SIX STEPS TO GOOD–REPUTATION INSURANCE

The reputation you save may be your own.

BY DIANA H. CLARY

The best insurance you can have is good–reputation insurance. Unfortunately, you can't buy it. The only way to gain such insurance is to create it yourself.

It's not easy. One newspaper or TV story can destroy a lifetime of dedicated service. The story may not be factual or fair. You may not be personally involved or even aware of the alleged misdeed. Yet you may be publicly judged guilty because you were administratively responsible for the area in trouble.

Frighteningly often, the media describe top nonprofit managers unfavorably. Examples of alleged misconduct include:

- use of nonprofit employees for personal house cleaning, painting, and other home maintenance projects
- lavish use of nonprofit funds
- inappropriate travel and entertainment charged to the nonprofit
- sexual misconduct
- inadequate accounting records and missing funds.

Media have increased their vigilance and reporting about such misdeeds. The public helps the media with camcorder pictures, mobile phone calls, faxes, Internet messages, and computer data banks. There are more eyes watching than ever before.[1]

You can protect yourself, your personnel, and your organization from a tarnished reputation through sound financial management. Besides following ethical practices, you need solid policies and records that can preempt or at least refute allegations.

Here are six steps to good–reputation insurance for your organization:

1. MEET EXTERNAL FINANCIAL EXPECTATIONS.

Your organization has many stakeholders. These include your employees, clients, funders, and the media. All these constituents have preconceived ideas about your organization's financial norms. Most will be more than willing to share their expectations with you. Sometimes these expectations may be diametrically opposed to each other. Nonetheless, it's crucial that you learn what those financial expectations are and strive to fulfill them.[2]

An example will illustrate. Fundraising is the life blood of many nonprofit entities. Most constituent groups agree "it takes money to make money." But these groups may disagree with one another on just how much money it takes. In times gone by, many nonprofits used extravagant entertaining, dining, and gifts to attract donors. These lavish expenditures are still appropriate in some arenas, such as with celebrity events, often lauded by the media. In other nonprofit environments, however, the media would consider such opulent spending an unethical and, perhaps, illegal use of funds.

If you and another nonprofit director spend funds for identical fundraising events, therefore, your colleague

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may be publicly praised while you're discredited. Indeed, you may have been applauded in the not-so-distant past for expenditures that are frowned upon today.

Take care, then, that your practices are congruent with stakeholders' changing expectations. You are well advised to take a conservative approach to spending. Such a stance will help avoid headlines such as "Director of XYZ Lavishly Dines at Private Club on XYZ Expense Account while Child Needlessly Dies Due to Lack of XYZ's Funds." In reality, the child's death may have little to do with your dinner, but media seek sensationalized headings, and the accusation will haunt you forever.

2. USE POWER WISELY.

By virtue of your managerial position, you have power. You have the power to increase or decrease program budgets, approve or deny expenditures, hire and fire, promote and demote employees, and raise or lower salaries. Because of this power, you receive filtered communications. You are more likely to hear what subordinates think you want to hear than the truth.

Because of your power, you also establish the organization's ethical tone. If you do not lavishly spend, then subordinates are less likely to do so. If you fire an employee who steals, others are less prone to steal. If you use the long-distance line for personal calls, employees are more inclined to follow suit.

Additionally, employees assume that you will give accurate information, make correct decisions, and provide effective leadership. The boss is "assumed to be right." Most employees are not likely to "buck" the system.

For all these reasons, you must carefully assess your own behaviors. Evaluate the filtered communications you receive, and look for ways to improve yourself. By making it clear that you want criticism as well as praise, you will more probably receive the truth. By acting the way you want employees to act, you will more likely create an ethical environment and pave the way for good–reputation insurance.

3. HAVE WRITTEN POLICIES.

Having well-written, updated policies, procedures, and rules (PPRs) is an excellent way to gain good–reputation insurance. PPRs establish the framework for the ethical, legal, and expected conduct of your organization's affairs. You can ask employees to sign statements indicating they have read and understand your organization's PPRs. Subsequently, such employees can't claim that "no one told me."

Many nonprofit managers don't consider PPRs a high priority. They put off writing and updating their PPRs until a slack period. Of course, the slack period never comes, and the PPRs are incomplete or obsolete.

This is a grave mistake. If a misdeed occurs, up–to–date PPRs are invaluable. You can use them to show that the misdeed was against your policy. Indeed, you can prevent misdeeds by making sure employees understand appropriate ethical behaviors and methods to protect your organization's assets and reputation.

4. HEED LAWS AND REGULATIONS.

You must keep informed of regulations issued by such groups as the Financial Accounting Standards Board (FASB), Internal Revenue Service (IRS), Environmental Protection Agency (EPA), Occupational Safety and Health Administration (OSHA), and grant funding agencies. You must also learn the details of such laws as the Americans with Disabilities Act (ADA).[3]

Penalties for violations may be severe. If federal funders find that you aren't following regulations, they may make you repay the funds they granted you. The IRS may assess a penalty, interest, and payment for uncollected payroll taxes. The EPA and OSHA may force you to clean up a costly environmental hazard, shut down a contaminated building, or pay damages for an unsafe work environment. Potential employees may sue you if you aren't following ADA requirements to make your workplace accessible to all.

Even if your organization is small, you need to keep up with changing regulations. Ignorance is never an excuse. You may need to pay someone—a CPA, lawyer, or other financial provider—to let you know about changes you need to make in your financial or other practices. It will be worth the price to reduce the chance of error, penalties, and associated bad media coverage.

THERE ARE MORE EYES WATCHING THAN EVER BEFORE.

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5. PROVIDE ACCOUNTING CONTROLS.

Be sure your accounting system provides well–documented audit trails for all your organization's sources and uses of funds. With regular internal and external audits of such a system and prompt correction of any deficiencies, you can mitigate potential problems.

You should also have a well–designed internal control system. Such a system will verify that you are following appropriate procedures and that expenditures have been approved. A good accounting system and controls will reduce the likelihood of misdeeds which will embarrass and impoverish your organization and its leadership.

IF YOU DON'T WANT THE WORLD TO KNOW IT, DON'T SAY IT.

6. WATCH THAT SIGNATURE.

Once you have established benchmarks for reasonable and necessary expenditures, you must approve—or have competent, ethical financial managers approve—every payment. Don't sign for any expenditure until you carefully read what you are signing. It's a good rule not to sign anything you wouldn't feel comfortable seeing on the front page of the morning newspaper. That goes for all who sign for any disbursement. If people feel uneasy, they shouldn't sign, even if it is for a superior's expenditure.

Sometimes an overzealous assistant has "helped" the superior—without the superior's knowledge—commit some misdeed. For example, a bill for lavish meals with friends at the country club arrives with the nonprofit's mail. The assistant assumes the bill is for legitimate nonprofit expenses and pays it. Three months later an auditor reports the payment to the board. A board member shares the information with a media representative, who announces it on the evening news. The executive director's reputation is tarnished forever. Few believe him when he says it was just a mistake and that he intended to pay the bill personally. It's too late to purchase reputation insurance after the misdeed is televised. ■

TOP MEDIA PITFALLS TO AVOID

- Don't talk too much. Most nonprofit managers who make media mistakes talk too much, not too little.
- Don't wing it. Prepare. Prepare. Then prepare some more. Anticipate questions, and know your message.
- Don't fudge the truth. Reporters will check what you say with other sources. A falsehood will wipe out years of reputation building in an instant.
- Don't let your guard down, even for an second. Never be lulled into idle chitchat.
- Never whisper in a reporter's ear. Newt Gingrich's mother learned that lesson the hard way. If you don't want the world to know it, don't say it.

From *Building Your Company's Good Name* by David Young, NY: AMACOM. Noted in *Non–Profit Nuts & Bolts*, 100 Lower Park Road, Mt. Laurel, New Jersey 08054–2000.

Footnotes

[1]For an in–depth look at media–related problems, see "When Reality Becomes Image: Dealing with Media Dilemmas of the TV Age" (*Nonprofit World*, September–October 1994) and *Public Relations and Communications*, *Leadership Series*, *Volume II* (see "Selected References.")

[2]For an excellent book on the subject, see Brinckerhoff in "Selected References."

[3]Watch *Nonprofit World* for updates on laws and standards for nonprofits. See, for example, the series on FASB Standards No. 116, "Accounting for Contributions Received and Contributions Made," and 117, "Financial Statements of Not–for–Profit Organizations" (January–February 1994 and May–June through November–December 1994, *Nonprofit World*), "Nonprofits and the Americans with Disabilities Act" and "Do Your Job Descriptions Comply with ADA?" (March–April and May–June 1993, *Nonprofit World*), "Are You Obeying Personnel Laws?" (July–August 1993 *Nonprofit World*), the *Leadership Series* (see "Selected References"), and updates in the "Legal Counsel" and "First Alert" departments in every issue of *Nonprofit World*.

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