



## Welcome...

The topic for this edition of our newsletter is a little different than usual as we take a look at nonprofit organizations — not organizations with no profits! As you will learn in Chris Todd's excellent article, the care and maintenance of for-profits and nonprofits is very similar. At the end of the day, the goal is the same — to maximize revenue and use it most efficiently, allowing the entity to either serve its mission or provide for the benefit of its shareholders.

I hope everyone has been having a very profitable summer and please feel free to contact me if you have any comments regarding this newsletter or this month's topic.

For additional information on us, visit [www.beaneassociates.com](http://www.beaneassociates.com)

Sincerely,  
Tom Beane, *President CMC CIRA*



## Tip Sheet

### Five secrets to a successful nonprofit turnaround:

- 1 Think outside the box. "Same old, same old" may leave you with the same old problems. Think positively about how to revitalize the organization.
- 2 Use your board members' talents and connections. Ask them to increase their contributions, to reach out to other donors, and to use their entrepreneurial spirit to develop new ideas.
- 3 Tap new donors for more than their money. Find out their skills and put them to work for the organization.
- 4 Meet with your bankers and creditors. Explain your needs. Renegotiate and extend your loan agreements.
- 5 Trim programs that are not essential to your mission. Sell off unneeded assets.

## Putting a Nonprofit Back on Track By Christopher Todd

A nonprofit organization that spends more than it receives may seem true to its definition. But it won't remain a nonprofit forever. Eventually, it will be out of business, and the services it provides to benefit the public will be lost.

Over the years, many nonprofits have been slow to grasp this reality. The allegiance of their leaders has been more toward the agency's mission of service than to its bottom line. However, the difficulties of operating in the current troubled economy have made financial realities more obvious than ever. There's nothing wrong with bringing in more than you spend. In fact, it's a good idea.

In the past few years, struggling not-for-profit organizations have become more interested in seeking out the services of turnaround advisors — either for help in reversing negative cash flows or for support and guidance in setting a new direction to enhance their financial stability.

Having worked on turnarounds in both the corporate and nonprofit sectors, I've learned that troubled organizations in both sectors encounter the same sorts of problems and that the steps you take to assist them are essentially the same.

Key warning signs include: unexpected cash shortages, lack of timely financial reporting, continuing operating losses, high turnover, boards that decline to take responsibility, decreasing memberships and failed new programs. Sometimes the underlying causes can be beyond management's control, but it's more likely to be the result of insufficient revenue and reserves, a board and/or management that lacks needed skills, a drift away from the agency's mission, or the lack of management information systems that would help show the top brass how it has gotten off track.

Here are the steps to take:

- Change the management (sometimes the personnel, but almost always the philosophy and strategy).
- Analyze the problems.
- Implement an action plan.
- Restructure the organization.
- Return to profitability.

The key difference between the corporate and nonprofit sectors is that the nonprofit's emphasis on its mission sometimes impedes the effort to reorganize the business side of the operation.

That's especially true when the organization's top manager, as is often the case, has advanced through the program side of the agency, and then winds up in charge of a multi-million-dollar budget without having had training in financial management and contract negotiations. In such situations, the key challenge in a turnaround is to convince the organization's management and staff that severe cost-cutting and revenue-enhancing measures are absolutely essential if the agency is to continue to fulfill its public-service mission. Simply put, nonprofits don't turn a profit simply for the sake of profit, they do it to ensure their own survival.

While navigating core philosophical differences can be a major challenge, more practical factors can prove equally daunting.

For example, if the organization relies on an annual campaign for collecting dues or memberships, it can't comfortably tap its constituent base for more money until the next campaign rolls around.



Many nonprofits rely heavily upon revenues from programs — classes at art museums, swimming lessons and basketball leagues at the YMCA, for example — that are scheduled on cycles throughout the year. Due to the planning involved in scheduling and marketing these programs, pricing may be determined two cycles in advance, making it difficult to immediately generate increased revenue from ongoing activities. It's not like the private sector where, for example, it's relatively easy to add a dollar to the price of a gallon of paint to cover the increased production and shipping costs.

For these reasons, it takes a little longer to start seeing the evidence of a nonprofit's turnaround and it may be necessary to make some unpleasant decisions. Layoffs may be required to stem the flow of red ink until the revenue picture improves. Decisions must be made carefully, with an eye toward eliminating the positions that are least essential to the agency's core mission.

The most significant difference between the corporate world and the nonprofit sector is the vital role of the nonprofit's board.

Not only are board members responsible for protecting the organization's mission and assets and expected to make significant financial contributions to the organization, but they are also valued for having established networks that extend into service clubs, country clubs and board rooms.

Because the operational aspects of a nonprofit turnaround can be slow to develop, board members in a struggling organization must utilize their talent and connections to maximize fundraising potential. The turnaround professional may have to "teach them to fish" — by coaching them through the sales pitch process and baiting the hook with compelling reasons for supporting the organization — but ultimately it will be up to the board members to reel in the new donors.

With a dedicated board and a management that understands the inextricable link between a healthy bottom line and strength in programming, a struggling nonprofit should be able to re-establish itself and continue providing valuable community services.

To read more, go to:

<http://www.beaneassociates.com/newsletters.asp>

**GOVERNANCE, REHABILITATION IN THE NONPROFIT SECTOR**

by Barbara J. Danforth, Esq., and Ken Philip

To whom much is given, much is expected. This is part of the motivation for many turnaround professionals to participate in *pro bono* activities. Performing *pro bono* work for several not-for-profit enterprises led to something of an epiphany about the governance and rehabilitation of these organizations.

In recent years corporate governance has often come to be thought of as fiduciary duty, ethical leadership and transparency. In a broader sense, corporate governance deals with the relationships among all of the stakeholders of an enterprise and with how an organization is directed and controlled. This includes the responsibility to operate a business successfully with the maximum return on capital. In that context, a turnaround consultant's work is right in the middle of the corporate governance arena.

Governance in the nonprofit sector is similar. Some of the roles and responsibilities vary but in the end the objective is the same. It is therefore not surprising that the framework used in corporate renewal in the for-profit sector applies surprisingly well in the not-for-profit world.

**Warning Signs**

An article in the December 2006 issue of *The Journal of Corporate Renewal* identified financial, operational and management problems and warning signs displayed by companies on the road to underperformance and crisis.

Driving away from a meeting with the president of a troubled nonprofit, the consultants had an epiphany: the organization was exhibiting some of the same underlying causes and required some of the same solutions as the companies referred to in the article. Here was an almost classic management/people problem. Management and the board had become incapable of running the enterprise, and the financial symptoms flowed from

there. Appropriate actions to respond to the problems were no different than those for for-profit companies.

If the signs, causes, and solutions were the same, then the for-profit turnaround consulting model could be applied to nonprofit "businesses." Cash-flow problems, continuing operating losses, or stakeholder disputes are no less symptomatic of potential problems in a not-for-profit than they are in a for-profit setting. These warnings should set off alarms and cause stakeholders to examine the patient more thoroughly. When decisive action is required, initial steps include:

- Determine the underlying causes and the stage of the crisis;
- Avoid denial, and take responsibility;
- Don't let the crisis hinder managing the business;
- Get financial control;
- Face personnel and people issues;
- Seek outside help.

Once the patient is stabilized, the continuum of turnaround options applicable to for-profit business also applies to nonprofit agencies.

**Subtle Differences**

If a framework for corporate renewal can be seen as recognizing early warning signs, identifying the underlying problems, and taking action, the model is equally applicable to the not-for-profit world. Because the underlying signs and causes are largely the same, interventions and solutions are equally applicable.

While the causes and solutions in not-for-profit organizations are fundamentally no different than in for-profit corporations, there are some differences. The role of a nonprofit's board often is more important than in the corporate world. In the nonprofit sector, a board must protect the agency's mission and assets, and serve as a major revenue-generating engine.

An agency's mission may have been established generations

ago, or it may still be evolving. In any event, the mission must be clearly understood and fiercely protected.

A typical nonprofit generates little or no revenue from the consumers of its goods, services and programs. While fund development is important, the board is the key fund-generating unit. The board must not only identify and cultivate relationships with potential supporters but must also ensure effective management and operation of the "business" so benefactors remain confident that their support is used effectively.

**The Real Thing**

While nonprofits have much to learn from for-profit business models, turnaround consultants can learn much from competent nonprofit managers. For example:

- While many individuals join nonprofit boards because of their personal commitment to the mission, a board must be composed primarily of individuals who have the skills and experience to fulfill the organization's governance and fund development responsibilities.
- While a sense of urgency is inherent in turnaround and crisis management in the corporate sector, no matter what the sense of urgency in the nonprofit sector, plan implementation tends to progress at a slower pace.

Not-for-profit agencies face all of the same challenges as their corporate cousins — economic changes, governance that may have drifted, people issues, cash shortages. While some of the nuances may be different, the similarities are more than sufficient to allow the effective application of sound corporate renewal practices. Whether or not this realization rises to the level of epiphany, the gratification that comes with a successful not-for-profit turnaround is real.

*This article has been condensed from the October 2007 edition of the Journal of Corporate Renewal. To read the full text, go to: <http://www.beaneassociates.com/newsletters.asp>*

**NEW IRS RULES ON CHARITIES**

The Internal Revenue Service is ramping up new rules that will increase transparency and help donors evaluate how their money is being spent. IRS Form 990, the annual tax form for charities, is getting its first makeover in more than 20 years. Charities will begin using the updated form next year, when they report their 2008 information.

The form will include a top summary page listing comparative revenues and expenses over a two-year period, and the second page requires charities to detail their organization's accomplishments. Other sections call for more detailed information on fund-raising, governance and compensation for top executives and trustees.

Charities must make their Form 990 available to donors and others on request.

**Where to Follow the Money**

Guidestar ([www.guidestar.org](http://www.guidestar.org)) is a one-stop shop for IRS filings.

Charity Navigator ([www.charitynavigator.org](http://www.charitynavigator.org)) scores charities on a scale of 0 to 10 for efficiency.

American Institute of Philanthropy ([www.charitywatch.org](http://www.charitywatch.org)) grades charities on spending and fund-raising costs.

Source: *Wall Street Journal*

**HELPFUL REFERENCES**

There are numerous organizations that offer advice and information to help nonprofits improve their management and financial operations. Some of them are:

**Center for Nonprofit Excellence**  
[www.cfnpe.org](http://www.cfnpe.org)

**Alliance for Nonprofit Management**  
[www.allianceonline.org](http://www.allianceonline.org)

**BoardSource** (formerly the National Center for Nonprofit Boards)  
[www.boardsource.org](http://www.boardsource.org)

**Charity Channel**  
<http://charitychannel.com/>

**The Chronicle of Philanthropy**  
[www.philanthropy.com](http://www.philanthropy.com)

**Grassroots.org**  
[www.grassroots.org](http://www.grassroots.org)

**Hurwit & Associates — Nonprofit Law**  
[www.hurwitassociates.com](http://www.hurwitassociates.com)

**Leader to Leader Institute**  
(formerly The Peter F. Drucker Foundation for Nonprofit Management) [www.leadertoleader.org](http://www.leadertoleader.org)

**National Center on Nonprofit Enterprise (NCNE)**  
[www.nationalcne.org](http://www.nationalcne.org)

**Nonprofit Enterprise and Self-Sustainability Team**  
[www.nesst.org](http://www.nesst.org)

**Pillars of Accountability™**  
[www.nonprofitrisk.org](http://www.nonprofitrisk.org)

**About Beane Associates, Inc.**

Founded in 1984, Beane Associates, Inc. continues to build an impressive track record in helping private and publicly owned companies improve operational effectiveness and profitability during a time of financial challenge. The company has offices in Wilmington, DE, Charlotte, NC, and Atlanta, GA.