

Maximizing Good: 3 Steps to Meeting Your Nonprofit's Potential

By Laurie De Armond and Adam B. Cole

This article originally appeared on the BDO Nonprofit Standard blog. Copyright © 2019 BDO USA, LLP. All rights reserved. www.bdo.com

All nonprofits want to do good. Helping their constituents and driving impactful, positive change in communities is what propels their mission forward. Whether they're on a quest to combat social injustice, poverty or climate change, nonprofits play a vital role in keeping our society moving forward. And yet, noble intentions are not enough for nonprofits to effectively fulfill their intended goals.

So, how can nonprofits successfully maximize good?

The answer can be borrowed from a classic adage: "Charity begins at home." Just as a doctor cannot take care of others if he himself is ill, organizations cannot help their constituents if they're unable to manage their own operations effectively and sustainably. As mentioned in our first insight, "[The Business of Impact](#)," nonprofits must balance good intentions with a business mindset.

This begins with learning how to balance external and internal needs. **Too often, nonprofits, in a quest to save the world, fail to save themselves.**

By taking these steps, nonprofits are poised to maximize their impact.

STEP 1: BALANCE PROGRAMMATIC & OPERATIONAL INVESTMENTS

Donor pressure may dictate high programmatic spending, but nonprofits must realize that underfunding overhead costs is dangerous, and ultimately unsustainable. There are critical areas all nonprofits should keep in mind when making strategic spending choices, including:

- **Talent Management:** Nonprofits need to support the people behind their mission and invest in recruiting and retention. Our [Nonprofit Standards](#) benchmarking survey found that keeping employees satisfied is a challenging task, with most respondents citing issues like compensation, technology and

training and development. By regularly reassessing the processes, programs and structures in place, nonprofits can understand what motivates — or demotivates — their employees.

- **Governance and Compliance:** Nonprofits should think of good governance as an imperative, not simply a nice-to-have. Even with limited resources, they must take a proactive approach to regulatory compliance and risk mitigation. Earmarking funds to cover compliance costs may be painful initially, but the costs of *noncompliance* are even greater.
- **Technology, Equipment and Supplies:** In addition to jeopardizing employee satisfaction, having outdated IT and equipment can drain already-limited resources by reinforcing operational inefficiencies, weakening impact reporting (58% of [Nonprofit Standards](#) survey participants cite inadequate technology as a barrier to impact reporting), increasing cyber and data privacy vulnerabilities and more. Nonprofits should invest in technology that can help them advance a larger goal — whether it's empowering their employees to accomplish more, making their programs more accessible or amplifying their current fundraising efforts.

58%
of *Nonprofit Standards* survey participants cite inadequate technology as a barrier to impact reporting.

- **Cybersecurity and Data Privacy:** Nonprofits must safeguard the data they possess, regardless of where it originated. Unfortunately, many fail to invest in cyber or data privacy programs, due to the assumption that they're too small to be a viable target. However, this often makes them even *more* appealing and vulnerable to cyberattackers. Security needs to remain a key priority, even amidst multiple projects.
- **Fundraising:** Many investments in this category fall into similar buckets as those outlined above, especially people and technology. Whether it's spending money to hire and train a fundraising team or purchasing new fundraising tools that can expand an organization's reach, putting aside funds to improve visibility will pay off in the long run.

Balancing programmatic and operational spending isn't easy and requires organizations to assess their operations with a critical business mindset. Altruism without an efficient infrastructure to support it won't go far.

STEP 2: EMPHASIZE FINANCIAL DUE DILIGENCE

Financial due diligence for nonprofits extends beyond having enough liquidity to function effectively and investing with self-care in mind — it's also managing finances with the same level of dedication as a for-profit business.

Maintain Sufficient Operating Reserves

When organizations encounter funding disruptions or lose a major donor, a healthy supply of operating reserves (liquid, unrestricted net assets) is a critical fiscal safety net to keep programs up and running.

The "right" amount of operating reserves varies according to organization size, sector and scope. However, establishing at least six months of operating reserves is a prudent target for the sector overall. More than half (51%) of organizations in *Nonprofit Standards* fall short of that goal.

Nonprofits should consider adopting a "reserve policy" (if they don't already have one) based on a comprehensive risk analysis. This policy should provide guidance on how (and how much) money they should put into their reserves, under what circumstances the reserves should be used, as well any other restrictions or limitations that ought to be considered. Having a few months' worth of operating funds can at least help nonprofits continue their programs if they're facing revenue interruptions.

Stay Abreast of Regulatory, Tax & Financial Accounting Changes

Not only are legislative financial changes requirements, they also affect how nonprofits document their donations and financial statements to their stakeholders — including their board, donors, constituents and the general public. This, consequently, affects how the latter will assess an organization's financial health.

When undergoing the compliance process, nonprofit leaders should be prepared to address any questions about how these changes affected their financial statements. Maximizing good requires organizations to not only mitigate compliance risk, but to be able to clearly explain all facets of their financial situation.

STEP 3: INSPIRE & MAINTAIN TRUST

Donor and stakeholder needs and expectations are ever-evolving. Clear, frequent and open communication, on their terms, is essential to getting the support you need to accomplish your mission.

This is especially true now that the profile of the average donor is changing. Millennials now make up the largest portion of the overall population and have begun to take on a key role in philanthropy worldwide. These donors differ significantly from their predecessors: They not only place a huge emphasis on trust, but also expect faster reporting times, thanks to social media and other technologies.

With such close scrutiny upon them, nonprofits need to get better at not only measuring impact, but reporting it. According to *Nonprofit Standards*, many are under increased pressure to demonstrate results and provide further transparency: 61% say that some portion of their funders have required more information than was previously required.

Nonprofits will need to go beyond traditional reporting tactics to meet donors on their turf and on their real-time timeline.

When impact reporting is effective, it really pays off — not only in donations, but in a currency much more valuable long term: loyalty and trust.

Good intentions alone aren't sufficient for nonprofits to meet their noble goals. To make the greatest impact, nonprofits need to combine their good intentions with business strategy, including investing in the organization, acting with financial responsibility and engaging stakeholders and contributing to strategic and programmatic growth.

To learn more about these decisions, check out our *Nonprofit Heart, Business Mindset* series and subscribe to receive our third installation, *Mission-Driven Growth*.

About CapinCrouse

As a national full-service CPA and consulting firm devoted to serving nonprofit organizations, CapinCrouse provides professional solutions to organizations whose outcomes are measured in lives changed. Since 1972, the firm has served domestic and international outreach organizations, universities and seminaries, foundations, media ministries, rescue missions, relief and development organizations, churches and denominations, and many others by providing support in the key areas of financial integrity and security. With a network of offices across the nation, CapinCrouse has the resources of a large firm and the personal touch of a local firm. Learn more at capincrouse.com.

CapinCrouse is an independent member of
the BDO Alliance USA.

