Survival For a Non Profit

This is my last column on the topic of non-profits. Much has been written on how the for-profit sector can maximize its profits and develop long-term financial plans for growth and prosperity. Unfortunately, the literature for non-profit organizations is scant by comparison – an absence caused by and reflective of the classic problems non-profits face. Here are a few of those problems:

1. The ability to make profit and generate unrelated business income. Since the 1950s, when non-profit tax-exempt organizations were required to declare and pay corporate taxes on unrelated business income, numerous court battles and pieces of legislation have challenged non-profit motives. Since tax law is vague on the issue of unrelated business income, non-profit organizations are constantly at risk of losing their tax-exempt status and having to pay unexpected taxes on income (declared by the IRS or courts to be considered unrelated business income). This dilemma also presents political problems for non-profit organizations fearing negative publicity from challenges or claims of impropriety from the for-profit sector.

2. The absence of a “bottom line” as a key performance indicator. Well-managed non-profit organizations are numerous; however, the people who manage them tend to be zealous leaders within their fields whose experience is based on the organization’s mission rather than on management. As a result, non-profit organizations often lack a fundamental knowledge of management, planning, accounting and finance. Without proper leadership and management, the organization flounders, faces constant financial struggle, and risks becoming a community liability rather than an agent for social change.

3. The importance of a shared value system in sync with society’s needs. In the for-profit sector, products and services are sold in an environment that tells companies in clear-cut terms how competitive they are. Customer survey tools, marketing techniques and other media mechanisms provide feedback and indicate when change is needed. Nonprofit organizations operate in an adversarial world, constantly touting the importance of their mission, hoping to create change. Too often focused exclusively on preaching to the community, they sometimes lack the ability to see or hear signs of the community’s changing needs.
4. The need to seek funding coupled with survival instincts. As I discussed in an earlier column, the old adage, “he who has the gold makes the rules,” applies to all sectors in our economy including the non-profit sector. Conditions, restrictions and guidelines attached to funding are a commonly accepted reality in the non-profit area.

5. Reliance on fee-for-service programs. This dilemma more than any other has the greatest potential for unraveling the non-profit organization. As non-profits feel the pinch of government downsizing and shrinking contributions, many will inevitably attempt to grow “fee-for-service” type programs. In this, non-profit organizations become most vulnerable to criticism – the classic “competitive squeeze” that I described earlier.

In summary, these are the steps available to combat the potential problems and develop financial self-sufficiency for the survival of the non-profit:

- Manage your organization well.
- Maintain a diversified funding plan.
- Build additional corporate structures and perpetual funding opportunities.
- Operate with an entrepreneurship philosophy.
- Ask for help. Contact a SCORE office to get a free business mentor to help.

By implementing these measures, you strengthen your prospects of long-term survival. With that, you can more readily focus once again on changing society and serving the public good.

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