrived in 1995, she was confronted with a United Way that faced problems almost everywhere she looked, but she decided, not unreasonably, that the biggest problem was money. For years, United Way had relied on small contributions from a large pool of workplace donors who had been persuaded that an annual donation of a few hundred bucks to United Way was their civic duty. But workplace giving had been flat for a while. In fact, the percentage of the proceeds that were going to the dreaded "designations" (funds that United Way was obliged simply to pass on to specific charities without taking out even a nickel for itself) was rising toward 50 percent, leaving less money to cover United Way's administrative costs. So Jacobs took a new approach, one that she figured was perfectly suited to Silicon Valley. She decided to go high-end in her search for funds.

There is the possibility that in doing so, Jacobs was taking herself high-end, and thus completing the remarkable personal transformation that she claimed was possible for true believers. Certainly, she started traveling in better company than she had in St. Louis. She enlisted the glittery Darian Weltman Swig, formerly of the protocol office of the city of San Francisco, to put on splashy donors parties that may, as it turned out, have been a tad too black-tie for a Levi's community like the Valley. And Jacobs went after the rich in person. She claimed to be inches from landing a $5 million donation that former Hewlett-Packard chairman Lewis Platt was supposedly "championing" at the David and Lucile Packard Foundation. And she told Fox she was meeting almost weekly with John Morgridge, chairman of Cisco Systems, in hot pursuit of another $5 million or more.

It is now clear, however, that United Way's cash reserves fell an average of $2 million to $3 million short each and every year of Jacobs's tenure. For the first few years, the organization managed to meet its commitments to the agencies it served by dipping into its reserves. But neither of the prized donations materialized, nor did enough gifts arrive to replenish the organization's coffers. And United Way's expenses continued to rise, as money was spent on lavish decorations and invitations for fund-raising events. And finally the reserves almost ran out.

Why didn't the board notice the negative cash flow? Well, there was a confusing overlap between fiscal and calendar years, and that $11 million reserve did cover the early shortfall. Plus, Jacobs repeatedly assured everyone that big donors would surely come through to lead the organization to the promised land. But there were also some screwy arrangements. For instance, Jacobs restructured the previously unwieldy board of trustees, hand-picking its members to form a final 21-member board of directors. Among those who remained were four who represented agencies funded by United Way and who might have been unwilling to rock the boat and thus endanger their source of funding. And according to Fox, Jacobs restricted the board to one committee, the finance committee headed by Deloitte & Touche's Avondet, thus limiting the hands-on involvement of other board members.

A greater obstacle to accountability may have been the nice-nice atmosphere of general consensus, which may have impeded the raising of necessary sharp questions, as members were reluctant to probe too deeply when they sensed that something peculiar might be going on. As some members did. When push came to shove, says Fox, "Board members didn't want to stand up against one another." Or as Avondet puts it: "I didn't think it was my job to be a jerk." And Jacobs played up to the vanity of the board chairman, loudly calling him "magisterial" and "wise" at every opportunity, and giving him a big, loving hug whenever she saw him. "That's telegraphing to everyone that she and I are like this," Fox says ruefully as he holds his fingers tightly together. Such closeness might have suggested to the board that Jacobs had told Fox everything and that he approved of all of it. And finally, Jacobs conducted herself with a remarkable evangelical air as she pleaded with everyone to believe. For one presentation to the agencies funded by United Way, Fox recalls that she dressed herself in flowing white robes "like Father divine" and had the board literally march in behind her, as if it were a holy procession.

Of course, there is infectious enthusiasm and then there is outright duplicity, and it seems that, once or twice, Jacobs may have stepped over the line. Then again, her power of belief may have blurred that line. After all, Pearl of Wisdom number seven is "the Pearl of Pretend." She writes: "Pretending that you have already reached your goal [before you actually have] is simple and easy. It's just playacting, imagining something that doesn't exist." True enough. One income-boosting strategy was to hire temps to solicit small-business owners, and to offer the temps incentives for high results. Unsurprisingly, the pledges were impressive—nearly $3 million. Without checking their reliability, Jacobs entered these totals in the books as if they were hard cash. "And not just booked it," says Fox, "she spent it." In fact, only a fraction of that amount ever came in. Later, as the shortfall widened in December of 1998, vice-chairman Frederick Ferrer claims that Jacobs tried to conceal the bad news, asking her CFO, Dennis Wooten, to delay reporting the actual numbers.

Clearly, Jacobs knew United Way was sinking under the waves of red ink because by then she'd started a corporate-style down-

INSTEAD OF THE $11.4 MILLION THE BOARD HAD BEEN EXPECTING, THE ACTUAL FIGURE WAS CLOSER TO $1 MILLION. "WE WERE ALL STUNNED," SAYS FERRER.

sizing, laying off staff members. Possibly her own memories of poverty led her to offer lavish severance packages of a month's salary for every year of service to soften the blow, giving one long-time staffer a whopping $160,000 and costing the charitable organization overall about $1 million. However, this plan also hastened the departure of employees motivated to take advantage of the deal because they knew they could get a job elsewhere. Says Avondet: "There were plenty of people who said, '*Whoo*! It's never going to get better than this.'" The result did not at all resemble a strategic downsizing. The entire information technology staff departed, for instance, even though Jacobs was depending on them to gear up United Way's Web site, where the organization had been hoping to reap Internet donations.

Still, she didn't tell the board about the severance packages. "Not one word," says Fox. Then again, no one thought to ask, either. The departures accelerated as the shortfall deepened, but it wasn't until late April, when word of rumored drastic funding cuts filtered back from the agencies affiliated with United Way, that Fox finally convened an emergency session of the board, without Jacobs present. During the meeting, Frederick Ferrer finally retrieved from Dennis Wooten the real numbers on what United Way could actually send to the agencies the following July. Instead of the $11.4 million the board had been expecting, the actual figure was closer to $1 million. "We were all stunned," says Ferrer. "We had never seen numbers like that."

Directors fired Jacobs a week later. On the day she departed, she was on the radio promoting her self-help book; its jacket flap lists her work at United Way as her primary accomplishment. Fox himself filled in as temporary CEO until he was able to recruit a former San Jose city manager, Leslie White, to assume the job for a year. When word went out about the dire state of United Way's finances, a number of Silicon Valley high rollers did step up to the plate to help. Infoseek's Steve Kirsch sent in $1 million and then circulated an E-mail asking 65 other wealthy cybernauts to do the same. "This is a great opportunity to be a hero," he wrote in closing. Only one took him up on the offer. Fox says that Kirsch was disappointed by the response, but one of the respondents says he should have known better: An E-mail may be direct, speedy, and the genre of choice for most Valley communications, but when asking for serious money, it's like sending a postcard. It wasn't until Bill Gates, whose father had been a major supporter and a former director of United Way of King County in Seattle, and who himself hosts parties for major donors, kicked in $5 million from his foundation that the campaign got rolling. The David and Lucile Packard Foundation added $2 million, and Intel cofounder Gordon Moore and his wife, Betty, sent Fox a personal check for $1 million.

It's too bad, of course, that these movers and shakers weren't moved to give to the charity before the crisis, rather than after. The explanation may lie in the peculiar socioeconomics of the area. While the divide between rich and poor is wide and increasing everywhere, it is most pronounced in Silicon Valley; there are those who have made zillions with dot-com start-ups, and there are those who make pennies at McDonald's, with precious little in between. What's more, unlike residents of older Northeast cities, who encounter panhandlers routinely, the techies can drive from home to office and back again for days without ever encountering the poor. This may help explain why their focus is on funding educational institutions over social service agencies of the United Way type. The Silicon Boys regard education as the key to everything, since it was for them, and they see that need before anything else. Witness former Netscape CEO Jim Barksdale's $100 million gift to aid Mississippi literacy.

A big problem for United Way, and for Silicon Valley philanthropy in general, may be the speed of business. Peter Hero, the Eastern-bred president and CEO of the Community Foundation Silicon Valley, finds it significant that, in such a transient community, few of the United Way trustees were themselves the son or daughter of a trustee of the local symphony or Red Cross chapter. Trusteeship can be learned, certainly, but trustees' instincts may be sharper and more reliable with the benefit of a generation or two of experience. More worrisome, perhaps, is the rushed and scattered nature of the standard executive's life these days. As Fox laid out for me the last few critical months at United Way, it was striking how often he was in New York, Washington, or Texas when some development broke. Even when in town for meetings, it's possible that board members' minds may be elsewhere. And finally, the United Way board may have been seduced by the illusion of the quick fix. Jacobs assumed that, even though United Way's problems were long developing, they could be solved tomorrow by a huge infusion of cash from Valley high rollers. Even in lightning-speed Silicon Valley, some solutions take time.

Michael Fox and others quickly took responsibility for the collapse of United Way and worked tirelessly to set things right again. But sociologists have suggested that a lack of stigma attached to failure is one of the keys to Silicon Valley's commercial success. There are no losers here, just winners who haven't won yet. What's liberating on the for-profit side, however, may be dangerous for a nonprofit. To shed the past, United Way of Santa Clara has been reborn as United Way Silicon Valley. Let's hope it has a brighter future.

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