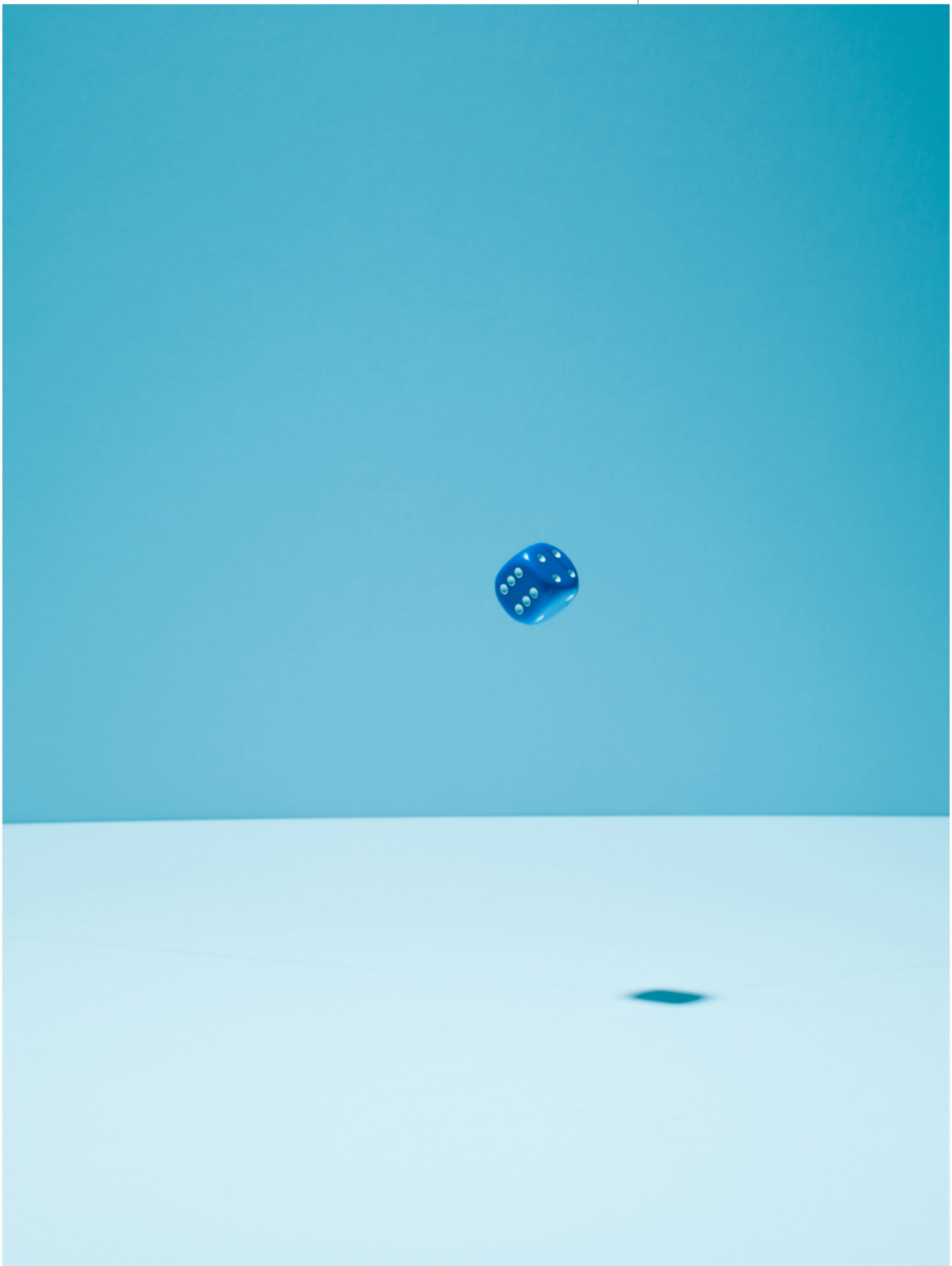
The Real Risks of Not Taking Risks—And How to Beat the Odds

By Gail S. Bower



The Real Risks of Not Taking Risks

When I was 24-years-old, I left a job I loved and a boss I didn't and struck out on my own as a freelance writer and event producer. I remember being somewhat terrified. But, I decided, at 24 with no kids, no mortgage, and low-cost of living, I could afford to take the risk and go for it.

With good reason, most nonprofit leaders manage their organizations much more conservatively. You're careful, judicious with your spending, oriented towards consensus building, and operate consistently with so-called best practices. After all, you're managing public dollars, you've got a staff and overhead, and rolling the dice gets complicated.

Yet here's the rub.

A conservative approach today, paradoxically, may be exposing you to more risk than you may be comfortable with and, worse, you may not be aware of the factors that contribute to that exposure.

In fact you may be inured to risk all around you.

Why playing it safe is the riskiest bet of all.

This special report illuminates the risks that go unnoticed—or unspoken—in the nonprofit sector and how today's nonprofit leader can make a paradigm shift to mitigate risks and chart stronger paths.

Last spring more than 200 nonprofit leaders participated in my informal survey on earned revenue. Interestingly 17 percent had questions about legalities and risks associated with this unrestricted revenue.

This data seemed consistent with the underlying conservative nature of nonprofit leaders. At the same time, somehow it still surprised me.
From my vantage, I see nonprofit organizations operating every day with tremendous risk.

In fact, it's baked right into the ways nonprofits operate and sometimes prevents them from getting out of the rat race.

Let's say it out loud. You're surrounded by risk.

After all what could be riskier than writing a grant? Your team spends hours crafting the perfect proposal to be thrown into the ring with hundreds—perhaps thousands—of others. If you're lucky, you have a 50-50 chance of it getting funded.

At those odds, you may as well head to the craps table at your local casino.

9 more risks and how to beat the odds.

Here are 9 others along with ways to make these risks a safer bet.

1. Groupthink. Too many great ideas and initiatives go to boards or committees to languish and ultimately die. Boards are notoriously conservative, and moving bold ideas forward often requires years of patience and strategies that would make Sun Tzū proud.

I remember several conversations with the executive director of an organization who wanted assistance with corporate sponsorship for its nearly breakeven signature event.

After a conversation with the board, headed by a conservative banker distrustful of professionals outside his city, the board decided to hire an event coordinator instead of a sponsorship and event-revenue expert. Rather than derive a dramatic return on their investment in a resource focused on generating revenue, they opted simply to add to their investment. No one, it seemed, questioned the banker.

A safer bet: Paint a strong vision for your destination and boldly move it forward. This is no time for being passive and deferential. Then enlist the right board stakeholders to help you move the initiative forward. Of course you have to make sure you have the right individuals on your board to begin with.

2. No rainmaker. The ratio of nonprofit program staff to rainmakers is often surprising. But what is truly staggering are nonprofits with no one specifically designated to generate revenue. This responsibility gets tacked on as an ad hoc duty of the executive director's.

For some executive directors, especially those who come to the position with fundraising or business development experience, this structure can work — for a time. But for organizations whose executive directors come from the mission side of the organization, you're doing a great disservice to the mission by not having a full-time fundraiser who taps into your passion and whose skills attract donors, customers, and funders.

A safer bet: Make a commitment—including financially—to hire the right individual to focus on fundraising or revenue generation. One of my smallest clients talked over his idea to hire someone on a freelance basis, and I suggested he commit. He hired a part-time grant writer, and as she got up to speed and submitted infinitely more and better grants than he could do by himself, they had successes, funding projects he'd been dreaming about.

3. No marketer. Like not having a rainmaker, an equally treacherous void on too many nonprofit teams is not having a marketer. An intern posting on Facebook doesn't count.

If no one knows about your programs, how will you fulfill your mission? If you're not crafting compelling stories about your mission success, how will you attract donors and funders? If you're not building your audiences and owned media resources, how will you attract sponsors? If you're not educating the marketplace, how will you build trust and be effective?

Marketing is a key activity, no matter what your business model, and no one can afford to tack this onto executive director's to do list.

A safer bet: Commit to hiring someone to fill this role. If a full-time position is not in the cards, you may be able to find a great external resource or set of resources to implement your plans.

4. No marketing strategy. An equally baffling gap within organizations is having no marketing strategy. As social media took off, too many organizations became attracted to social media because it's "free."

Just for kicks one month, try out this formula.

Add up all the staff hours spent on posting; tweeting; friending; following; updating; generating content; making memes, gifs and imagery; recording and editing videos. Calculate what portion of your total marketing staff time (including all staff who work on content development and approval) is spent on these activities.

Total social media hours = *percent of staff*
Total hours *time spent on*
social media

Example:

25 hours=50% of social media staff time
50 hours

Now, add up the total salaries of these staff members. Multiply by the percentage for the total dollar amount spent on social media.

Add the total of each staff member working on social media x their salaries = total salaries

Total salaries x percent of staff time spent on social media = total cost of social media

Example

2 staff member x $40,000 = $80,000 of total salaries

$80,000 x 50% of time on social media = $40,000

Still think social media is free?

Now one last step. If you have no marketing strategy in place, take this dollar amount and multiply by zero. This figure potentially is your return on investment.

$40,000 x 0 = $0

Operating without a marketing strategy means your staff members are posting a bunch of stuff with no real destination or outcome in mind.

Why would an organization operate with no marketing strategy and no one to execute it?

Few organizations would operate without a strategy. They wouldn't operate programs without knowing they are effective. Why would an organization operate with no marketing strategy and no one to execute it?

A safer bet: Have your new marketing staff member or resource develop a marketing strategy. Or hire an external consultant to take care of this for you. This is a service I offer, and I'd be happy to talk to you. You will see an instant ROI in marketing efforts that get results and cost savings by eliminating wasted activities and staff time.

5. Revenue based on whim. Philanthropic support is a critical form of revenue for most nonprofit organizations. Yet for too many organizations, the underpinning to this revenue is whim.

If the donor feels like giving, you receive a check. If not, there goes your revenue.

If a staff or board member with a relationship to that donor moves on, there goes your revenue.

If the foundation you count on changes its strategy (or its leadership, then strategy), your revenue is in jeopardy

Very quickly, you get the feeling of being on a hamster-wheel.

A safer bet: Just like you need a marketing strategy, you also need a fundraising strategy. A good fundraising consultant can teach you how to better engage your donors, build bulletproof relationships, and diversify your philanthropic revenue sources. Make sure that your marketing and fundraising strategies work together.

6. Deficit. The road to sustainability does not begin with deficit spending unless you have an endowment to cover the losses. And accepting government grants that don't fully cover your costs does not sound like a great deal either.

Sustainability means having to make decisions—sometimes difficult ones—in your organization's best interest.

- Can you afford that government contract that doesn't cover your cost of service?
- Can you afford to operate a program that has no revenue source?
- Can you afford to produce a supposed fundraising event that barely breaks even?
- Can you afford to write a grant for a new program and siphon your staff time away from building an existing program?

A safer bet: You and your board need to make tough decisions about your organization. Having a sustainability strategy, with an objective way to guide your thinking; getting clear about your business model; and determining how you'll turn your red ink bottomline to black and when will provide you with the plan and the relief you need.

By the way, this is a key area of my work, during or separately from strategic planning.

7. No reserves. Operating with 3- to 6-months reserves is smart fiscal management for any business, nonprofit or for-profit. These reserves can be used for cash flow crunches, emergency expenditures, and investment in sound new ventures, with the intention that you replenish the reserves.

Yet too many organizations are running on empty, no reserves and barely breaking even.

A safer bet: Make sure that one of the key plans in your sustainability strategy is how you'll tackle reserves, the policies and the practicalities.

8. Pro bono. Just because something is free or low cost doesn't mean you got a good deal. Especially if the end result is inferior, late, or ineffective.

I'm continually amazed by organizations that entrust some of their most important strategies and initiatives—like fundraising, branding, and sustainability strategies, for example—to an offer of pro bono service from an individual or organization for whom that service is not a core competency.

It would be like accepting pro bono heart surgery from a biology student with medical school aspirations. Who would do that?

Same goes for volunteers. You're after commitment, not simply a warm body with a pulse.

A safer bet: Create a litmus test for your pro bono service. If things went awry, the results were inferior, or were not delivered adequately, would your organization be better or worse off? Could you afford non-commitment? Could you afford to have your most important initiatives in the hands of inexperienced but well-meaning individuals?

If not, find the resources and make a commitment to hire experts.

There's a reason a barbershop near me has sign that says: "$20 We fix $10 haircuts."

I certainly have fixed my share of pro bono or low-cost strategies!

9. Status quo. One of the biggest risks is status quo thinking. Some organizations just keep doing the same things year in and year out. They're like Teflon, warding off new ideas and approaches.

Obviously a leader's steady hand can be a strength. But something happens when that leader loses sight of a vision or corrals off the external world and becomes oblivious or afraid of evolution.

Some executives are really not leaders but managers. They default to the board, disempowering their own authority.

Something happens when that leader loses sight of a vision or corrals off the external world and becomes oblivious or afraid of evolution.

They make poor decisions. Or no decisions, fooling themselves that somehow, magically, internal resources will undo problems or guide themselves to much needed change.

Or scarcity mindset takes over and these executives fail to invest in the resources needed, cobbling together a patchwork of Band-Aids to solve problems. One day they wake up or a new leader steps in, revealing:

- The effects of years of deficit spending

- Zero data and stagnating audiences because no one ever purchased the proper CRM.

- Weak donor or sponsor relationships, because the board or a single person held them

- The need to layoff staff and close programs

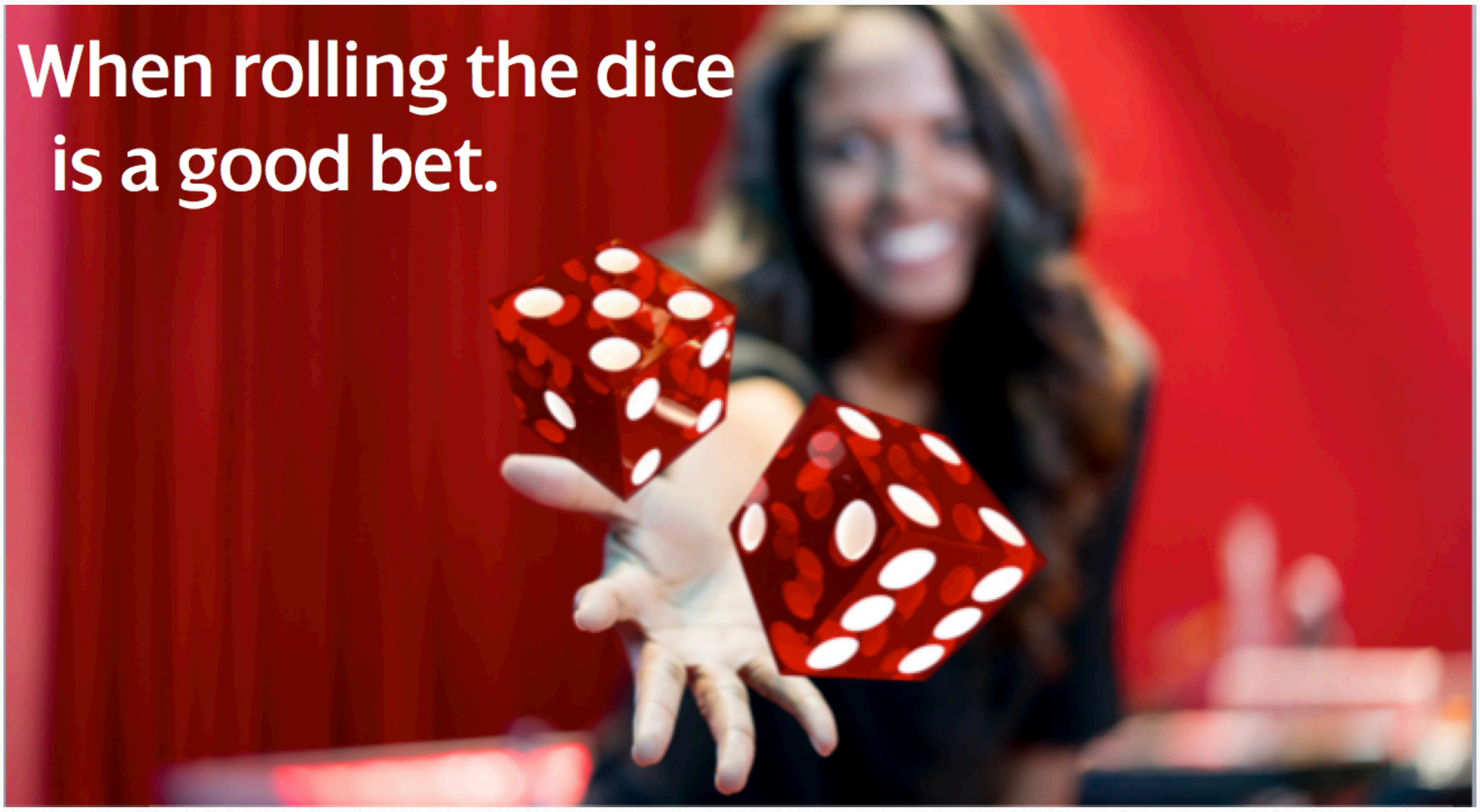
And the list goes on. You cannot afford to turn a blind eye. Not in today's business climate.

A safer bet: Keep your finger on the pulse of your organization and the surrounding enterprise. Open yourself up to new ideas, even if in small ways at first. Think about your strategic planning in shorter durations. The 3-year or 5-year strategic plan is relic of the past.

The paradigm shift you'll need to make.

All this risk points to a bigger issue and more important imperative for you. Getting comfortable with risk—that is positive, sound risk.

And in today's fast-changing and fast-paced business climate, that means embracing and adopting a more entrepreneurial approach to operating. Being entrepreneurial does not mean taking on undue risk nor does it necessarily mean aiming to be a disrupter a la Steve Jobs.



What it does mean is:

- learning and processing information more quickly,
- seizing opportunities,
- exploring collaborations,
- building leverage,
- uncovering the best ways to generate revenue based on your business model,
- staying aware of trends, events, and issues that may have an impact on your organization and your clients' lives,
- making decisions and securing resources that propel the organization fast, and
- getting the most from all your resources, including staff.

A hallmark characteristic of entrepreneurial nonprofit leaders is their tolerance for risk taking. Is your nonprofit organization harboring a tolerable amount of risk? Are you even aware of the risks around you?

Any significant shift in your life or business requires attendant risk analysis. It's a key part of a process I take clients through. And it's a topic that good board members ask about and evaluate.

So what's your process? Do you just jump into the decision without consciously exploring risk? Do you perseverate? Or do you have a sound methodology for weighing the odds?

Start reviewing your own abilities to uncover risk. Then make safer bets by following the steps above to alleviate unnecessary risk in your operations.

In the meantime, as *Hunger Games* taught us: *May the odds be ever in your favor.*

Gail Bower is the founder and president of Bower & Co. Consulting LLC, a revenue strategy firm that helps nonprofits and associations to become more self-sufficient by developing reliable sources of earned and non-dues revenue. Her clients have doubled, tripled, and quadrupled their earned revenue in under a year. And that's just the first year.

For more information, visit GailBower.com. To discuss how Gail can alleviate and calculate sound risk, contact her for a confidential call at:

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