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Case Study
Implementing the Earned Income Tax Credit at AccountAbility Minnesota
**Introduction**

The Earned Income Tax Credit (EITC) was a passed as a bipartisan policy in an attempt to eradicate poverty. Like many policies whose intent is pure, there likely follows unintended consequences and externalities—such was the case with EITC. Viewed as the most significant anti-poverty policy of the federal government with plausible results, free-market capitalists implemented predatory financial products that diverted millions of dollars away from the low-income workers and families who sought the much needed relief the EITC provided.

The federal policy was designed to distribute benefits to low-income workers, yet millions of dollars were being diverted from the target group by private tax preparers via the Refund Anticipation Loans (RALs). *Implementing the Earned Income Tax Credit at AccountAbility Minnesota by Sandfort*, details the leadership of the organization’s Executive Director—Bonnie Esposito—during the time of a dynamic environment, organizational realignment, and growth. AccountAbility Minnesota—contending with economic and social justice of low-income workers—sought upward mobility for their clients through sustainable, strategic, programs and partnerships.

This analysis first examines the contextual basis—the situation that influenced the actions of Bonnie Esposito and AccountAbility Minnesota—when predatory leading practice targeted low-income workers. Second, the inquiry examines Esposito’s leadership during a time of organizational realignment. Lastly, it explores how a collaborative network of agencies changed the ability for low-income workers to access financial institutions. The analysis concludes with the relevance of the theories and concepts put forth, as well as recommendations.

**Summary: Contextual Base of Analysis**

AccountAbility Minnesota (AAM), founded in 1971, was formed by accounting professionals determined to assist low-income workers with their tax preparation. Using government contracts to fund the organization’s work, AAM was primarily driven by its volunteer base of accountants. By the
late 1990’s the organization had grown and its clientele base became more culturally diverse. The organization eventually grew to 40 locations by the early 2000’s, and in 2005 returned nearly $12 million to their clients using the EITC (Sandfort, n.d.).

It is estimated that the EITC—a policy that rewards low-income workers—elevates approximately 50 million Americans out of poverty annually. The egregious actions of free-market predators—H&R Block, Jackson Hewitt, and Liberty Tax Service—by way of RALs, took advantage of low-income workers by preying on their vulnerability and propensity to quickly receive their refund. RALs not only drained off millions of dollars intended for the poor, they did not provide any meaningful, sustainable, or long term banking options for these workers. Troubled by the threat that RALs had on her organizations clientele, the newly hired Executive Director of AAM—Bonnie Esposito, 2002—sought long-term, strategic solutions.

Prior to Esposito taking the helm at AAM, the organization had not grown strategically to respond to the changing environment. AAM’s realignment unified around the agreement between Esposito and the Board that AAM was more than a tax preparer organization—they were an antipoverty organization. In a strategic—and perhaps risky—response, Esposito crafted partnerships and put forth alternatives to the RALs. The collaborative approach leveraged expertise and social capital of stakeholders to implement financial products that would benefit the working class poor. Esposito—committed to advancing financial products to clients—focused on the organizations assets. Instead of assuming AccountAbility Minnesota was at an impasse, the leadership of Bonnie Esposito sought resolutions with the help of community leaders from government, the private and nonprofit sectors.

**Analysis: Applicable Leadership Theories and Concepts**

**Concepts of Leadership.** Two leadership theories that describe Esposito are strategic and transformational leadership, both of which contain essential elements—a visionary leader and a
focus on organizational change (Hickman, 2010; Shea, 2013). Within complex organizational settings, those in leadership roles may use a myriad of leadership styles to affect change (Hickman, 2010). Strategic leadership is characterized by the development and execution of an organization’s plan. The leader initiates change, sets goals, and develops new products or processes (Hickman, 2010).

After assessing the environment, Esposito strategically reduced the number of tax preparation sites from 40 to 30, increased their hours of operation, and improved logistics and tax services for AAM’s clients. Her assessment revealed that role ambiguities and expectations arose between partnering agencies; in a strategic response she issued a memorandum of understanding to partnering agencies to clarify their roles and “formalize the relationships,” which enhanced their service model (Sandfort, n.d.).

After an environmental scan and input from her Board of Directors, Esposito assessed the risks, and answered strategically. In response to the predatory RALs, Esposito pursued the creation of an alternative—the Express Refund Loan & Savings Program (ERLSP)— which not only provided the refund loan, but also connected clients with other meaningful financial products by way of bank accounts, free no-minimum checking accounts, IRA’s, and debit cards.

Strategic leadership creates effective partnership and alliances, assesses the organizations strengths and weaknesses, has an understanding of where the organization needs to be, and formulates a strategy to get there (Dym & Hutson, 2005; Hickman, 2010; Ruchwar, 2012). Esposito formed partnerships, leveraging their expertise, to advance the organizations ability to deliver financial products to low-income workers (Sanfordt, n.d.). One such partnership was with the US Federal Credit Union (USFCU) and its president Bill Raker. As a financial institution, USFCU was able to develop and implement the financial products AAM desired. Additionally, Raker was able to leverage social capital within the industry to form other partnerships for AAM (Sanfordt, n.d.).
Transformational leadership, with change as its primary focus, inspires, engages, and empowers followers. Transformational theories posit that vision and new processes are essential (Gill, 2011; O’Brien & Shea, 2010; Schmid, 2010; Van Wart, 2011). Focused on the threat RALs posed to her clients, Esposito sought robust change and revolutionized the dynamics between low-income workers and financial institutions. Building on the experience and expertise of volunteers and staff, she empowered staff to create workshops and encouraged them to facilitate trainings for social service providers (Sandfort, n.d.).

Transformational leadership has an ethical component—self-awareness. The process of self-awareness is reflected in the leader’s ethos of, and proclivity to, continuous learning (Hickman, 2010; Shea, 2013; Stone, 2004). This was demonstrated by Esposito in numerous situations. She sought advice from the IRS, the Children’s Defense Fund, and the Office of Economic Opportunity. She studied the program implemented by the Alternative Federal Credit Union in Ithaca, New York—who had employed a program similar to the one she was pursuing. Esposito’s strategic and transformational style enabled her to realign AAM as an anti-poverty agency, develop products which benefited her clients, and inspired partnerships to combat economic calamity.

Appreciative Inquiry is a positive lens to examine an organizations resources. It focuses on the positive assets of the organization and resides in in the principle of “creating something meaningful,” by virtue of aligning the organization’s strengths (Cooperrider, n.d.; Hickman, 2010). Appreciative inquiry seeks new perceptions of the organization and contains both pragmatic and visionary elements, aligning it with both strategic and transformational leadership (Bushe, 1998; Cooperrider & Srivastva, 1987).

Esposito had grown AAM’s capacity and had a base of expertly trained volunteers and staff. She built on the strengths of her organization, enhanced its volunteer base through trainings and
education, and formed strategic partnership to aid in the development and implementation of alternatives to the RAL. As such, AAM enabled low-income workers to access the organizations newly created financial products and build relationships with financial institutions.

**Concepts of Change.** Teleological theory is an organizational change theory in which the level of analysis rests within one organization or group. The process of change is emergent and embraces goal setting, implementation, evaluation, modification, and setting new goals post evaluation if necessary. Change is enacted purposefully and guided by the organization’s goals toward a desired outcome (Hickman, 2010). It is accomplished with transformational and strategic leadership, appreciative inquiry, and emphasizes new veracities as a result of the intentional change process (Hickman, 2010).

Esposito was hired after the strategic plan was developed by AAM. After an initial assessment, she developed unique ways in which to respond to the turbulent and dynamic environment—the threat RALs posed to AAM’s clients. Esposito’s creation of the ERLSP was a teleological change that Hickman (2010) would describe as “second order (a break from the past)”. As an antipoverty organization, it revolutionized AAMs ability to eradicate poverty.

Working in a collective effort with USFCU and the City & County Credit Union, the creation of the ERLSP exemplifies teleological theory. This notion is supported by Van de Ven and Poole (1995) who contend “the theory works when like-minded individuals or groups act together as a single entity” (as cited in Hickman, 2010). After Esposito secured funding to evaluate the program, results led to program modifications to increase its effectiveness throughout the first two years, and the program was expanded to other sites in greater Minnesota in year three.

**Change Practices.** Leading organizational change can create positive externalities. In today’s unified society, leading change in one context frequently spills over to change within another context. In
many instances, change is produced in both situations, and is often the case between “nonprofits organizations and the groups and communities they serve” (Hickman, 2010, p.151)

Although Esposito’s leadership sought organizational change and realignment, it initiated change within the community context. Hickman (2010) defines this as leading change across organizational and community context (p.151). For the purpose of this analysis, the community is defined as nonprofit organizations and low-income citizens. This is supported by Hickman (2010) who defines participants for change in the community context as “community/citizens leaders, community members, NGO leaders and members” (XV).

Change in the community context is driven in response to a threat or well-being of the community. The threat to the community in this analysis is the predatory actions of paid tax preparers on low-income workers. The strategic leadership of Esposito formed a collaborative network of partners that coalesced to develop and implement financial products—and relationships with financial institutions—that enhanced the lives of the low-income community. The efforts of the network manifested in the economic and financial empowerment of low-income workers.

Trust is an essential component of collaborations. This was evident throughout the case and was exemplified when USFCU trusted AAM to assign bank account numbers to clients, something that had never been done in the financial world (Sandfort, Part B, p.4). Although Esposito held a formal position of authority within AAM, within the horizontal network of partners her leadership was from a referent perspective. Collaborative networks help solve public problems and create public value (Ricucci, 2010). Although Ricucci’s focus was on government, the intent of his definition is applicable to the holistic approach by Esposito and the partnerships she developed as the network created viable financial solutions and empowerment of low-income workers. This is reinforced by
Higgins & Hulvert (2013) whom claim solving complex problems necessitates a collective approach in which all stakeholders are engaged in the process (p. 2).

**Relevance of Concepts for Analysis**
The concepts for analysis allowed for a comprehensive approach to understanding AAM during a time of organizational change and growth. The concepts of strategic and transformational leadership, appreciative inquiry, and teleological theory allowed for an in-depth understanding of how Esposito’s leadership realigned AAM from a tax preparer for low-income workers to an anti-poverty organization. The aforementioned concepts sufficiently explained how Esposito’s leadership realigned AAM to advance the cause of eradicating poverty.

Examining the change that took place within the community context, through the collaborative network of partners, demonstrates how change in one context (organizational) can initiate change in another context (community). Furthermore, it exhibited how an individual with formal authority in one context may only have referent authority in another as change crosses the organization and moves into the community context.

**Recommendation**
It would be useful for AAM to leverage their social capital and network of partners to develop programs at a large scale—throughout the United States—enabling them to cast a wider net and reach a broader base of low-income workers. First, AAM should conduct a strategic plan defining a new vision and specific goals. Next, an asset map should be developed identifying power and resources within geographic regions of interest. Last, additional strategic partnerships should be pursued to strengthen the coalition prior to implementation.

**Conclusion**
AccountAbility Minnesota is community based organization committed to eradicating poverty and empowering its clients economically and financially. Concerned with the threat RALs had on her clients; Esposito created financial products through collaborative partners, and collectively
implemented them for a marginalized class of workers. Esposito’s leadership style is best described as strategic and transformational, which support the teleological change that took place within the organization.

Esposito sought change within the AAM, yet her endeavors spilled over and initiated change within the community context. The case highlights the ability of a leader to respond to a changing external environment, and create sustainable solutions that can be replicated on a national level. The leadership theories and concepts explored in this analysis demonstrate how a compilation of leadership styles can influence outcomes and a leader’s effectiveness.
References


