To Be or Not to Be?  
Or, Is That the Question?  

January 27, 2015  

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TO BE OR NOT TO BE?
OR, IS THAT THE QUESTION?

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Alexandria Small Business Development Center
TO SUFFER OR TAKE ARMS?

- Charitable work is trending
- Concept to Action
- The Art and Science of Management
- Avoiding mission creep during growth
- Case studies “real world scenarios” WWYD?
- Readiness Checklist
WHAT ‘TIS NOBLER?

- Social Entrepreneur
- Benefit Corporation
- Strategic Partnering
- Strategic Board Development
- LLC
- Making a donation
- Volunteering
TO BE: REASONS TO START AN NPO

Usually good
- Change the world
- Do good and help people
- Solve a problem
- Support a profession or shared goal
- Leave a legacy or make an impact
- Help others
- Fellowship-social opportunities

Not so good
- Fund a for profit venture
- Get a Grant-funded job
- Holding profits from a for profit venture for tax-write off
- Seed eventual for profit work

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**Types of NPOS**

- 501(c)(3) is one of many different tax-exemption classifications under federal law.

Other examples:
- 501(a): qualified retirement plans
- 501(c)(4): social welfare organizations
- 501(c)(5): unions
- 501(c)(6): trade associations

States generally rely on federal 501(c)(3) status when granting tax-exempt status under state law, but not always (Credit to Benjamin Takis- Tax Exempt Solutions, LLC)
501C3

- Earnings generally tax-exempt under federal and state law (also applies to other tax-exempt organizations)

- Donations are tax deductible (unique to 501(c)(3) organizations)

- Eligible for grants from foundations (unique to 501(c)(3) organizations)

- (credit to Benjamin Takis- Tax Exempt Solutions, LLC)
STEPS TO NONPROFIT STATUS

(1) File Articles of Incorporation
(2) Get an Employer Identification Number
(3) Have your first Board Meeting: adopt Bylaws, Resolutions, and Policies
(4) Open a bank account
(5) File Form 1023 and applications under state law (27-month deadline)-New 1023 EZ
(6) File Forms 990 while you wait for tax-exempt status
   • (Credit to Benjamin Takis- Tax Exempt Solutions, LLC)
WHAT MAKES A GOOD KINGDOM
ACCORDING TO IRS

- Conflict of Interest Issues:
  - The IRS closely scrutinizes transactions with officers, directors, and related organizations.
  - Be sure to adopt Conflict of Interest Policy
  - Procedure for approving compensation: (1) Approve compensation in advance: (2) Document compensation arrangements in writing; (3) Record board decision in writing (i.e. minutes of board meeting); (4) Obtain comparability data from at least 3 similarly situated organizations; and (5) Document the data and its source in the meeting minutes.
NPO Theory Basics

- Revenue should be used to support activities
- Money supports mission and services provided
- Cannot be distributed to individuals
- Accountable to the public— to retain status they must do what they say they do
**Scenario**

Social Enterprise Example:

“When businesses are expected to meet for-profit goals while operating under nonprofit rules, the so-called double bottom line can easily become an impossible double bind.”*

Hull House **
- Closed on Jan. 27. Laying off 300 employees. Why? The organization had:
  - Prominent Board
  - Was 120 Old

**Explanations**

- Ran a deficit
- Staff was positive (culture in Social services of living day-to-day on the edge)
- Board members didn’t understand statements
- Tried to operate business and charity- lost focus

* Foundation Center- Seedco Case Study; NPR interview 2012,
FAILURES

- Good intentions without good vision
- Saturated market
- Lack of values
  - Founders syndrome
  - Attract self-interested types
  - Abuses of power
- Undervalues competition or ignores competition
  - Do not pay attention to market forces
  - Do not collaborate-
  - Forget broader scope- don’t know when to give up the ship
- Fails to keep up with innovation (antiquated)
- Mission Creep (overly responsive- personal agendas)
- Poor relationships or no relationships
- **LACK OF DATA AND KEY MEASUREMENTS**
SUCCESS

• Clear vision, mission and values
• Understanding of market and competition
• Right people and right relationships (may take time)
  • Governance
  • Staff
  • Volunteers
• Internal controls
• Systems and infrastructure
• Legal and ethical behavior
• Fills a UNIQUE need and has a compelling solution
“It’s not a great mission statement, but we’ll revise it if things get better.”
MANAGING PEOPLE & EXPECTATIONS

- What would you do?
- The dangers of “if you’re not first your last” mentality
- Managing expectations
- Matching people (strengths/personality)
- Training
- Providing accurate information

- Strategic board development – a few rules
  - Skills Needed
  - Start small, plan for growth
  - Personality and Strength
  - Mix of Experience
    - Application
    - Interviews
    - Strength finders or Assessment
LEADERSHIP

- **inspire** to action
- **inform** and empower others to solve problems and make good decisions
- **involve** all members in the process
WHEN THE STATE IS ROTTEN

- United Way – 2002 went from $90m to $19m in 2 years, after what was at the time considered inappropriate spending.
- American University - President to reimburse the institution $125,000 for personal expenses. Audit committee had to disclose $398,000 in unreported taxable income.
- Susan G. Komen Foundation & Planned Parenthood
  - $2 billion dollars for breast cancer research over the past 30 years, told the New York Daily News that participation in the race has dropped by 37 percent in the past four years.
  - The race raised $5 million in 2011, $2 million in 2012 and is projected to reach about $1.5 million this year. (The 2013 race will take place on Oct. 11.)
  - No races in 2014.
WWYD?

1) When a nonprofit needs to raise money- Who should be responsible for leading fundraising?
2) When a staff member (or board) steals, what do you do? How does this change when you are not in charge?
3) What do you do when your board moves in an unplanned direction, or does not value the plan or process?
4) How does a good leader implement a new plan, or change in direction, when there is no budget?
5) A board member is using the organization for personal gain?
6) Nobody can replace the founder?
7) How do you approach an alliance of different organizations with similar causes?
ASSESSMENT TOOLS

- SWOT
  - Strengths, Weaknesses, Opportunities, Threats
- PEST
  - Political, Economic, Social, Technical

USE Goals that are SMART
- Specific
- Measurable
- Achievable
- Realistic
- Timely

- Who will benefit from this organization’s efforts?
- What unmet need does it fill?
- Will I let other people tell me what to do?
- Are there other organizations that do the same or similar things?
HOW TO USE PLANNING

- Outcome measures and benchmarks can be used to motivate and inspire and inform.
- Keeps an organization focused on end goal and outcomes instead of agendas.
- Provides a shared vision and unity of effort.

What it does for leaders:
- Creates buy-in.
- Provides opportunity to position yourself as a leader.
- Accountability—puts you in charge of making decisions and gives you language to motivate others.
- Give a reason for actions.
- Allows for delegation & empowerment.
- Allows for evaluation.
AVOID THE STARVATION CYCLE

- The Nonprofit Starvation Cycle- Stanford Social Innovation Review

- A vicious cycle is leaving nonprofits so hungry for decent infrastructure that they can barely function as organizations—let alone serve their beneficiaries.
  - Unrealistic expectations by funders about how much running an NPO costs
  - NPO misrepresents costs or cuts out infrastructure
  - Feeds belief
HEALTHY HABITS

Idealism to realism
- Tendency toward opportunism
- Saying “No”
- Small steps to big Goals

Systems and Internal Controls

Sustainable programs
- Diversified / sustainable revenue
- Realistic targeted goals/ objectives

The Right People
- Workers
- Strategic Thinkers
- Connectors
STICK TO A REGIME TO AVOID MISSION CREEP

- Be Clear on Mission
  - Do not do if it’s not part of mission

- Long Term Strategic Plan
  - Measurable
  - Consider current and projected needs
  - Focus on programs and services
  - Consider needs of the population you serve

- Prioritize in detail
  - Articulate Need
  - Plan to address target population
  - Evaluation plan
  - How things work- operational plan
  - Key people involved or needed to be involved

- Have a solid funding Plan

- Find Best Funders
  - Need to understand and have buy-in.

- Have a clear decision making process

- Process for Assessing Risk
Foundation

- “The catch-22 is that, while organizations need capacity-building funding in order to invest in solid performance tracking, many funders want to see strong program outcome data before they will provide such general operating support.”

Youth Basketball Program

- “It is clear to anyone who has led an organization that the most important capital in a company is the human capital. -In after-school we have a saying: Kids come for the program, but stay for the staff. If we don’t hire the right people, we might as well not run after-school programs.”
GOOD HYGIENE = GOOD INFRASTRUCTURE

- 1023 EZ or 1023
- Board of Directors
- COI
- Gift Use Policy
- Document and Records
- AR/AP
- Agreements in writing
- Employee manual

- People
  - Attorney
  - Accountant
  - Consultants
  - Colleagues
## Readiness Checklist

- Who will benefit from this organization’s efforts?
- What unmet need does it fill?
- Will I let other people tell me what to do?
- Are there other organizations that do the same or similar things?
- Are you ready to lead and make difficult decisions?
- Who are the right people and how will you engage them?
- How will you measure progress?
- How will programs and services be funded?
THANK YOU!

LEARN FROM HAMLET
BE A COMEDY- MAYBE A HISTORY, BUT NOT A TRAGEDY

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Upcoming Events

**Wednesday, January 28th: HR Counseling**
50-minute sessions for City of Alexandria businesses with Patricia Frame of Strategies for Human Resources. E-mail Gloria Flanagan for participation information at gflanagan@alexandriasbdc.org


**Tuesday, February 10th: “How to Drive Traffic To Your Location” Workshop.** 9:00 am – 11:00 am. Presented by Shannon Jones & Paul Williams. Register at http://www.alexandriasbdc.org/event/location-destination-drive-sales/

**Tuesday, February 17th: “Multi-Media Marketing” Business Development Roundtable.** 12:00 - 1:00 pm. No registration is required for this event. This is a facilitated discussion with other small business owners. This month is a continuation of our discussion in November 2014. We will focus on being more productive in task and project management. For more information, e-mail gflanagan@alexandriasbdc.org

**Tuesday, February 17th and Wednesday, February 18th: Social Media Counseling**
45-minute sessions for City of Alexandria businesses with Ray Sidney-Smith of W3 Consulting. E-mail Gloria Flanagan for availability at gflanagan@alexandriasbdc.org

**Thursday, February 19th: “Forming A Nonprofit is EZ” Workshop.** 9:00 am – 11:00 am