From Idea to Impact: 4 Fundamental Elements for Sustainability

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The world needs nonprofits to continue striving for meaningful impact on a wide range of social, economic and human rights issues, and it needs them to remain financially healthy. To do so, organizations need to balance a nonprofit heart with a business mindset.

Your mission is the heartbeat of your nonprofit. Just like how the human heart sustains a body, your mission is the driving force of your organization's work. But the heart can't do it on its own. One clogged artery puts stress on another element of the system—and while it may go undetected for some time, eventually that stress starts to show. A healthy heart and a strong organization rely on fully functioning support systems.

Like the four chambers of the heart, following are four critical elements for sustainability that can take your mission from idea to impact:

1. People: From the Governing Board to the C-suite team to employees and volunteers, supporting the people behind the nonprofit is vital. While the typical nonprofit professional is highly motivated and engaged, it's critical for the organization's leadership team to ensure the skills of their people align with the present and future needs of the organization. If you don't have the right people or maintain proper engagement and focus on the organization's mission—or don't treat your people well—it could ultimately harm your ability to fulfill your mission.

- **Retention:** Nonprofits that take a business mindset to their recruitment and retention policies will work with their best assets—highly impactful and rewarding work—to promote internally and externally the holistic value of a nonprofit career.
- **Succession Planning:** Successful organizations have strong leaders at the helm, but they also plan ahead for the inevitable day when a change in leadership must occur. Unfortunately, leadership succession planning can be neglected in the nonprofit world, where devoted leaders often stay for long tenures and can be hesitant to pass the reins to a new leader.
- **CFO/Financial Leaders:** While the CEO and executive director are critical leaders who set the tone and mission of the organization, nonprofits cannot overlook the importance of their financial leadership.

2. Operational & Financial Management: Nonprofits must look at their operations with a more critical business mindset to find the appropriate balance between programmatic spending and the investments (both capital and programmatic) required for continued growth and stability. Prioritizing programmatic spending is a given, but nonprofits that place equal focus on long-term scalability and sustainability will maximize their impact.

- **Tackling the Overhead Myth:** Roughly 1 in 5 nonprofits surveyed in Nonprofit Standards report spending between 90 to 99 percent on program-related expenses. Charity rating sites have put additional pressure on organizations to minimize their overhead spending. The unfortunate consequence is that many donors now assume, incorrectly, that low overhead costs are a good measure of a nonprofit's performance—what is commonly referred to as the "overhead myth." Low overhead may serve as a nice, short-term talking point for donors, but it's an unsustainable strategy.
- **Avoid the Starvation Cycle:** In reality, high ratios of programmatic spending could mean the organization is underfunding critical areas necessary for long-term growth—a phenomenon known as the "starvation cycle," which creates an unhealthy environment for the organization. Failing to invest in infrastructure such as new technology, security, employee training, and fundraising capabilities, can be detrimental to organizational growth.

3. Transparency & Communication: Prospective donors are increasingly thinking like discerning shoppers—researching organizations like they would a major purchase. They are seeking convenience, and fewer clicks to donate. Meeting these demands requires new skillsets, enhanced training, and education, and creates opportunities for automation to improve and streamline processes.

- **Digitizing Donor Relations:** It's not enough to create an annual report and share it online, or to send regular email and mail communications on impact and outcomes. Donors expect near real-time reporting, with frequent updates. Nearly three-quarters of nonprofits use social media to communicate with external stakeholders, according to our *Nonprofit Standards* report, nearly double the amount who did so in 2017—and that is only likely to increase.
- **Communicating Clearly & Often**: It's no secret that budgets have been constrained by economic and donor and funding shifts. To mitigate surprises down the line, start the budgeting process early and make projections to give a realistic picture of how the organization's financial situation could shake out. By planning ahead and communicating early and often, stakeholders will be better prepared to advise and respond.

4. Governance & Compliance: Lack of compliance with a regulation or insufficient board oversight on a key risk like cybersecurity can erase great mission-driven outcomes, sever trust with stakeholders, and put the entire organization in jeopardy. The professionals in and outside of a nonprofit organization who proactively plan for risk, digest and implement new regulations, and prepare for compliance changes are unsung heroes who do behind-the-scenes, labor-intensive work to ensure the broader organization can focus on its mission without the worry of hitting costly roadblocks.

- **Staying Cyber Secure:** Nonprofits can't maximize their impact if they are constantly responding to data privacy breaches or cyberattacks. A hack can take down a great organization by erasing trust and diverting resources from the mission. That's why 96 percent of nonprofits say cybersecurity is a challenge for their boards. Nonprofits should think of these efforts as their secret weapon, not a financial anchor weighing them down. Even with limited resources, nonprofits must take a proactive approach to regulatory compliance and risk mitigation because the alternative could mean betraying donor and public trust and resulting in financial ruin.
- **Managing Your Data Plan:** Consider a holistic data privacy strategy as part of your data governance program. A Privacy Operational Life Cycle that helps keep employees apprised of new privacy requirements, embraces recordkeeping and sound data protection practices, and offers enhanced data privacy for stakeholders is crucial with the GDPR in effect and other state and national laws in motion.
- **Tax-Exempt, not Tax-Blind:** Nonprofits also know that tax-exempt doesn't mean they can ignore taxes. Tax reform provided another significant shift in rules for nonprofits to address. Major changes to unrelated business income (UBI), executive compensation, endowment taxes for higher education institutions, and changes to charitable giving deductions, among other items, impacted nonprofits and created significant compliance work for internal and external teams. Assessing guidance and understanding total tax liability is critical to strategic tax planning and maintaining operations. With changes to the tax code still a possibility in the future (including the release of additional guidance), this may be a moving target of sorts for nonprofit leaders, but it's one that can't be ignored.

When each of these elements, like the four chambers of the heart, are considered and given priority in setting and executing strategy, nonprofits are poised for greater success and long-term impact.

For more on how to balance a nonprofit heart with a business mindset for optimal, sustainable outcomes, read the first insight in BDO's Nonprofit Heart, Business Mindset series: The Business of Impact.

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