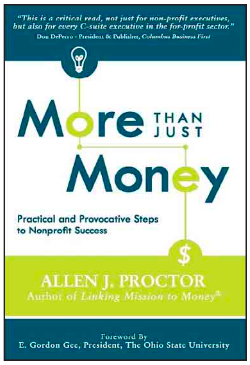
getAbstract
compressed knowledge



More Than Just Money

Practical and Provocative Steps to Nonprofit Success

by Allen J. Proctor
LMM Press, 2010
266 pages

Focus

- Leadership & Management
- Strategy
- Sales & Marketing
- Finance
- Human Resources
- IT, Production & Logistics
- Career Development
- Small Business
- Economics & Politics
- **Industries**
- Global Business
- Concepts & Trends

Take-Aways

- Money can't guarantee a nonprofit's viability, but, like all businesses, charities must earn a profit to survive.
- A nonprofit must spend its money in harmony with its mission and strategic plan, while sticking to its budget.
- The board must support open inquiry, diverse opinions and "constructive disagreement."
- Executive directors link the board and staff in implementing the nonprofit's strategy.
- Restricted monies from endowments and grants are not much help in a fiscal crisis.
- Seek unrestricted funding that preserves managerial flexibility.
- As government budgets drop, nonprofits become the service provider of last resort.
- Multiyear financial planning can solidify the bond that links your "mission and the shifting needs of the community."
- Instead of mandating a balanced budget, strive for "structural balance," which may mean accepting deficits during recessionary times and surpluses during cushier times.
- Survival depends on adapting your mission, strategies and programs to your community's evolving needs and available funding.

Rating (10 is best)

Overall	Applicability	Innovation	Style
8	9	7	7

Relevance

What You Will Learn

In this Abstract, you will learn: 1) What nonprofits need to succeed, beyond simply more money; and 2) What strategies nonprofits should use in harsh economic times.

Recommendation

Economist and consultant Allen J. Proctor offers clear strategies for operating a modern nonprofit organization. He invites nonprofits to take a deeper, more "provocative" look at their fundamental structures and systems, and he provides specific, concrete methods for improving them. He defines crucial factors – from board development to funding – that define a nonprofit's viability, and discusses them in short, concise chapters that challenge status quo thinking about how nonprofits should behave. His anecdotal examples and bulleted action steps explain how to implement each concept. The compact, accessible writing style and valuable checklists make this book a good solid reference or a handy quick review. Though Proctor's subtopics sometimes seem disconnected and some issues tend to overlap across chapters, *getAbstract* recommends this professional, managerial analysis of how to keep your nonprofit fiscally sound while achieving its altruistic goals.

Abstract

"The Role of the Board"

Managers of successful nonprofit organizations create and nurture effective boards of directors. They take advantage of members' individual and group talents, availability and levels of involvement and commitment. As a nonprofit manager, you can employ a set of "best practices" to improve your board's overall effectiveness – including establishing a clear focus, paying more attention to the future than the past and harmonizing fundraising with your overall mission. Schedule regular board meetings, and use the agenda to direct members' discussions to strategic – not operational – concerns.

"While money is important to survival, nonprofit success is about more than just money."

Composing a board of directors is an art. Recruit people who are passionate, committed and available. Set clear, specific expectations as you define their roles and responsibilities, tap into their individual expertise, and coordinate their talents and passions so they establish, execute and sustain an overall strategic plan. Organize meetings to promote involvement and attendance. Your board's culture must support open inquiry, diverse opinion and "constructive disagreement."

"The virtue of nonprofits is that they do so much with so little. The downside is that they can be particularly vulnerable to bad luck if the management and board are not obsessively vigilant in watching how cash will flow in and out."

Your board should use its budgeting process to create a fiscal plan, as well as a financial reckoning. The budget can help you connect your goals and actions with your mission-based strategy. Divide "continuing" board activities that support routine processes from higher-level strategic concerns requiring board "initiative." Conduct periodic reviews to ensure that your nonprofit adapts flexibly as it balances operations and mission priorities with its constituency's changing needs. Guide your board to analyze its fundraising in light of its mission. When donors want to restrict your use of their gifts, try to limit those restraints to avoid compromising your ability to make the best use of the money. Temper your promises to donors in light of your goals.

"The Executive Director"

As the primary liaison between the board and the staff, a nonprofit's chief administrator's main goals are to: 1) Balance the board's overview with the staff's implementation and 2) Stay focused on the mission while managing daily operations. In this role, you must prevent four common organizational failures: "inadequate focus on priorities, poor execution, failure to pay critical bills on time and unanticipated cash shortages." Be aware that typical financial reports – balance sheets, income statements and cash reconciliations – don't give your board critical data it needs. To evaluate operational effectiveness, a board also needs several pivotal monthly reports: an outline of the director's activities; progress reports on major projects (with costs and revenue); a list of unpaid bills and due dates; and monthly cash projections for the next several months.

"If you can't summarize your organization's strategy in 30 words or less, then it probably isn't a strategy."

The savvy director strives for equilibrium between operational responsibilities (staff management) and strategic responsibilities (with regard to the board). To manage "without micromanaging," you must know how to develop a strategic plan and budget, achieve an engaged and effective board, improve fiscal management, plan a fundraising campaign and manage a crisis. Good strategic plans consider where the organization is, where it wants to go, and why that is the right direction. The director should be able to summarize the strategic plan in no more than 30 words. Good leaders, staffers and boards can turn such plans into a reality, but they may need to take calculated risks based on the organization's purpose, vitality and sustainability.

"Every nonprofit has two basic duties: To provide a service that fulfills a basic need in the community, and to sustain that service through good times and bad."

Solid governance includes managing human resources, making decisions based on a viable strategy, staying objective and realistic about resources, replacing instinct with measurement, viewing the board as a catalyst for success, and regularly investing in the nonprofit's administrative infrastructure. Rotate your staff members into board meetings so they learn more about why the organization does what it does. Such knowledge is priceless in motivating staffers to achieve the nonprofit's higher purposes. Employees confront the nonprofit's faults and shortcomings daily; counterbalance that by nurturing their connection to its loftier aspirations.

"Financial Management"

"As community needs vary over time, the nonprofits which are needed by the community will also vary."

A nonprofit must spend its money in harmony with its mission and strategic plan, while sticking to its budget. This requires financial transparency. Since nonprofits serve the greater good, people commonly think it's all right for them to operate at a loss, but, like all businesses, they must be profitable to survive. While many nonprofits provide free or reduced-fee services to the needy, they must charge fees to clients who can afford them.

Many nonprofits can't present themselves as fiscally stable because their accounting methods and financial statements don't reflect their constant need for operating funds. To preserve cash flow, you must know where cash is coming from and how much your organization needs. Directors should implement policies that guarantee sufficient cash on hand and constantly assess whether upcoming situations might affect cash levels. Few nonprofits use multiyear financial planning that could "systematically and consistently… maintain a tight linkage between their mission and their community's shifting needs." As executive director, you must think ahead about ways to align the nonprofit's activities to serve the community, knowing you can pursue ideas only when you have a full understanding of their financial aspects. Fiscal doubt is dangerous; if ardent supporters start believing the mission is in jeopardy, then anxiety and strained relations can erupt.

"Recent trends in the way philanthropists and governments are doing good have the potential to undermine the vitality and effectiveness – and in some cases the survival – of nonprofits."

Large endowments and grants that provide restricted funding don't help when an organization needs ready cash. For flexibility in a pinch, seek "current and unrestricted" funding. A seemingly rich nonprofit actually may be nearly insolvent, depending on its access to liquidity and how it establishes cash reserves. A properly implemented endowment has many benefits, but it does not guarantee a nonprofit's financial security. Using an endowment poorly (say, to meet short-term needs) can undermine a nonprofit's efficacy. Before establishing or adding to an endowment, understand that it won't solve any of your current cash-flow needs. Endowments can provide either stable current spending or stable future financial reserves, but not both, and some nonprofits are not yet ready to shift their resources from the present (cash) to the future (an endowment). Solid endowment management should sustain intergenerational equity, annual stability and "real spending power in the short term."

"The executive director [must] see the forest while developing tools to make sure the staff are minding the trees."

Increasing your funding by investing in "high-return" activities that raise money but that are "low-mission" – that is, they don't mesh perfectly with your purpose – actually can erode your viability. If your nonprofit doesn't need the cash for several years, invest instead in "low-return" activities that don't earn much money but which are "high-mission" (enhance your purpose).

Of course, to do this you must be well funded and your board must be able to handle market fluctuations. Consider five basic short-term investments to protect your funds: "bank checking deposits," "bank certificates of deposit," "money market deposit accounts," "Treasury bills" and "money market mutual funds."

"Too often nonprofits assemble… talented board members but neglect…figuring out how to use them effectively."

"Legal Issues"

As corporate entities, nonprofits must comply with state and federal laws, such as special accounting rules governing how they document their finances, accept and spend money, pay taxes, govern themselves and engage in political activities. In recent years, the US government has required nonprofits to become more transparent through increased reporting, including voluntary spending disclosure. Paradoxically, the added cost of the personnel to implement such compliance increases costs just when donors want to pay for programs, not overhead.

"Scan board members' eyes during a meeting to see where confusion or concern may appear and be sure no board member still has that look by the time the meeting ends."

The Uniform Prudent Management of Institutional Funds Act (UPMIFA) sets the parameters for managing endowment funds in three areas: diversification or concentration of investments, retention or sale of certain types of gifts, and asset allocation for large donations. This law gives nonprofits two new powers which, if used imprudently, may have harmful long-term results: the ability to withdraw from an endowment and the ability to remove donors' restrictions on the use of their gifts. As with any freedom, the watchword is "prudence."

"Crisis Opportunities"

Even in good economic times, well-organized, well-run nonprofits can suffer financial crises. If you get hit, preserve cash and learn the inherent lesson. To husband cash, increase your revenues and decrease your expenses, while protecting your mission. Learning the lesson is the larger challenge, for it involves gathering, absorbing and assimilating information to reassess your community's changing needs, your mission's viability and your nonprofit's essential framework. In a temporary or cyclical crisis, direct your efforts at weathering the storm. Regard any crisis that stems from deeper issues endemic to your mission or organization as very serious. Salvation lies in your determined ability to set aside enough cash reserves to see you through.

"At the extreme, endowment is held out as a silver bullet that will ensure the financial stability of a nonprofit. This is a dangerous misconception."

Hard economic times may spur individual nonprofits to consider mergers, whether by simply sharing offices, staff or gear with each other, or by consolidating into a new nonprofit. Corporate philanthropy drops during economic downturns, so donor-based nonprofits carefully must consider any changes to their giving program. Guide any proposed changes with the interrelated principles of timeliness, explicitness, authenticity, fiscal practicality and creative flexibility. Management guru Peter Drucker says the best nonprofits excel by conducting mission-based planning, and by using their boards and knowledge workers productively and efficiently.

"Financial crisis can happen to any nonprofit, no matter how well-managed."

"Challenges in Philanthropy"

Eventually every business faces an identity crisis; philanthropy is no different. As state and federal budgets have suffered cutbacks, nonprofits increasingly have become providers of last resort for crucial public services. This shift in their mission challenges charities and catapults them into more prominence. Fiscal responsibility is shifting "from all citizens to volunteer citizens, from taxpayers to the smaller set of nonprofit donors." In a weak economy, nonprofits must show donors that philanthropy is justified and that the organization's mission is sustainable. The challenges facing today's nonprofits include refining donor relationships, clarifying a fundamental approach to fundraising (especially the pursuit of annual funding, endowment funding and planned giving); the dilemmas and unfair burdens placed on the nonprofit by funding restrictions; the motivations for and tax consequences of charitable contributions; and the costs and benefits of open disclosure or transparency.

"The willingness to take [calculated] risks is one of the most underappreciated attributes of real leadership."

"What's Next for Nonprofits?"

The only constant in life is the certainty of change. Your nonprofit's survival depends on its resilience and willingness to alter ongoing relationships based on how well they mesh with its evolving mission, strategies and programs. Flexibility and adaptability are vital. Trends say that successive short-term donors who match organizations' evolving needs will replace long-term donors. Those who want to see nonprofits continue to flourish must groom younger generations, tapping into their sense of volunteerism and their commitment to social good. Nonprofits also must capitalize on technology. Having an evocative, involving website is critical, and social networking is practically *de rigueur*. Successful nonprofit managers discuss "openness, transparency and persuasive communication" as part of their everyday vocabulary.

"Today's nonprofit sector…is a business that requires hard decisions, strategic governance and skilled management."

As nonprofits struggle to reconcile their budgets, they must fit their goals to their organizational abilities. Being in "structural balance" means accepting the idea that the organization can run deficits during recessionary times and surpluses during cushier times. To improve their organization's future viability, board members should learn how business cycles affect the nonprofit sector, how to set aside proper reserves for weathering shortfalls and how to plan in advance for a recession. Mandating a balanced budget is no longer a prudent stance.

"The successful nonprofit of the next decade will need to learn to operate in a permanent state of transition."

The contemporary nonprofit that wants to endure will examine and adapt its programs and service methods as community needs and available finances evolve. Be realistic if you think your nonprofit is starting down the slippery path to self-destruction. Assess your situation honestly. Sticking to the old ways might be more comfortable than coping with changing realities, but if the old ways no longer serve your mission, "turn out the lights…raise a toast to an honorable past," and change while you can still survive.

About the Author

Economist **Allen J. Proctor** heads a consulting firm and writes about nonprofit management for *Columbus Business First.*

