Learning Not to Spend It Now

Saving is tough, but it doesn’t have to be painful.

BY PETER BRINCKERHOFF

What’s your favorite argument for not saving money for your organization? Maybe it’s one of these:

• “We’ve never put much cash aside, and we’ve gotten along O.K.”
• “It’s immoral to hoard cash when there are so many needs out there.”
• “If we have extra cash, we should raise staff salaries. We don’t pay our employees enough now.”

Even if you’ve never used them yourself, you’ve surely heard these arguments from your board, staff, or funders. Let’s look at them more closely.

Are These Arguments Valid?

First, you may feel you’ve “gotten along O.K.,” but if you haven’t saved money you’ve been cash-strapped at least on occasion. Organizations living hand to mouth spend most of their time looking for the next handful and not focusing on long-term issues. You may have survived, but mere survival doesn’t come close to maximizing your capabilities.

The second argument is also false and doesn’t hold up to rigorous review. Is it better to spend all your money for needed services today and then not be in business at all next year, or should you focus on what you do best and retain the empowerment to help more people later?

Part of being a successful nonprofit manager and board member is being able to say “no” to a good idea, “sorry” to a real need. There are simply more needs in your community than you could ever meet, so you must pick and choose what your organization does, who you serve, and when you serve them. Trying to be all things for all people is a sure recipe for poor services and financial ruin, after which you will be of no value to anybody!

The third argument has merit if you haven’t given your staff a raise since the last crusade. It’s essential to try to compensate your staff fairly. But it’s also important to have reserves on hand so that when cash is tight you can pay the salaries that they do have. Certainly employees should be rewarded for good work and paid fairly, but don’t just assume that “leftover” cash should always go to them. Think how they feel about getting the “leftovers.” Doesn’t that devalue them?

In addition, don’t automatically assume that staff want more money. They may want ownership in how the organization is run or more time for their outside interests (like their families). Ask before you compensate. You may be surprised what you’re told, and it doesn’t make sense to give someone something they don’t want.

Is It Important to Save?

It’s not only important to save; it’s the only way you can move your organization from mere survival to empowerment. To be financially empowered, you need a cash operating reserve of at least 90 days, and at least 5% of your income should come from earnings on an endowment. You should have a rapid-response mission reserve fund, which lets you respond to a mission-related need today rather than waiting months or years for the necessary money. Having a mission reserve fund is the essence of financial empowerment.

Being a good nonprofit manager means being able to say “sorry” to a real need.
How Can You Learn to Save?

All of which brings us to the question: How do you learn not to spend it today? The answer has three parts:

1. **Market the need for savings.** Tie your organization’s mission to saving in as many visible ways as possible. Remember, marketing is finding out what people want and giving it to them. What do your board and staff members want? If they’re like most nonprofit employees, they want a mission to justify all their hard work and sacrifice. Give them one, and tell them about it all the time.

2. **Set policies.** In your financial policies, do the following:
   - State the need for net revenue.
   - Give a target for cash reserves.
   - Set a five-year goal for an endowment (and describe what the endowment can and can’t be used for).

   3. **Avoid pain.** The psychology of pain avoidance in saving is valid: What you don’t see you won’t spend. This is why 401(k)s—payroll deductions for savings, retirement, or investment—are so popular. The money is deducted automatically—before you can get your hands on it. Try setting up such a discipline for your organization.

   With board backing (in the form of policy), put half of all donations in a restricted account that will be the start of your endowment. Also, try putting 2%, 3%, or even 5% of all funds that come through the organization into a money market account. Have your financial person do this first, before paying the bills, and learn to budget for it. If you have a windfall, put 50% of it away, and use the other 50% on current critical needs. Slowly but surely the funds will build up.

   Your bank may help by deducting $1,000 or $2,000 a month from your checking account to go directly into a money market fund. Talk to your banker about ways to make savings a less painful event for you, your staff, and your board.

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