

Six Ways to Weather the “Perfect Financial Storm”

How to guide your organization
through the combined forces of
less funding, more competition
and forced transparency.

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You don't have to choose between a better world and the bottom line.

Talk about *timing*.

The global recession and increased competition have piled on top of new nonprofit regulatory, filing and disclosure requirements. What we’re experiencing now is a “perfect financial storm” of complexity that may leave some organizations struggling to keep their financial houses in order.

However, if you approach this chapter of your organization’s history pragmatically and stick close to your mission, you can weather the storm. And maybe even emerge better than before.

Start by being completely realistic.

“You cannot carry out your mission if you are not financially responsible,” says Kae Dakin, president of Kae Dakin Consulting, who has spent more than 20 years in high-level management positions and currently helps organizations with strategic planning and financial sustainability. “So many organizations don’t know where they are financially because their accounting systems are disorganized. You need to have policies in place and you need to know your weekly cash flow, not just your monthly or quarterly cash flow. Money can be depleted very fast — I’ve seen it happen many times recently.”

The last thing any organization can afford to do is run out of money. So what can you do to help weather this storm?

- 1. Make sure all your numbers say the same thing.** Grant makers look at and compare several reports to make sure they all agree and provide the same answers. If they don’t, you put your organization at a disadvantage right off the bat. Along with completed 990s (see below), make sure your internal audits and financial statements are timely and accurate. Even funders who have provided grants to you in the past will need to be reassured that you’re on top of your finances during this economy.
- 2. Prove your financial competence.** Your ability to deal with this economic downturn demonstrates your organization’s financial sophistication — it’s time to make smart choices. If you show funders and donors that you have a complete understanding of your revenue streams, can streamline expenses to adjust to lower revenue and simultaneously plan for the long term, you’ll prove you’re viable and worth investing in. Demonstrating financial competence at all times is actually a feedback loop that pays off no matter what the economic conditions.
- 3. Make sure your new 990s are accurate and complete.** The new 990 requirements won’t go away, so if your filings are incomplete, which is not uncommon for smaller organizations, you risk donors choosing another organization over yours. During this “perfect storm,” serious donors and foundations will dig deeper than they used to, says Dakin, and will be even more mindful of who they give their money to. Always remember these documents are public and copies of the actual paperwork that you file are available on the Internet

- 4. Jump on a cash crisis before it gets worse.** Since the people who run nonprofits and social enterprises are generally optimistic, they often don't respond with an appropriate sense of urgency when it comes to financial issues. The truth is, it doesn't matter if things have always worked out in the past: the days of wishful thinking are over. Take these steps immediately if you think you might be heading for a crisis:
- Create an internal finance committee to gather information, assess the situation and make tough decisions.
 - Call in experts to evaluate the options and find the right solutions.
 - Develop a checklist of ways to improve controls so that you manage cash flow from here on out.
- 5. Cut the fat.** At this point you may wonder, do we have any fat left? Surely you've gone through your budget and eliminated wasteful or redundant items. What more can you do? Take a look at the roles of your employees and the tasks they perform. Do you see duplication? Do they preserve your core programs? When you look at the big picture, is there evidence of mission creep? Are there any sacred cows, like special events or contractual relationships that can't deliver the same return on investment during this economy? If you take another honest, objective look, you will find additional opportunities to cut expenses and streamline operations.

If you show funders you can streamline expenses to adjust to lower revenue and simultaneously plan for the long term, you'll prove you're viable and worth investing in.

- 6. Strengthen donor relationships.** Now is not the time to take a single donor for granted. So when you cut the fat, “Do NOT slash your donor stewardship or fundraising budgets,” says Kae. “It is incredibly important to keep your donors close to your chest right now — and you must keep asking.” You must also keep in touch between asks so it's crucial to maintain your marketing and communications budgets. Donors need to know how important they are, how much you value their participation, how their gifts are being spent and how much impact they're having. In short, treat them like the involved partners they really are.

If your organization is in the fortunate position of having secure long-term funding (three to five years, for example), it doesn't mean you've dodged the bullet. Now is the time for everyone to develop new strategic plans based on new worldwide economic realities. It's never too early to come up with financial Plan B. In fact, organizations that had a Plan B to begin with are the ones who will weather the “perfect financial storm” best of all.