Nonprofit Insights

A Newsletter for Nonprofit Decision Makers

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Proactive, Not Reactive
Board Succession Planning Pays Off

Most nonprofit organizations know they need a succession plan for their executive director, and many have one in place. But managing transition within the board itself is a different challenge, and fewer organizations maintain board succession plans.

Without a plan, board transitions can put nonprofits in a vise. They're pushed to manage each change as it happens, whether by a known retirement date or by a sudden withdrawal.

If your nonprofit doesn't have a plan, the following suggestions will help you create one. If you already have a playbook, use these to assess its performance.

Why have a plan?

Musical groups know that the effect of the whole is greater than the sum of individual sounds. Likewise, a nonprofit that consciously renews, refreshes, and balances its board will produce a stronger and more effective leadership body.

That takes a plan, not surprise last-minute nominations at an annual meeting. A committee with a road map can forecast the organization's needs, chart the current board members' terms, assemble sources for new recruits, and take proactive and timely steps to prepare the transitions to come.

Parts of the plan

Create a committee to manage the project. A small group can organize better discussions and follow-through. It could include staff as well as board members.

Evaluate the current bylaws. Do they provide a clear way to elect or remove board members and officers? Do they mandate term limits? If your committee decides the bylaws need changing, it can propose them to the board.

Schedule regular board self-assessments. Discuss recent successes and setbacks, as well as future challenges. Then consider the aggregate strengths of the current board—skills and knowledge, reputations in the community, and diversity of personalities and circumstances. Rank possible departures in terms of their expected timing and impact on the board.

Develop priorities for leadership. Focus not so much on individuals but on your nonprofit's needs. Start from the board's self-assessment conclusions and the imminence of individual departures. If a board member is planning to resign, conduct interviews and leverage their experience for the succession project.

Decide what you're looking for. Success on a nonprofit board requires a passion for the mission, and not just in general. A prospective board member may be deeply committed to dance, but less so to your specific mission to reach underserved communities—and that may be a deal breaker.

Beyond such fundamentals, your needs will vary depending on anticipated gaps in your current board. Who'll retire first—your best investment mind, your most inspiring speaker, or the board member who knows everybody in town?

Getting specific

Assemble a list of promising recruits, inside and outside the organization, and begin vetting those candidates' qualifications.

Organize your approach to individuals. Assemble talking points and relevant information, and determine who should approach each candidate. Your ambassadors to each prospect must be ready to:

- Present an inspiring vision for the future.
- Explain why you're reaching out to them.
- Explain your organization's financial situation. If it's uncertain, be

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To Manage It, Measure It

Analyzing Event ROI: Why and How

Nonprofit revenue is a bit different from manufacturing revenue, but you can learn something important from manufacturing industries, which is the value of carefully evaluating performance.

Today it's a first principle in virtually every factory in the world: What you can measure, you can manage.

Why track event performance?

After your event, an accurate account of its costs and returns helps you understand what happened. By using objective information, and not just the good feelings everyone had, you can know what went well, what didn't, and which parts of the event were most valuable in advancing your organization's mission.

More important is tracking event metrics *over time*. This process will reveal trends beyond just one event that may be subject to one-time factors, like the blizzard of the century.

A set of measurements from several recurring events can show you which of your efforts are bringing the most return and which you should either improve or drop.

Financial performance

A simple and important ratio is cost per dollar raised. To find it, divide the event's total expenses (including indirect costs) by the amount it raised. Nonprofits report a wide range in this ratio, and there's no universal rule for it; the average is around $20 of costs for every $100 raised, meaning 80 percent of the total raised goes to the charitable purpose.

For a baseline, compare this ratio to your past performance and those of other nonprofits in similar circumstances, and review it for savings opportunities. But don't automatically reject an increase in your event budget. If some well-directed spending increases your event's net revenue, it can be a win even if your cost-per-dollar ratio goes up.

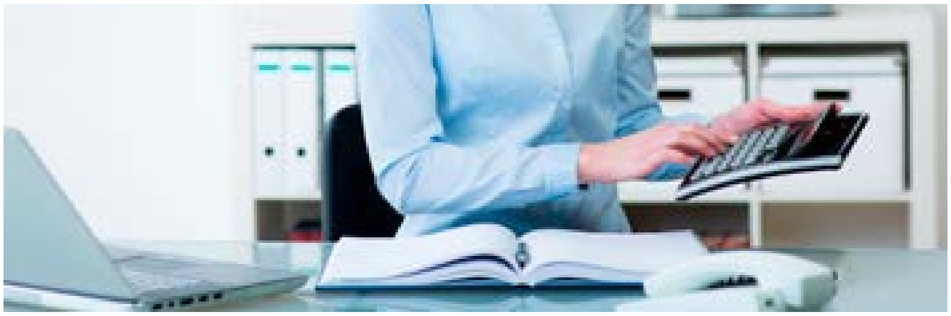
Event attendance

How much did your audience cost you? Divide your overall cost by the number in attendance and you've got your cost per attendee. For a stable organization in normal times, that figure should decline with time—the result of a growing volunteer base, greater efficiency in promoting events, and better deals with vendors and sponsors.

But a higher cost per attendee might also be a deliberate choice, one you accept in hopes of reaping major benefits—bigger donations, a broader footprint in the community, or a new deep-pocket corporate partnership.

While you're studying attendance, determine whether the *right* people were there. Of your steadiest patrons, who didn't show up? Take their absence as an opportunity to meet them for coffee, report on the event, share information about future events, and then solicit a donation. You may even uncover why they didn't attend the event.

If the relevant numbers have been recorded, you can see how many attendees participated in your fundraising vehicles. Again, a multiyear graph can help you see what works best with your audience—a silent auction, a raffle, or maybe a celebrity pitch.



Bids, donations, and purchases

Analyzing these transactions can provide a wealth of useful information. For example, you can learn when your guests were spending most actively, both before and during the actual event. This information is easy to find when you offer guests the opportunity to bid using a mobile device.

Did your host make announcements about bidding during the evening? Did you send guests texts during lulls in the program? These verbal and text cues should have spurred increases in bidding activity. If they didn't, or the activity seemed modest, look over the content of the announcements, and consider how to improve the pitches.

What's moving, what's not?

Be sure all your packages are pulling their weight. If some garnered no bids or buys at all, figure out why: excessively high starting bids and confusing combinations within a package are prime suspects. Next year you may decide to reduce these no-bids by adjusting the package, promoting them better, or dropping them for more attractive packages.

Knowing your audience is fundamental to drawing conclusions after an event. Operatic boxed sets may fly off the tables at one event; season tickets to a pro football team at another.

If you examine every event metric to learn what succeeded and what fell flat, you'll make better decisions before the next event.

Financial analysis is a core competency for our firm. We can help you turn event numbers into information and information into action.

L3C: A Foundation-Business Partnership to Support Nonprofits

Most foundations are required to distribute at least five percent of their assets every year for charitable purposes. While most fulfill this rule with their grants, another type of contribution also satisfies it: a PRI, or program-related investment.

A business can also make such investments, which combine two opportunities in one investment: advancing the company's social goals while seeking a financial return. Congress has designated several hybrid structures that permit foundations and businesses to partner for program-related investing:

- a benefit corporation
- a B-Corp
- an L3C, or low-profit limited liability company, which this article addresses

An attractive investment

An L3C states that its primary goal is to advance socially valuable programs, not maximize income. But by offering even limited returns alongside the opportunity to make a significant social impact, an L3C can be attractive to both foundational and private investors.

L3Cs can operate in any state, but only eleven states and two Indian tribes permit incorporation. Enabling legislation has been introduced in some two dozen other states, so L3C incorporation could soon become a wider option. The current state and tribal laws require relatively little application and reporting paperwork.

Return on investment in an L3C is limited at various caps, depending on the type of investor. The business pays no corporate income tax but is "pass-through," meaning its individual investors pay income taxes on their returns.

L3C investments are most often made to support community development projects; other project types may require IRS approval. They can appeal to the larger foundations: in 2011 the Bill and Melinda Gates Foundation created a fund of $400 million for PRIs.

Where permitted, an L3C or another PRI structure may offer your nonprofit a relatively untapped source of fundraising.

Where are L3Cs permitted?

While L3Cs may operate in any state, they are currently allowed to incorporate in Illinois, Kansas, Louisiana, Maine, Michigan, Missouri, North Dakota, Rhode Island, Utah, Vermont, Wyoming, the Crow Indian Nation of Montana, and the Oglala Sioux Tribe.

Bills to permit LC3 incorporation are on the legislative table in 26 other state or tribal jurisdictions. The pace of this legislation through statehouses has slowed, however, since alternative PRIs were introduced, and North Carolina has repealed its law to enable L3Cs.

Board Succession Planning

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clear about it—isn't that why you need strong leadership?

- Describe what board membership means, and don't sugarcoat it—how much commitment to activity, meetings, committee work, and financial support does your organization expect?

Follow up with a complete package. Leave no doubt about:

- The organization's history and mission.
- The board's duties: ensuring compliance with regulations, maintaining policies and procedures, and overseeing programs that advance the mission.
- The board's legal obligations: duties of care, loyalty, and obedience.
- A typical yearly calendar of meetings and conference calls.
- Financial documents as appropriate: budget, balance sheet, financial statements, audit results, and tax returns.

Have an emergency plan. While your succession committee takes these methodical steps, get ready for surprise departures as well. A bare-bones plan should identify one or two best prospects for membership on the board to fill a sudden gap.

Hire independent help?

Consider outside help. An experienced nonprofit consultant can help your succession committee focus both at the outset and when challenges arise. An outsider's impartial contributions and diplomatic skills can also help your committee avoid standoffs between hardened viewpoints.

Board succession planning is easy to overlook when there's no crisis looming, but that's the time to begin and maintain your plan. Whatever action is required, and when, depends on your board's unique circumstances.

Take these methodical steps now. Whether your first succession challenge is down the road or is posed by surprise next week, the knowledge you gain will make the job easier and the transition smoother.

Our nonprofit specialists are ready to discuss board succession with you.

Prevent Sexual Harassment at Your Nonprofit

Nonprofit organizations have a legal responsibility to prevent, examine, and act on sexual harassment in the workplace. Further, they must ensure that no one who complains of harassment is retaliated against. Failure to adequately perform any of these obligations can land nonprofit leaders in court.

Just as important is the court of public opinion. Your organization, devoted to the public good, can't afford to see its brand tarnished by rumors of sex discrimination or harassment.

The Equal Employment Opportunity Commission states it plainly: "Unwelcome sexual advances, requests for sexual favors, and other verbal or physical conduct of a sexual nature constitute sexual harassment when this conduct explicitly or implicitly affects an individual's employment, unreasonably interferes with an individual's work performance, or creates an intimidating, hostile, or offensive work environment."

Here are four actions that can pay off quickly:

- *Start with your culture.* The surest protection against harassment is an environment, demonstrated by the leadership, of collegial respect.
- *Establish clear policies and follow them.* Include not just bans on specific conduct, but also accountability for all, from the board to the mailroom. That will encourage associates to raise their concerns and mandate a prompt and fair investigation.
- *Educate your people.* Train everyone, including volunteers, to understand what's prohibited, what to do if it occurs, and how the organization will address complaints.
- *Consult your attorney.* State laws on harassment vary, so put yourself on firm footing. Your insurance company may also offer guidance.

Office chatter sometimes includes good-natured reciprocal teasing, and coworkers invite one another to dinner. But unwelcome advances or frequent comments based on gender—whether directed to an individual or generally—can constitute harassment.

Proactive measures, however, can protect your staff, volunteers, board members, and the organization itself.