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NONPROFIT AGENDAS

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COVID-19 renews focus on fundraising efficiency

COVID-19 has hit many nonprofits with a double whammy — fundraising has become more important due to a drop-off in revenues, yet the need to cut expenses makes it harder to fundraise. Nonprofits can't afford to waste a single dollar on ineffective methods. But focusing solely on cost when evaluating different approaches generally isn't the way to go.

The problem with cost

As stakeholders have intensified their scrutiny of fundraising efficiency, various metrics have emerged to aid their analysis. One common measure compares the amount of contributions with the amount of expenses incurred to generate them, or cost per dollar. Within an organization, the board might take a more granular focus, applying this metric to assess each fundraising method (for example, ticket sales for galas or direct mail campaigns).

The cost-per-dollar metric doesn't always paint an accurate picture, though. Costs can be affected by a slew of variable, and sometimes uncontrollable, factors, including the "popularity" of an organization's mission (which can vary based on current conditions), the demographics of its fundraising targets, its age and size, and its financial and accounting policies. This reality can make it difficult to determine the "right" percentage a particular nonprofit should devote to fundraising or which method is the best use of those dollars.

Numbers that count

Authorities such as BoardSource, the Association of Fundraising Professionals and GuideStar have urged a different perspective. While they acknowledge that organizations can overspend on fundraising, they also consider fundraising to be "mission critical." Efficiency matters, they say, but it's not everything.

To that end, these groups have proposed nonprofits adopt three primary measures of fundraising effectiveness for use inside and outside the organization:

1. Total fundraising net. This metric shows the amount of money a nonprofit has on hand to spend on its mission because of fundraising efforts.

Total fundraising net = Total amount raised – total fundraising expenses

So, if you spend $150,000 and raise $1 million, your total fundraising net is $850,000.

2. Dependency quotient. Organizations can become too dependent on a small group of donors. The dependency quotient essentially quantifies an organization's vulnerability should its top donors decide to redirect their funds. That means the lower the figure, the better off your organization.

Dependency quotient = Total contributions from five top donors / organizational expenses

If your top donors contributed $500,000 over the past three years and your expenses for that period came out to $1 million, your quotient is 50%. If those donors stopped their donations, you would have to find enough replacement donations to cover half of your budget.

Savvy organizations have learned to approach their fundraising as they would their investment portfolios — with a balance of risks and short- and long-term tactics.

3. Cost of fundraising. As indicated, cost is not irrelevant when evaluating fundraising methods, and a lower cost typically is preferable because it suggests efficiency.

Cost of fundraising = Total fundraising expenses / total fundraising net

An organization that spent $50,000 to generate $150,000 would have a cost of fundraising of 50%.

Multiple metrics matter

Not surprisingly, the metrics can have a bit of an "antagonistic" relationship. For example, the dependency quotient and the cost of fundraising tend to move in separate directions. An organization with a low fundraising cost often is highly reliant on a small number of big donors, while a nonprofit with a broad donor base usually has a higher cost.

This give-and-take is precisely why it's generally a mistake to place all of your assessment eggs in the cost basket. Savvy organizations have learned to approach their fundraising as they would their investment portfolios — with a balance of risks and short- and long-term tactics. By evaluating different methods holistically, your nonprofit can develop a more cohesive and adaptable strategy.

The big picture

Cost is only part of the effectiveness equation and can present a distorted reflection on its own. Taking a broader view that considers the three metrics above will give you and your stakeholders the sound foundation you need to make decisions, particularly in times of crisis. ●

BE PREPARED FOR FUNDRAISER TURNOVER

After more than a year of trying to stir up donations in the midst of a pandemic, some burnt-out fundraisers are moving on. You need a plan for the issues that can arise in the wake of such transitions to minimize the effect on donor relations and revenues.

For example, major donors should have more than one point of contact in your organization — whether employees, board members or other volunteers. This will make it easier to maintain personal contact when a fundraiser departs. You also should require fundraisers to maintain detailed contact reports, supplemented with information such as preferred methods of contact.

Pay close attention to donor relationships during the transition between fundraisers, too. The departing fundraiser should notify donors of the impending change. Donors must be assured of their continuing importance to the organization and that the new fundraiser will be in touch. Ideally, the current fundraiser should introduce the replacement to major donors.

3 tips for managing social media reputational risks

Many nonprofits are counting on social media more than ever to boost fund-raising and build awareness. These tools have proven increasingly effective in recent years, but you need to keep in mind the very real risks to reputation that come with social media.

Employees, board members, volunteers and even unaffiliated third parties can cause significant and long-lasting damage if you don't take appropriate steps to prevent it. Here are some measures to implement now if you haven't already.

1. Develop a social media policy

The line between employees' personal and work lives was already blurry, and the shift to remote work has only exacerbated this effect. This raises the risk of inappropriate (and perhaps inadvertent) posts on personal and organizational accounts. The risk is particularly high, ironically, for those employees who are most passionate about your organization and regularly promote it on their own accounts.

The best defense is a formal social media policy. The policy should set clear boundaries about the types of material that are and aren't permissible on both kinds of accounts. For example, you should prohibit employees from posting non-public information they've learned on the job. Training on the policy is advisable.

While employees generally are the primary target audience for a social media policy, you should share it with board members and other volunteers. Emphasize that they could possibly harm your organization with their personal accounts. For example, if a board member's profile information highlights his or her connection to your nonprofit, "politically incorrect" posts could reflect poorly on it.

2. Monitor, monitor, monitor

Social media is 24/7, and things can escalate quickly. So it's critical that you devote the necessary resources to monitor your accounts and others for potentially dicey posts.

With organizational accounts, check the posts *and* the comments to those posts — both can go viral and create a tsunami of trouble. That said, you don't want to get drawn into an exchange with a troll who's posting in bad faith and simply trying to stir things up. Give your social media staff guidelines to help them determine when to engage and when to let it go. You also can establish a zero-tolerance policy for offensive comments — or disable comments altogether.

You should subscribe to a "social listening" tool, such as Sprout Social or Brandwatch, that will alert you when the name of your organization is trending on social media. These tools help you follow what people are saying about you and respond to them directly when appropriate.

3. Develop a response plan

Slip-ups, or worse, can occur despite comprehensive policies and training. Those nonprofits with a formal response plan in place will weather such events far better than those scrambling in the moment. The plan should assign responsibilities and include contact information for multiple possible spokespersons. It should identify a specific trigger when it's time to involve the CEO or other top-level individuals. And include a list of potential responses, such as issuing a press release, sitting for interviews or bringing in a crisis management expert.

After the situation has resolved, remember to sit down and review your plan's effectiveness. What worked, what didn't — and how should you tweak the procedures to better respond to future occurrences?

The new normal

You can't afford *not* to use social media, but you also can't afford to suffer the reputational damage it might cause. Taking the steps above will help you reap benefits while mitigating risks. ●

The value of volunteers

Benefits of an effective program

Nonprofit organizations generally operate on lean budgets. This means volunteers are a necessity for most nonprofits. Knowing their worth and having an effective and organized volunteer program will help your cause — and your bottom line.

How much are they worth?

Nonprofit advocacy group Independent Sector has estimated the value of the average American volunteer at $28.54 an hour (as of 2021). Volunteers who perform specialized services — for example, an accountant who volunteers to prepare your nonprofit's tax return — are, arguably, even more valuable.

Whether your entire workforce is unpaid, or you rely on a few dedicated volunteers to support your robust paid staff, you can't afford to lose these treasures. Making the happiness of your volunteers a priority ranks up there with safeguarding donations and your other financial assets.

Do you have a professional program?

A professional, well-run volunteer program can provide participants with a sense of ownership and "job" satisfaction. Volunteers entering your program should receive a formal orientation and participate in one or more training sessions — depending on the complexity of the work they'll be performing. Even if they'll be contributing only a couple of hours a week or month, ask them to commit to at least a loose schedule.

As with your paid staffers, volunteers should set annual performance goals. For example, a volunteer might decide to redesign your website, learn enough about your mission to be able to speak publicly on the subject or work a total of 100 hours.

If volunteers accomplish their goals, recognize and reward them. Also "promote" volunteers who have proved they're capable of assuming greater responsibility. For example, award the job of volunteer coordinator to someone who has exhibited strong communication and organization skills.

Are they engaged and having fun?

A formal program won't keep volunteers engaged if it doesn't take advantage of their talents or acknowledge their interests. What's more, most volunteers want to know that the work they do matters. So even if they must occasionally perform menial tasks such as cleaning up after a fundraiser, help them understand how every activity contributes to your nonprofit's success.

To the extent you can, give volunteers assignments they want in areas where they can make a difference. During the training process, inventory each volunteer's experience, education, skills and interests and be sure to ask if there's a particular project that attracts them. It's important that you don't just assume that they want to use the skills they already have. Many people volunteer to learn something new.

Although most volunteers expect you to put them to work, they also expect to enjoy the process and even have fun. Don't make the same demands on volunteers that you would on employees. Try to be flexible when it comes to such issues as scheduling. Professional and family demands sometimes prevent volunteers from showing up when scheduled and you should try to accommodate them cheerfully.

Because many volunteers are motivated by the opportunity to meet like-minded people, include socializing in your program. Introduce newbies to other volunteers and assign them to work alongside someone who knows the ropes.

Are you asking questions?

Traditionally, nonprofit volunteer surveys ask volunteers if their orientation session was informative and whether they enjoy their assignments. These address volunteer satisfaction and can help isolate potential problems that may cause attrition.

During the training process, inventory each volunteer's experience, education, skills and interests and be sure to ask if there's a particular project that attracts them.

But you should also measure the impact of volunteers on your organization and the community it serves. Consider asking for feedback volunteers may have received from clients and other stakeholders. Ask your volunteers if they met the goals they set, and if not, what prevented them from meeting them. And did your volunteers feel they made an impact?

Recognize their worth

Finally, no volunteer program can be successful without recognizing the impact of those who give generously of their time. Plan annual events to thank your volunteers in addition to conveying regular written and verbal acknowledgement of the time and expertise volunteers contribute to your organization. ●

News for Nonprofits

Most couples make giving decisions together

When it comes to making charitable giving decisions, it turns out that most U.S. couples work together. But the number of such joint decision makers is on the decline. According to a study from the Lilly Family School of Philanthropy at Indiana University, about 62% of couples consult with each other. That's down from 73% in 2005, the last time this behavior was examined for the general population, rather than simply in wealthy families.

When one person in a household makes the giving decision, it's usually a woman. When a man decides without consultation, though, the amount donated is much larger than when a woman makes a solo decision. Generally, the study found that while households make their giving decisions differently, about 75% of couples agree on giving amounts and recipients. ●

Survey identifies financial management headaches

A new study from San Jose, California-based Sage Intacct, a virtual financial services provider, uncovers some of the frustrations that plagued nonprofit finance leaders in 2020. For example, about 38% said their biggest frustration within their organizations was a lack of process automation and organization efficiency. They were only slightly less frustrated by inefficiencies and delays due to multiple, disparate systems and manual, time-consuming reporting.

The top five frustrations just about mirrored those from the 2019 survey. The only change was that inefficiencies and delays due to different systems moved up from third place to second. This movement is likely due to technological challenges that were exacerbated by the shift to remote work.

The results include some optimistic notes. For instance, almost one-third of the respondents expect an increase of 25% to 50% in revenue in 2021. Nearly half reported adopting innovations (such as collaborating with other organizations) they wouldn't have realized without the COVID-19 pandemic. ●

Big donor drops university

Nonprofits with significant individual donors should take note of a cautionary tale involving the University of South Carolina (USC). The Charleston newspaper *The Post and Courier* reports that USC's biggest benefactor regrets all her efforts for her alma mater after the school failed to acknowledge her mother's passing.

In a scathing letter to the board and administration, she wrote, "The deepest regret of my life is the effort and resources I have expended on your behalf." The donor has given more than $75 million to the university, and its business school bears her name.

It's worth noting that her letter also referenced Clemson University, to which she has donated $10 million. Her family, she said, received "deep expressions of appreciation and recognition from [its] faculty and leadership." Odds are, Clemson will enjoy future donations from this former USC trustee. ●

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RESPONSIVE QUALITY

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We welcome the opportunity to discuss your mission and vision so that we may assist you with our expertise. Please call us at 602-230-2700 or e-mail info@azcpa.com and let us know how we may support you. Be sure to visit our website at www.azcpa.com for additional tools and information, as well as our archive of this newsletter.

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