

# The THREE Biggest Mistakes New Nonprofits Make & How To Avoid Them



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## This resource guide is for you if:

- You're thinking about launching a nonprofit
- You've already launched a nonprofit but you've run into unexpected roadblocks
- You've set up an organization that is not incorporated as a 501(c)(3) and has a fiscal sponsor
- You're a funder who is looking for resources to support your grantees, especially those that are new and emerging organizations

When it comes to starting a nonprofit, there are many questions that need to be figured out. For example:

- What is the first and most important thing I need to focus on or put in place when building an organizational structure from scratch?
- How can I make sure that I don't compromise my values when setting up my organizational structure? In other words, how can I build an infrastructure for my new organization that embodies the values that are important to me? And how can I ensure that I have the right structure in place to support the mission and vision I want to carry out through the work of my new organization?
- What is the right financial management system, the right staffing system, and the right governing structure for my new organization?
- How can I develop and implement the most effective marketing and fundraising strategies to build my new organization?
- What is the best balance between paid staff and volunteers for my organization? And how can I best keep volunteers involved and motivated to keep working alongside paid staff?

During my 20+ years of working in the nonprofit field, I've founded and co-founded several award-winning organizations from scratch. Through this, I have created organizational development approaches that are based on my own experiences as well as those of other successful nonprofit leaders and founders. I have dedicated myself to share these approaches and experiences so that others can achieve the same powerful results faster and without having to make costly mistakes.

This resource guide will help you to become aware of some of the most common pitfalls new nonprofits encounter. It presents effective strategies for how to either deal with or prevent them, depending on where you're at in the process of building your new organization. By applying the strategies and approaches featured in this guide, you will be able to:

- ✓ Increase your financial stability
- ✓ Grow your organization in a sustainable way
- ✓ Increase the number of your financial supporters
- ✓ Increase your level of confidence as a nonprofit leader
- ✓ Build a strong support structure to ensure long-term success
- ✓ Position your organization as a leader within your field and beyond



Launching and building a new nonprofit doesn't have to be difficult or painful. In fact, it can be quite an empowering, joyful and rewarding experience. Your new organization can be a powerful vehicle to help inspire others by your vision, help you build the capacity to have a tremendously positive impact on those you want to serve, help to create a better world overall, and allow you and those connected to your organization live more purposeful lives.

So, let's get you started and help you get on track with building a powerful and thriving organization!

## Mistake #1: Jeopardizing funding support by failing to produce accurate financial reports

This is one of the most common pitfalls new (and even sometimes established) nonprofits encounter. Having just launched a new organization, we may think, “I don’t have much income and expenses yet, so why invest my energy and resources in setting up a solid bookkeeping system? I can still do this once my organization is more established.”

Then, seemingly out of nowhere a prospective funder asks for current or year-to-date financial information and we find ourselves scrambling. Or we share whatever financial information we can gather at a moment’s notice only to be informed by the funder that important pieces are missing or to have other inaccuracies pointed out to us.

In cases where we’re not (yet) incorporated as a 501(c)(3), we tend to completely rely on our fiscal sponsor to produce accurate financial statements for our organization. We may think, “My fiscal sponsor will take care of financial reporting for my organization whenever I need it.” But what if your fiscal sponsor produces financial statements that are riddled with mistakes and inaccuracies? Unfortunately, this is an all too common scenario and should not be underestimated.

Being caught off guard and exposed like this can be quite embarrassing and create fear that we look like we don’t know what we’re doing. Also, when a funder asks us to produce financial statements and reports, it’s usually tied to a deadline with a quick turnaround. If we don’t have our finances in order, this means that such a request can be extremely stressful. Plus, it forces us to take our focus away from other important tasks.

The key is to anticipate these types of situations and to be prepared. And the best way to prepare yourself is to have systems in place that allow you to produce the most current financial statements at a moment’s notice whenever a funder requests them.

Here are some tips for how to best avoid getting caught off guard when it comes to producing accurate financial statements for your organization:

### Set up a solid and high-quality bookkeeping system

- Invest in bookkeeping and financial management software that meets the specific needs of your organization and which can easily adapt to your organization’s potential growth.

Think at least five years ahead and determine how many employees and programs your organization might have at that point and then make sure the bookkeeping software or online platform can meet the needs of your future vision.

Also, check in with other established organizations about what type of bookkeeping software has been working well for them. Since they’re likely to have competent professionals working for them who are knowledgeable about the most suitable options for organizations’ financial management needs, they might be able to recommend a good resource for you.

## **Recruit or hire a competent bookkeeper**

- ❑ Recruit a bookkeeper to your board of directors who can help set up and oversee the financial management system for your organization pro bono.
- ❑ Partner with other nonprofits to share one bookkeeper to keep bookkeeping fees as low as possible.
- ❑ Ask your funders if they'd be willing to increase your grant size to cover the expenses of hiring a competent bookkeeper. Maybe you could even get several of your funders to pitch in and thereby split the tab. Keep in mind that your funders benefit from you having a solid financial reporting system in place. It can make their work a lot easier and help save time.



## **Set up an internal reporting system**

- ❑ Set up a system and routine, which requires you to produce monthly income and expense reports. No matter how old your organization is, you should always be able to monitor your cash flow on a monthly basis in order to ensure long-term sustainability. So, why not produce monthly reports and year-to-date statements (based on the start of your fiscal year) that you can use both internally and externally whenever a funder requests them from you?

While this may seem a daunting task at first, once you have a system set up, it usually just takes a streamlined approach for entering financial data on a regular basis, which then can be printed out as a formatted report at the push of a button. Keep in mind that the longer you wait with setting up a solid financial management and reporting system, the more you will have to deal with backed up data entry requirements at a later point. This not only saps a ton of your valuable energy, it also can cause serious disruption and instability to your organization.

## **If you're not (yet) incorporated and rely on your fiscal sponsor for financial reports:**

- ❑ Include in the contract with your fiscal sponsor an agreement to have monthly income and expense and year-to-date reports produced, independent of whether or not one of your funders is requesting this information. You should always have this information ready to share whenever it's requested, which is usually at a moment's notice.
- ❑ If you have any doubts or want to be 100% sure that the numbers in your financial statements that your fiscal sponsor produces are correct, create your own internal financial tracking system. This doesn't have to be complicated. You can just track totals of your income and expenses organized by categories and program areas.

One of the main challenges for fiscal sponsors is to keep all the financial information for your organization separate. It can easily get mixed up, especially when it comes to grants being passed through a fiscal sponsor to a fiscally sponsored organization. It can happen that the person in charge of financial management at the fiscal sponsor organization isn't aware of the contractual agreement between the sponsor and the sponsored organization. As a result, this person may not know which grants need to be listed as income for the sponsored organization(s), especially in cases where one foundation supports both, the fiscal sponsor and the sponsored organization. Keeping your own spreadsheet is therefore good practice.

## Mistake #2: **Creating organizational instability by growing too fast when new and unanticipated funding shows up**

Maintaining a steady stream of funding support to sustain an organization's annual operating budget can be challenging, especially when staff salaries and benefits are on the line. This is particularly true for new organizations that may not be as well known within the funding community yet and thereby lack the credibility it takes to get foundations to make substantial financial investments in support of their work. So, when a new and unanticipated funding source becomes available, it seems like a no-brainer to gratefully accept it, even if it makes up a large percentage of the organizational budget or requires the sudden and drastic expansion of the organization's program structure.

However, taking advantage of new and unanticipated funding opportunities can come at a price:

The first thing to consider is that such funding opportunities risk having external forces dictate your internal organizational growth. In other words, we can get easily distracted by the possibilities new funding support present, which can cause us to take our focus away from deciding first what we want to build and *then* taking the necessary action steps to secure funding in support of those expansion plans.

If a new organization expands its program structure too rapidly, it may not have a strong enough infrastructure to sustain the sudden expansion. Because such expansions usually take place within very short time periods, not enough time gets devoted to careful planning and infrastructure building. For example, if a sudden increase in new funding increases the number of organizational staff members to serve an increased number of clients and constituents, such changes can inflict a lot of stress on existing personnel and program structures.

Also, resources that are supporting existing program structures may need to be diverted to support the development of new and expanding program structures, which usually causes for the capacity of existing program structures to be stretched beyond limits. This in turn can lead to a decrease in quality of services provided by existing programs and lead to growing organizational instability. The number of clients and constituents served by existing programs might drop as a result and thereby lower the justified need for funding support as seen from the perspective of funders.

Another aspect to consider is that if the administrative and management structures aren't set up to support a sudden and rapid program expansion, you may find yourself soon back-paddling. This can put you on the defensive and suspend your organization's ability to work pro-actively on carrying out its mission and vision.

Lastly, if a sudden increase in new funding support covering a significant portion of the organization's annual operating budget cannot be sustained in the long run, it can cause major fluctuations within the budget from one year to another and lead to growing organizational instability. Funders are likely to interpret such drastic fluctuations within an organization's budget as a sign of instability as well and may conclude that it's too risky to provide new or maintain existing funding support.

These potential pitfalls do not mean that new and unanticipated funding opportunities inevitably lead to organizational instability. The key is to set up processes that allow you to grow fast *and* smart. This means being strategic, avoiding cutting corners, and making sure that a strong organizational support structure is in place so that opportunities for growth and expansion can be sustainable. Let's look at some strategies for how this can be done.

## Use new funding to leverage additional new funding

- ❏ Create a detailed plan spanning across several years for building a strong infrastructure that can support the program expansion in the long run (e.g. staffing and management structure, administrative structure, existing program structure, etc.). Then clearly describe how this new program expansion would allow you to significantly increase and improve your organization's impact. Create organizational budgets for the next several years that reflect how the program expansion could be sustained in the long run.

Lastly, reach out to current funders to explore if they could support the program expansion and help to make it sustainable by increasing their current funding and / or by helping to connect you to other new potential funder prospects. Having a substantial program expansion supported by a diverse array of funding support immediately increases its chances of being sustainable.



## Ask for multi-year funding

- ❏ Getting multi-year funding support for substantial program expansion efforts gives you a lot more time and security to gradually build the organizational support structure needed to make any expansion sustainable -- even if the tradeoff is to receive lower grant amounts per year. This strategy also increases your chances of leveraging other new funding sources in support of the expansion.

You may need to invest more time upfront in terms of planning and the additional time required for completing a multi-year grant application. However, being forced to spend time creating an in-depth long-term plan for your expansion with measurable success indicators will most certainly pay off in the long run since you'll be much better prepared to deal with anticipated and unexpected challenges along the way. Plus, taking the time to create a multi-year expansion plan will also allow you to create a deeper level of buy-in from other employees and stakeholders. Since they'll be part of the planning process, they'll be much more invested and thereby inspired to help carry out the expansion plan to the best of their abilities.

## Complete an accurate cost assessment

- ❏ Another pitfall to watch out for when being offered a new and unexpected funding opportunity is the costs that are associated with program expansion and that are actually not directly connected to the expansion itself. In other words, you might expect that the new funding support will cover all costs of the program expansion while there are actually additional costs that may sneak up on you later and that aren't directly covered by the new funding. These "invisible" costs may include:

- Increased bookkeeping & financial management fees
- Website maintenance & expansion fees
- Computer maintenance fees
- Office cleaning & maintenance fees
- Utilities (e.g. light, gas, water, etc.)
- Increased annual audit fee
- Professional development fees for employees not directly connected to the program expansion

## Set up a nimble staffing structure

- ❏ When undergoing a program expansion, organizations often tend to staff the new program(s) with one or more fulltime staff right away with the intention of producing high quality and quantity program output.

However, what if your program expansion is only funded for one year and you're not able to leverage additional funding? Or if the new funding source dries up due to a change of leadership and / or funding priorities at the foundation? Having to abruptly change or decrease your staffing and program structure can result in major organizational instability. It can negatively impact morale among remaining employees and cause clients that are being served by the remaining programs to become suspicious. Funders may also interpret such drastic changes as growing instability within your organization.

Consider creating a staffing structure that gives you more flexibility and allows you to build a sustainable program structure over time. For example, you may want to consider staffing your program structure expansion with a combination of part-time staff and consultants in the beginning instead of immediately hiring one or more full-time staff. Another approach to consider would be to have new management responsibilities resulting from a rapid program expansion covered by existing staff members instead of hiring new staff to take on those responsibilities. This could actually provide an opportunity for some of your staff to learn new leadership, supervision and program management skills.

### **Mistake #3: Threatening the organization's sustainability by failing to put the right support team & structure in place**

Not having the right support structure in place can easily break a new organization during its early development years when it's most vulnerable.

Because most new organizations go through a period during which they have to grow an organizational budget, they may not initially have enough funds to support full-time staff. As a result it's common that the leaders who are building the organization only get paid in a part-time capacity while doing much of the work on a volunteer basis. Without an internal and external support structure, such a set-up can easily lead to burnout and overwhelm, which in turn can result in growing instability up to the point where a newly founded organization may have to close its doors. At the same time, such challenges and threats can be as real for new organizations that *do* have the funding to hire one or more full-time staff from the get-go.

However, having the right internal and external support structure or team in place from the very beginning can prevent such a scenario from becoming your reality. The key here is knowing exactly which parts of the organization need which type of expert support in order to grow and become sustainable. The next step is finding the right people who can provide the expertise and resources needed in any particular area of your organization that you want to grow and strengthen.



Creating an **internal** support structure could mean recruiting highly skilled volunteers or hiring project-based support staff that get paid stipends or by the hour for a limited number of hours per week, month, quarter, or year. Having strong internal support in place also means having at least one other senior level partner or staff with whom you can share leadership responsibilities. This is particularly important when a new organization faces challenges, such as commonly experienced growing pains, drastic program expansions, or external threats such as negative media coverage.

Without an internal support structure, the leader often becomes more and more isolated because she or he experiences challenges related to organizational growth through an individualized lens as opposed to a collective or shared experience. Lack of an internal support structure can also lead to the leader taking on day-to-day logistical and operational tasks, such as ordering supplies or dealing with vendors for example, which usually sooner or later results in burnout. This is not to say that leaders should shy away from ever taking on day-to-day tasks. The point here is that day-to-day tasks shouldn't be part of any leader's permanent job description. Aside from inevitable burnout such a set-up leads to, it also pulls organizational leaders away from building the organization, developing important relationships, and other responsibilities that are crucial for making the organization sustainable.

An ideal way to create an **external** support structure is to set up an advisory board composed of people representing different skillsets, expertise and access to resources. This ensures that your new organization is represented well on all levels and that it has expert support to complement your expertise. Also, compared to an official board of directors, an advisory board offers more flexibility because it's not tied to organizational bylaws and the organizational charter, which both establish very specific parameters for the legal obligations of board members in accordance with nonprofit state law.

The advisory board could include representatives from foundations that support the type of work your organization does to make sure that foundations that you may not yet have access to take notice of your work. This team could also include a bookkeeper or CPA, someone with a legal background, other well established and respected nonprofit leaders in your field, and even members of the constituency your organization is serving.

The key here is access to resources you and your organization need, including free resources such as meeting space or professional services, access to important people and organizations that can help your organization grow, and access to people who can help you to produce the best possible services or value for your clients and constituents.

Let's look at some specific ideas and strategies for setting up a strong support team and structure:

### **Create an organizational needs and support structure assessment:**

-  Create a grid (as shown below) divided into the following sections: 1. Fundraising, 2. Administrative & Financial Management, 3. Programs, 4. Governance, Management & Board, 5. Staffing, 6. Volunteer Management, 7. Service Creation & Delivery, 8. Marketing, Outreach & Collaboration

Then create columns with the following headlines for information gathering and for assessing your support structure needs: Current Status (what you have in place), Minimum Capacity Needed (what you need in order to keep things running), Optimum Capacity (where you would like to be at if funding weren't an issue), Untapped People & Resources Available (people in your network with

expertise and access to resources you need but who you haven't ask for support yet), New People & Resources Needed (people with expertise and resources who you may need to find – possibly through connections you already have). The document could look something like this:

	Current Status	Minimum Capacity Needed	Optimum Capacity	Untapped People & Resources Available	New People & Resources Needed
1. Fundraising					
2. Administrative & Financial Management					
3. Programs					
4. Governance, Management & Board					
5. Staffing					
6. Volunteer Management					
7. Service Creation & Delivery					
8. Marketing, Outreach & Collaboration					

Then meet with your staff and fill in the empty boxes with the info you need to complete this assessment.

### **Provide incentives to those you want to join your support team**

-  Before you approach people about joining your advisory board / support team, be clear about what type of benefits and rewards you can offer that match their interests. Providing incentives doesn't have to (and probably shouldn't if you're a new nonprofit working to grow your budget) mean spending a lot of money on gifts or events with free food and drinks, unless you can get the food and drinks donated. Incentives can mean offering your supporters a rewarding experience by being connected to work and issues that matter to them, that they care and feel passionate about. In other words, by joining your support team, they're invited to join a greater cause that can provide them with a greater sense of purpose and an opportunity to make a difference, especially if someone has a job that doesn't give them much meaning. The point here is to be clear about how you can best frame your ask so that those you're asking to join your advisory board / support team know exactly how this will benefit them.

Other incentives may include you offering to support *their* cause, access to other like-minded and skilled people they might want to network with or learn from through your organization, access to free trainings and workshops you could provide, or annual networking / peer learning events.

## **Join a peer support group or create one yourself**

- ✿ Joining or setting up a peer support group is one of the easiest ways to provide a support structure for your organization's and your own continued growth and development. During monthly meetings, you and your peers could help each other problem-solve, brainstorm new ideas, and serve as sounding boards for one another when working through challenges. You can even provide trainings for each other, share tools and resources, and participate in joint professional development and skill-building events. Organizing annual weekend retreats for your peer group could allow you to do some of this work on a deeper level. The members of your peer group could also learn coaching skills and tools and then provide peer coaching support to each other on a regular basis and during crisis situations.

## **Work with an accountability partner**

- ✿ Partnering with someone you trust, who would equally benefit from an accountability partnership, is one of the most effective approaches when it comes to setting up a support structure. In fact, many studies have found that reporting to someone on a regular basis on the progress you're making as you work toward a particular goal makes it significantly more likely that you will achieve the goal. An accountability partnership also allows you to help each other problem-solve and coach each other to work through challenges. In the end, having someone you can confide in, someone who speaks "your language", someone who understands what you're going through as an organizational leader, is invaluable when it comes to facing challenges and difficult periods. Hardly anyone who has ever achieved professional success has done so without the help and support of others. Your success therefore is most likely to also depend on the strength of your support structure.

## **Bonus Tip**

### **Increase your new organization's exposure locally, regionally and nationally**

Many new organizations shy away from putting themselves out there and making themselves visible right from the start, out of fear that they may not have as much to offer or contribute as more established organizations. However, increasing your organization's exposure will help you to attract allies, supporters and new funder prospects. In addition, this will allow you to establish your organization as a leader in your field and yourself as an expert. Here are some ideas for increasing your organization's exposure:

- ☑ Create a workshop that features the tools and approaches you're using in your work with your clients and constituents and offer to facilitate your workshop at local, regional, and national conferences.
- ☑ Affiliate your organization with other established organizations in your field that you respect by working on a collaborative project / partnership or as part of a coalition. This could also include creating a joint presentation or workshop at a conference or other public event.
- ☑ Associate yourself with other successful and well-established leaders in your field who you respect and who inspire you by building a relationship with them and by exploring ways to collaborate on a project. This may mean that you offer your support and help first without expecting anything in return.
- ☑ Create pieces of writing about your work and your unique point of view as a leader and publish your writings through your own blog, as a guest blogger, and through popular publications in your field.