

## 10 Ways to Kill Your Nonprofit

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For the record, we would never suggest that you actually do it. Kill your nonprofit, that is. You work so hard to make it go, and most days you want it to fly free and carry your dreams for a better world. But not everyone is like you. Clearly (from what we see out there) some people really do want to kill their nonprofit. So this article is for them, not for you. This is for those people who really do long for a darker world.

### **#10WaysToKill**

We spend our time watching nonprofits and reading what people have to say about how nonprofits operate—and as far as we can tell, there's no shortage of ways to run your organization into the ground. Below is just our top ten. We've assembled some of the best crash-and-burn thinking here to help you on your quest to take your nonprofit down.

### 1. Overwhelm it with liabilities.

Of course, we have to start with money, because a sailboat can't run without wind. You have a lot of options here: cut the wind, trim the sail, capsize the boat. But, if your nonprofit has more assets than liabilities, it's not going under anytime soon. Accountants have a special name for the difference between assets and liabilities: "net assets." Anne Abraham points out several reasons why positive net assets are important: they can smooth the income cycle, finance capital needs for expansion, or be sold for income. This is why a strong equity ratio (net assets / total assets) is considered a proxy for long-term nonprofit financial health.<sup>1</sup>

But nonprofits have responsibilities and the constant potential to saddle themselves with more. They take out loans. They incur wage obligations. They pay purchase balances back over time. These liabilities cause a drag on finances, pulling net assets down or even toward negative. "Negative net assets" is when your nonprofit has more liabilities than assets. Any sailor will tell you that a ship needs some weight to keep itself upright, but many nonprofits have been pulled under the waves by the weight of their liabilities. If you want to kill your nonprofit, debt is your friend.

One of the most popular ways to get in over your head is through the purchase of buildings (remember the rancorous dispute over the new Cooper Union building and its potential role in the nonprofit's financial dilemma?). But more often than not it is the occasional use of your credit line to smooth income that is the problem. You dip into the line of credit in order to pay a vendor but never make *quite* enough to pay it off. You keep dipping in for similar one-off situations, but the principal stays unpaid and the interest continues to accrue. Soon, your nonprofit is sinking under the waves in the same way many American consumers do—by taking on a little liability at a time until it pulls you under.

### 2. Operate in the red.

Most nonprofit founders take the plunge because they want to provide a good or service that makes a difference: unlike for-profit profit maximizers, nonprofits focus on other outcomes. This can sometimes be a problem, however, since nonprofit managers often prefer to watch what they are doing and not what they are consuming. This leads to an easy and popular way to kill a nonprofit: starvation.

Starving a nonprofit is easy: simply spend more money than you bring in. The longer your nonprofit operates in the red, the greater the prospects of failure. Woods Bowman suggests that a nonprofit should not seek to balance its books but rather to become resilient and target small surpluses.<sup>2</sup> Sometimes, the issue takes root in the planning (such as adhering to the assumption that nonprofits are supposed to operate at a loss), while other times the revenue targets simply do not materialize. The process of starvation is versatile: it can be sudden or agonizingly slow, and it can involve a shock to income or a hemorrhage of stockpiled cash (or both)—but the mechanics and consequence are the same.

Often, everyone in the nonprofit knows that expenses are exceeding income to the point of danger, but no one stops to revisit the budget. This is a human problem: no one wants to look like a failure to the board, and we identify ourselves personally by the financial success of our nonprofits. But the only "failure" here is that of your fiduciary duty to your organization. If you want to go the starvation route, help ramp up expenses and throw up roadblocks when conversations about the budget come up.

### 3. *Poison the revenue mix.*

Starvation is one thing but an unbalanced mix of resources is another. The right balance of appropriate revenue streams will nourish a nonprofit, but both concentration on one revenue source and overreliance on too many can be damaging, if not fatal.

Income diversification can be a frustratingly healthy habit. Smart species eat different things in case the supply of one food type gets scarce. Likewise, John Trussel and Janet Greenlee have argued that diversification can help ward off financial calamity by spreading out the risk to any one income source.<sup>3</sup> This helps to avoid what others have called the “panda problem,” where the environment for a particular type of specialized nourishment becomes hostile (such as sequestration and government grants), endangering the survival of the individual and the species.

You might not be able to get your nonprofit to overconcentrate on one revenue source, but you may be able to get it to spread itself too thin by overdiversifying. First, the infrastructure needed to maintain pipelines for a bundle of income types—such as fundraising for private donations, locating and applying for grants, and handling the documentation requirements of government grants and contracts—can be overwhelming. Second, not all income types will be a good match for your mission: thrift shops may be all the rage, but they might not be in line with the mission of your Riverkeeper chapter. The genius here is that you look good by cultivating new ways of raising money for your nonprofit, whether or not it is ready to take on the burden of managing that income stream. People won’t realize any damage this has done until it is too late.

### 4. *Dehumanize your donors.*

Imagine for a moment that you have only one donor contributing to your operations. Maybe in the early days of your nonprofit this was more or less the case. That person cared about and bought into what you were trying to do, and you did all you could to keep that donor informed and engaged. You knew that the donor liked coffee but not donuts. You knew that his daughter was in law school, and that he had recently become a grandfather. But you don’t have just one donor—and if you once did, those days are long gone. Now you have many donors to keep track of. That provides opportunity to capsizes the whole operation.

To be sure, a boatload of donors can be important in keeping your nonprofit afloat. However, understanding and meeting the needs of a thousand donors is dauntingly different from coffee and cash-flow conversation with just one. Your nonprofit will drift toward understanding less and less about each donor and treating each one like just another mark on the big development tote board. Now is your chance! To do some damage, don’t follow up donations with a thank-you note and tax receipt; instead, communicate through print mailings (and send a lot of them). And, to top it off, misspell some donor names on those mailings. Treat your donors like cogs, and they will abandon ship in no time.

Adrian Sargeant and Jen Shang’s textbook on fundraising notes that one big reason donors stop giving is because they perceive other nonprofits as equally or more deserving.<sup>4</sup> Fundraising practices and strategy have a *lot* to do with this. When donors move slowly and subtly from deeply interested and engaged to distant and detached, your nonprofit will spend more and more time trying to replace those contributors as they lapse and move on. Fundraising costs will gradually displace spending on programs, and your nonprofit will slowly grind to a halt. Mission accomplished.

5. *Stay forever young.*

Arthur Stinchcombe suggested that one of the reasons that young organizations die more often than older ones is because they don't have the internal processes that older organizations have built up.<sup>5</sup> Someone who has written dozens of grants will probably be more efficient and effective than someone who is just starting out, and an executive director who has coordinated a nonprofit's budget process for the last few years will know which actors should be involved, in what order, and to what degree. Both of those experienced people should be documenting their process in order to help any successors who come behind them. This is how organizations overcome the "liability of newness."<sup>6</sup>

Even for a more established nonprofit, a lack of internal processes can simply be a reflection of resource allotment—you don't have enough people to do all the activities that need to be done, so naturally you want your staff and volunteers on the front lines of accomplishing whatever your mission is. Keeping detailed financial records is one of the first things to go when you are pressed for time, and catching up becomes harder and harder. As a custodian of public trust and funding, detailed financial records are essential. But who wants to spend time on paperwork when there is mission to accomplish? Who wants to track what has been done when there is still so much more to do? A mature nonprofit finds ways to make these processes routine. Dodge these details and you stay forever young and raw. This is how organizations lose tax-exemption status, how grants are revoked, and how nonprofits die.

6. *Cut your connections.*

While operating in the red might be thought of as starvation, the lack of connection to other actors in the broader community might be thought of as asphyxiation. However, if your nonprofit is broadly embedded in the community you operate in, you might find it difficult to cut off all of the oxygen supply. Nonprofits that have well-established and productive relationships with partners, suppliers, donors, regulators, sector advocates, and the media get lots of air, which translates into healthy operations. Honestly, that might be tough to strangle.

Joseph Galaskiewicz and Wolfgang Bielefeld came at this in an interesting way in their study of Minnesota nonprofits.<sup>7</sup> They wanted to measure how embedded a nonprofit was in the local community, but they didn't think it would be useful to ask the nonprofits directly. So they asked other people about the nonprofit. First, they asked local elites (well-known professionals about town) the extent to which a given nonprofit provided essential or outstanding services. Second, they asked other local nonprofits the extent to which they exchanged resources or information with the nonprofit in question. As it turns out, the nonprofits with the stronger reputations and network ties were the ones that survived and grew over time. Asphyxiation was more common when nonprofits were invisible or disconnected from others.

If your nonprofit is struggling for air already, then it might just be a matter of finding those few points of community connection and blocking them up a bit. If your nonprofit is essential, outstanding, resourced, and informed, then your best bet is a strategic hit on the air supply. Find and sabotage a relationship with a vital partner, donor, or other key stakeholder. This will leave your nonprofit panting for air, and maybe even down for the count.

### 7. *Stain your reputation.*

One of the greatest assets a nonprofit has is its reputation. It can take many years to build a sterling reputation and only a few minutes to ruin it. So your reputation can play strongly in your favor if you want to kill your nonprofit.

Nonprofits get some elements of legitimacy just by being nonprofits—people trust most nonprofits more than they trust most businesses. However, frequent scandals and sector fraudsters have eroded much of the inherent trust that nonprofits have enjoyed for so long. Thus, individual organizations have to build their name through painstaking quality and careful communication with clients, donors, and other constituents. Once built, reputation can take an organization a long way. People will want to give you money, other organizations will want to partner with you, volunteers will want to spend time helping you, and qualified staff will want to work for you.

The quickest way to ruin your reputation is to induce a scandal, maybe by implicating your executive director in some illicit ring. But we understand that not everyone can spawn a scandal. Thomas Jeavons has suggested another method for eroding the reputation of a nonprofit: internal sabotage.<sup>8</sup> Jeavons describes an international relief organization that earned the reputation of burning out its staff. Although it provided quality services, the nonprofit was seen as a place that “used people up” and was not a good place to work in general. If employees are not treated well or the culture carries some edge of toxicity, burnout and turnover will slowly transform your work environment into a deadly swamp. We suggest you give this a try.

### 8. *Underinvest in infrastructure to support volunteers.*

This one can be really crippling, and many nonprofits take their operations down a notch or two this way—if not all the way to the grave. It could be that volunteers really just aren’t that important to the work that you do. Or—and here’s the real trick—they *are* important, but you act like they aren’t. The truth is, volunteers are vital to the operations of many nonprofits. Legions of neighbors are the lifeblood of the programs and administration of many nonprofits. In order for those nonprofits to hit their strides, they have to invest in the recruitment, screening, task matching, training, supervision, communication, recognition, and evaluation necessary to make the relationship work.

The evidence is pretty good that these things matter to both volunteers and the effectiveness of the nonprofits they work for. With poor screening and task matching come volunteers who get frustrated working in jobs that don’t really interest them. Without trained supervision by engaged staff, volunteers are disconnected from vital programs. When recognition is not tailored to the expectations of volunteers with diverse motivations and life histories, they can feel unwanted.

There’s a nonprofit maxim that says, “Volunteers are not free.” To take your nonprofit down, all you have to do is foster the idea among your colleagues that volunteers actually *are* free. It’s easy! Volunteers don’t have to be paid, so what do they need, really? Research at the Urban Institute a few years back showed that nonprofits in the United States notoriously underinvest in the care of their volunteers.<sup>9</sup> Most nonprofits in the study noted having a staff member responsible for volunteer administration—but this was, on average, only 30 percent of the staffer’s responsibilities. Less than half of nonprofits said they screened, trained, or recognized their volunteers “to a large degree.” The recent recession has only made this worse, as these days nonprofits beef up on fundraising and starve out their volunteer programs. The strategy here is to catch that wave and make sure your nonprofit puts less attention and resources toward the effective use of volunteers. We can’t guarantee that underinvesting in volunteer administration will actually kill your nonprofit, but you can at least seriously cripple it this way. And once crippled, you can use one of the other strategies here to finish it off.

*9. Chase dollars into competitive spaces; drift away from your mission.*

A couple of decades ago, Michael Hannan and John Freeman were studying the rise and fall of labor unions, and they ended up making some famous observations about which ones survived and which ones perished.<sup>10</sup> They noticed that in labor unions' early days, when there weren't many of them around and people didn't know what to make of them, several closed down because they didn't have constitutive legitimacy. However, as people got used to them, this problem wore off and unions flourished. The next problem came when there got to be too many unions and they were competing for scarce resources. Those that couldn't compete died off. So having too few nonprofits in an area is a problem, and having too many is a problem. How can you take advantage of this?

One way to try to kill your nonprofit is to steer it into a densely competitive space. This can be effected by a wholesale jump or slow drift in your mission. Nonprofits do this all the time: they twist in the wind, chasing money rather than adhering to their guiding mission. The smart nonprofit will have one ear to the ground and focus on community needs. The nonprofit with the death wish will look only to requests for proposals and chase dollars into a competitive resource niche. If you can get your nonprofit to value resources over mission, you can put at least one foot in the grave.

*10. Think that "good" is good enough.*

A well-worn proverb says that the road to hell is paved with good intentions; most assuredly, the road to nonprofit demise is paved with the same bricks. The world holds lots of worthy causes, often competing for the same revenue dollars. Your cause will stand out only when you can demonstrate your success. Not only will your cause not sell itself, the retention of donors and contracts may hinge on your ability to prove that you are accomplishing what you say you want to accomplish. John Sawhill and David Williamson acknowledge that measuring impact can be difficult for a nonprofit, but that doesn't mean it is any less essential.<sup>11</sup>

Several trends in the nonprofit sector emphasize the growing importance of impact measurement. First, sources of funding want to see how their money changes the world. Whether this is through a misguided emphasis on overhead or by demanding formal program evaluations, funders want justification that they chose wisely when they chose you. Second, the emergence of impact investing and social finance has brought with it an increased focus on metrics, evidenced by, for example, the comprehensive IRIS catalogue. Finally, the nonprofit landscape is crowded; to stay relevant, nonprofits need to actively and repeatedly justify their survival.

This is where you come in. Plenty of people in your nonprofit will not know what to measure or how to measure it. They will say that you don't have the resources or the staff to do proper measurement and reporting of outcomes. Get on board with them and play this up. If someone in your nonprofit starts to get on the outcome measurement train, just smile around the room and say that a good client story is all you have ever needed.

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So, that's not one, not two, but *ten whole ways* you can kill your nonprofit. Surely you can find one that will work for you. If not, stay posted—people come up with new and creative ways all the time to capsize, starve, overwhelm, alienate, asphyxiate, delegitimize, underinvest in, and otherwise off their nonprofits. The examples of harmful things people do are truly endless.

Of course, it might go without saying that if you want your nonprofit to thrive, you should carefully avoid all of the pitfalls we describe here. This is not easy! Killing a nonprofit takes less effort than making one really effective. But if you want to go that route—the one where you try to make your nonprofit as successful as possible—we'll understand.

## Notes

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