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Nonprofit Observer

Succession planning

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Not The Same Old Bottom Line

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What you don't anticipate can hurt you

Imagine what would happen if your organization's leaders simply stopped showing up for work. Would donations and dues keep coming in? Would important events still come off? Would your staff maintain its productivity and morale? Would your board know how to fill the void?

If you can't answer these questions, you probably lack a good succession plan, or strategy for leadership transition. While the loss of key leaders probably will be challenging no matter how much you prepare for it, a succession plan can mean the difference between an orderly transition and organizational chaos.

Transition is inevitable

According to *Change Ahead: The 2004 Nonprofit Executive Leadership and Transitions Survey* conducted by the Annie E. Casey Foundation, only one-third of association executives polled planned to stay in their position for more than five years. Some of these leaders may be contemplating a move to another organization, but many may simply be thinking of retirement. According to the National Institute on Aging, the number of people living in the U.S. who are age 65 or older will double in the next 25 years.

Your succession plan should be a joint venture between your organization's leaders and your board and address every position that's critical to your group's operation. For smaller nonprofits, the plan may cover only the executive director position. But consider including anyone in your plan whose extended absence would disrupt your operations. For example, your plan might include steps for replacing your finance director, the executive in charge of volunteers or highly active board members.

Whether future leaders come from inside or outside your organization, they need training, mentoring and the support of your board.

It's essential to give your organization plenty of time. If you're anticipating a key leader's future retirement, a three- to five-year timeframe might be advisable to allow you to identify, develop and transition to a new leader.

While creating your succession plan, consider the future needs of your organization. Assess what is or isn't working, and plan for how a leadership shift might change that. Your assessment also should attempt to predict how programs and key audiences are likely to change. Anticipating what skills and abilities might be required in the near future and in coming decades is essential to defining the attributes and responsibilities of your future leaders.

Identify and nurture talent

Once you know the kind of people you're looking for, you can begin to identify the strongest candidates and groom them for new roles. Remember that candidates don't need to be fully qualified immediately. But they should demonstrate the potential to grow into leadership positions.

Look within your organization for motivated, dedicated employees or volunteers who can be nurtured and mentored as future leaders. Promoting from within flattens the learning curve when bringing new employees on board. Compared to outsiders, internal candidates already have a deep understanding of your organization's mission, challenges and culture. Internal promotion also can motivate employees by showing that there's a career path in your organization.

Hiring from outside, however, might make sense if your organization has a significant expertise gap. For

Emergency transition checklist

Generally, a well-defined succession plan spans years, but some situations require immediate action. Your organization also should prepare an emergency transition plan in case a key leader departs with little or no warning, whether he or she has accepted a position elsewhere or due to serious illness or death. The plan should include details about:

Key duties. Inventory critical tasks key leaders perform to help ensure you won't be scrambling to determine *what* needs to be done.

Chain of command. Identify the two or three positions within your organization that would be most capable of assuming the interim leader role if necessary.

Communications. Determine how you would communicate the transition to key audiences, including board members, staff, volunteers, major donors, the media and others who regularly interact with your leaders.

example, your programming might be strong, but your fund raising might be weaker. In this case, finding an outside candidate who's capable in both areas could be a sound investment in your organization's future.

Making a successful transition

Whether future leaders come from inside or outside your organization, they need training, mentoring and the support of your board. Future leaders should be encouraged to take courses and attend seminars on the skills that will provide them with the knowledge they may lack currently.

It's also important — particularly with internal candidates — to create opportunities for them to exercise their leadership skills. You might, for example, assign them the lead on high-profile projects. And you should allow them to interact with board members so that they can gain an understanding of the board/staff relationship and get to know members of this group.

Chaos isn't inevitable

Changes at the top of your organization are inevitable, but chaos doesn't need to be. By anticipating the departure of leaders and mentoring their future replacements, you can help ensure that your nonprofit remains strong, even in times of transition.

Sarbanes-Oxley provisions recommended — even for nonprofits

In the five years since its passage, the Sarbanes-Oxley Act of 2002 (SOX) has provided a framework for business transparency and accountability. While compliance with the majority of its regulations is required only for public companies, you can strengthen your organization by adhering voluntarily to certain SOX provisions.

Not immune

Nonprofits may not be subject to most SOX rules, but they aren't immune to the need for better governance. Some well-publicized financial improprieties by big-name charities and the introduction of organizations such as the Better Business Bureau's Wise Giving Alliance give charities greater incentive for transparency and accountability.

Additionally, federal and state legislation tackling nonprofit governance is under consideration and in some cases has already passed. The Pension Protection Act, for example, puts new requirements on charities for acknowledging donations. In light of these developments, voluntarily adopting good governance practices can only enhance your organization's reputation.

Required SOX provisions

Although most SOX provisions are voluntary for nonprofits, compliance with a few rules is required. Whistleblower protection, for one, applies equally to for-profit and nonprofit organizations that receive federal funds. SOX makes it a federal crime to retaliate against an employee who provides information concerning a federal offense.

SOX also requires nonprofits that receive federal funds to follow certain document destruction policies. It's a federal crime to alter or destroy documents to prevent their use in a federal investigation, audit or other official proceeding. The law stops short of requiring nonprofits to have specific document destruction policies. But you might want to consider one anyway to eliminate misunderstandings about what material needs to be retained, and for how long.

Recommended policies

Other SOX provisions aren't required, but are strongly recommended. This includes a conflict of interest policy that encompasses the laws of your state. A policy can prevent board members or employees from making decisions that lead to their personal gain. It should clearly define what your organization considers a conflict, whom the policy applies to and how it will be enforced.

Having your organization's top leaders, such as the executive director and financial director, sign off on all financial statements is another SOX provision that's wise to adopt. Your board, or the finance subcommittee if one exists, also should review and approve all financial statements and Form 990 returns.

Only public companies are required to provide a device by which employees can report wrongdoing. But more than half of the nonprofits surveyed in the Urban Institute's 2005 *Nonprofit Governance and the Sarbanes-Oxley Act* study have a formal complaint process in place. If you're not among that group, creating and implementing such a policy can be a relatively simple way to show your support for this principle of good governance.

Whistleblower protection applies equally to for-profit and nonprofit organizations that receive federal funds.

Regular audits

Audits are required for nonprofits only in certain circumstances. But regular audits are a good practice to adopt — or at least give serious consideration.

An independent external auditor can enhance your transparency by reviewing your organization's financial statements and rendering an opinion about whether those statements offer an accurate picture of your finances, determining whether you adhere to Generally Accepted Accounting Principles (GAAP), and recommending improvements that can strengthen your internal controls.

You might consider creating an audit committee to appoint and oversee your independent auditor. This SOX provision already has been adopted by some large nonprofits, according to the Urban Institute study. You also should consider creating a board subcommittee that includes at least one "financial expert," which the Securities and Exchange Commission defines as someone who:

- ❑ Understands and can accurately apply GAAP,
- ❑ Has experience preparing, auditing, analyzing or evaluating financial statements that are similar in scope or complexity to your organization's,
- ❑ Is familiar with internal controls and financial reporting, and
- ❑ Understands audit committee functions.

All of these measures can set the tone that your organization takes accountability seriously.

Just do it

Voluntarily adopting many SOX provisions will cost little extra time and money. But it can strengthen your reputation significantly — with donors, members, volunteers and the public.

How to influence the public perception of your charity

When market researcher Harris Interactive released the results of its 2006 DonorPulse survey on public perceptions of charities to major media outlets, the results — and the resulting media stories — were mixed. Depending on the article you read, U.S. charities were either facing a "crisis of trust" or experiencing a "renewed reputation" in the eyes of the American public. Because you want your nonprofit to be one of the organizations the public trusts and respects, it's important to pay attention to how you're perceived and actively manage that public perception.

Understanding disparate results

How can the Harris poll produce such disparate assessments? The survey asked if the nonprofit sector — which it defined as charities, private foundations, faith-based organizations and other philanthropic groups — was on the "right track" or was "going the wrong direction." Of those who responded, 30% answered "right track," 32% chose "wrong direction" and the largest group, 38%, said that they were "not sure."

It's possible the public isn't certain what to think about nonprofits as a whole. Some people may be tempted to assume the worst of *all* charities when they learn of scandals affecting one or two groups. Similarly, those who have confidence in the groups they support may let their positive perceptions carry over to all organizations.

Every time staff members or volunteers act on behalf of your nonprofit, they're representing the organization as a whole.

Managing public opinion

While some public perceptions are difficult, if not impossible, to influence, there are proactive ways to manage your organization's reputation that will help it weather any unexpected crisis:

1. Regularly communicate with key constituencies. This means keeping them abreast of the latest fund-raising facts and figures, how you're using the money and progress you're making toward your stated goals. If the only time you communicate with the public is when you need to raise funds or renew memberships, you're missing prime reputation-building opportunities.

2. Educate staff and volunteers. Your executive director or president may be the official voice of your organization, but he or she certainly isn't its only spokesperson. Every time staff members or volunteers act on behalf of your nonprofit, they're representing the organization as a whole. Be sure they understand this and provide them with the training they need to put your organization in the best possible light.

3. Be ready for the boomerang effect. When a nonprofit makes headlines for squandering its funds or some other perceived act of mismanagement, your own group also may feel some of the heat. Don't be surprised if you become subject to media or potential donor backlash. Do be prepared to explain the system of checks and balances your organization has in place to prevent a similar negative situation from occurring. This also may present an opportunity to spotlight the transparency of your financial operations, as evidenced by your press releases, newsletters and Web site. (For more on financial transparency, see "Sarbanes-Oxley provisions recommended — even for nonprofits" on page 3.)

4. Let go of what you can't control. When you run your organization with openness and act as you say you will, you're working in the best interest of donors and beneficiaries. Some people, however, may still be skeptical of your mission or operations. It's probably not worth your time to try to win over these rare cynics. Know when to cut your losses and move on to more important activities.

Ready for anything

It's not just your own organization's actions that will cause donors and the public to draw conclusions about your group. You may also find yourself dealing with fallout of another charity's crisis. Smart organizations are always ready to capitalize on the positive and distance themselves from the negative.

Getting the grant

Best practices for winning proposals

There are hundreds, if not thousands, of grant-making organizations that are more than willing to give money to worthy organizations like yours. You just have to convince them you need it. A well-defined and executed grant-seeking plan can help you put your organization in the best possible light and tap these funds.

Do your research

Start by getting to know the grant-making organization. Just as you'd research a potential employer before applying for a job, you should get a handle on the grant-maker's primary goals and objectives, the types of projects it has funded in the past, and its grant-making processes and procedures before applying for a grant.

Knowing these details will enable you to determine if your programs are a good fit with the grant-maker's mission. If they aren't, you'll save yourself the time and effort of preparing a proposal. If they are, you'll be better able to tailor information to your audience.

Hit all the right notes

There are several essential elements to any grant proposal:

- ❑ A single-page executive summary that defines your organization and its needs,
- ❑ A statement of need that provides an overview of the program you're seeking to fund and explains why it's essential,
- ❑ A detailed project description,
- ❑ A detailed budget,
- ❑ An explanation of your organization's unique ability to run this program, and
- ❑ A conclusion that wraps up the proposal and succinctly reemphasizes your case.

It's essential to support your proposal with facts and figures, but don't forget to include a human touch by telling the story behind the numbers. For example, your organization may provide meals to 1,000 families each week. You can augment this statistic with a glimpse of the population being served — with descriptions of typical or specific clients or with testimonials from the community.

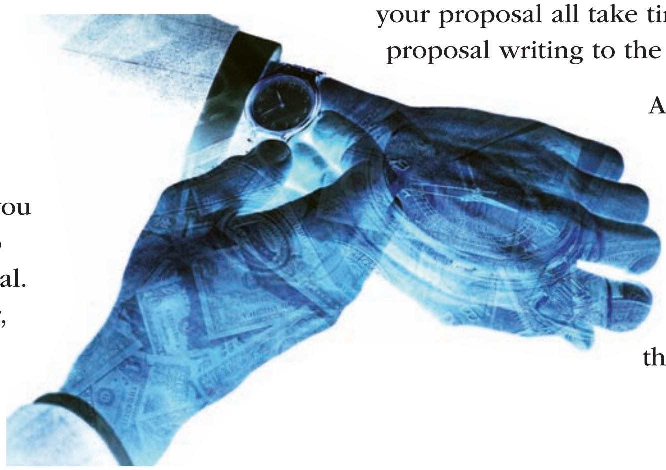
Follow the rules

If you hope to win a grant, you must pay attention to the grant proposal requirements and follow them to the letter. This means not missing deadlines, including all required information and ensuring that your submission is error-free. Don't commit common mistakes such as leaving off required signatures, exceeding page or word limits, making math errors in the budget section or using excessive industry jargon.

No detail is too small; missing one could mean the difference between getting the grant and being turned down. Review the guidelines as soon as possible so that if you have any questions about them you can contact the grant-making organization well in advance of the submission deadline. Once you've completed your proposal, check and double-check it for mistakes and omissions.

Time is money

To accomplish these steps successfully, it's imperative you give yourself enough time to properly prepare the proposal. Researching the grant-maker, collecting current facts and statistics about your organization, composing a compelling story about your work and proofreading your proposal all take time. Don't leave grant proposal writing to the last minute.



And even if your grant proposal isn't initially successful, you shouldn't necessarily consider your effort a waste. You now have an excellent starting point for the next grant you pursue.

Are you providing your board with essential information?

Information is power. And regularly supplying information to your board of directors is the key to its properly fulfilling its duties. This doesn't mean that you have to share every internal e-mail or phone message. Board members should, however, receive and understand information that will help them work together and better serve your nonprofit.

Three types of information are important to share with your board:

1. Financial. To fulfill their fiduciary duties, the board must receive copies of the Form 990, and the board president or treasurer should review and approve it before it's filed. The board also must get the results of any audit you have conducted, salary information for key staff, monthly and quarterly financial reports showing income and expenses, and proof of directors and officers insurance, if your organization provides it.

2. Strategic. This includes reports on the work of your organization, such as how programs are being carried out, program usage statistics, progress on event timelines and membership statistics. If your organization collects information from the audience it serves through formal or informal means, provide at least an executive summary of your findings to your board. It also may be useful to occasionally share with the board members articles that relate to your organization's mission, locations or audiences.

3. Board member related. To help foster teamwork and commitment to the cause, ask that members share brief bios and other relevant background information. Also publicly share thank-yous when board members make special efforts — whether those efforts are individual (such as securing an event sponsor) or group (performing due diligence on a new executive director).

Don't deluge your board with so much information that they can't keep up, but don't leave them in the dark, either. Of course, you always want to inform your board when unexpected events occur — particularly if they have the potential to negatively affect your organization and require swift action. In a nutshell: If it's something that will help them serve your organization, it's something to share with your board members.

THE EXPERTISE YOU NEED. THE SERVICE YOU DESERVE.

At Smith & Gesteland, LLP we know that running a successful not-for-profit these days requires more than just dedication and hard work. It takes the assistance of experts who understand the complex needs of these organizations and have the knowledge, experience and service commitment it takes to help them fulfill their missions.

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- For-profit subsidiaries

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- Organizational development
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We would welcome the opportunity to serve you. For more information about our services or the ideas presented in this newsletter, please contact us at (608) 836-7500 or mail@sgcpa.com.

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