



***Weathering the Perfect Storm:
Nonprofit Leaders' Roundtable on the Economic Crisis***

February 18th, 2009
Washington, DC

Highlights and Outcomes

Background and Context

The purpose of this roundtable was to bring together a cross-disciplinary group of executive leadership of NHTA member organizations – top executives of national human services nonprofits – to engage together in grappling with the current economic crisis with candor and a focus on solutions. Organizations responded in force to the invitation to bring a team of key executives – CFOs, COOs, HR leaders, CEOs and other top leaders – to a session designed to engage participants in looking at the current 'perfect storm' of a crisis in a multi-faceted way.

To that end, NHTA recruited Josh Mintz, a nationally-known facilitator specializing in working with nonprofit organizations, to design and facilitate our day. We recruited two plenary speakers to frame issues from a macro perspective: Dan Cardinali, CEO of Communities in Schools, and Richard Brewster, Executive Director of the National Center for Nonprofit Enterprise. A practitioner panel brought HR, CFO, COO and Strategy perspectives to the topic; after extensive discussion with speakers and a networking lunch with peers, participants work in small groups, across roles, to explore and tackle challenges facing all of our organizations.

This report is intended to capture highlights of the day – more importantly, it is intended as a sort of after-action report, to use military terms – an assessment of what has happened as a springboard for further action based on learning. We intend this document to form the basis for attendees and other NHTA members to explore bold collective action and continued engagement in shared learning as we muster the best of each and all of us to move our organizations and our sector through this historic time of great challenge.

Session Opening – Framing the Conversation

Why this roundtable? Responding to members' needs to learn and think together about

- ✓ How networks are responding
- ✓ How we make use of this moment
- ✓ Perspectives beyond our own, of different organizations and people

Overarching goal: to share strategies and solutions for navigating the new economy for nonprofits

The problem, plainly stated, involves:

- Downturn in funding
- Increased demand for services
- Impact on staff
 - Morale, fear of layoffs, looking to leaders for reassurance and direction
- Impact on networks

From problems to solutions: what can we do

- Financial strategies to address the economy
- Maintaining morale and staff development
- Enhancing efficiencies of our networks
- Finding meaningful opportunities to collaborate in our response

THE CEO PERSPECTIVE - DAN CARDINALI, COMMUNITIES IN SCHOOLS

Building on the framing of where we find ourselves – what Dan calls “What in heaven’s name is going on in the world” and “How on earth do we deal with it?” Dan took us through Bridgespan’s approach, called “Managing in Tough Times: Seven Steps,” bringing the steps alive by sharing how he has made meaning of them and put them into action at CIS. He closed by offering us CIS as a case study, walking us through the approach he and his key leaders are taking in moving their network through the perfect storm. Readers can refer to Dan’s PowerPoint and to the Bridgespan documents (Attachments A and B) for a thorough sense of what was offered. A few high level highlights include:

- Be crystal clear about what your core business is and what are you good at
- Know who your A-players are, and protect them
- Stay very close to key funders
- Shape up your organization – crisis is a great motivator to make tough choices. Cut those that do not produce great results over those that are getting results
- Build partnership with your board
- Communicate openly with staff - don’t communicate anxiety – remain enthusiastic and mission focused

CIS Case Study

- Impact of decreased public support on schools and school-based programs
- Seizing on policy opportunities (TARP funding) for CIS’s work (integrated student services)
- Strategic actions to respond quickly and longer term, at federal and state levels
- Engaging stakeholders and key players, from affiliates and board to government relations staff and grassroots network

Possible elements of a silver lining to this crisis:

- Clarity re core business
- Aligning your allocation of resources to your core business
- Preparing for competition, which is a healthy dynamic for our sector

THE FINANCE / ECONOMICS PERSPECTIVE: RICHARD BREWSTER, NATIONAL CENTER FOR NONPROFIT ENTERPRISE

Richard offered both research-based guidance and astute observations about what works, approaches and ways of thinking about leading our organizations through the current crisis. Some key observations:

- Historical approaches may not work anymore
- Remember that by their nature governments look at basic investment first, and individuals are concerned with their security first
- Don't plan on financial health solely on Stimulus Package
- Steps to take for survival:
 - Check out safety of any cash or investments and protect
 - Freeze anything where cash might flow out
 - Be very clear about your organization's use of credit, reserves etc
 - Engage your board in additional tasks, as advisors
 - It may seem basic, but everyone involved in making decisions needs to be working with a spreadsheet of their budget – amazing how often this is not the case.
- To prevent worsening of staff morale
 - Communication and engagement are key
 - Free up resources to invest in your people
- Importance of having a structure for decision making that has as its basis
 - An understanding of the financial health of your organization
 - An understanding of nonprofit economics
 - A commitment to protecting the people and programs important to the organization
- Some prudent steps to take when revenues are down and demand is up
 - Spend less
 - Look at funding streams - diversification is important, but – counterintuitively – research indicates that having more than 2 major funding streams can be counterproductive. Diversifying within a stream – e.g. obtaining funding from a variety of government sources – can be most useful.
 - Pay attention to productivity, but also be aware of the issue of balancing greater workloads with staff stress and morale
 - Last resort—cuts
- If you have to resort to cuts
 - Capture in writing the actual dollars you will save and any other benefits of the cut
 - Pay attention to the cost of laying someone off – loss of capacity, cost of replacing that person down the line, loss of institutional knowledge and expertise
 - Bear in mind that you can't just cut 10% and expect staff to continue producing in the same manner
 - Remember that people need some sense of control in these chaotic times, and engagement helps people move through the change process more quickly and makes the worst of the process less severe. Help staff feel a sense of control by engaging them in the process and communicating more

PRACTITIONERS' PANEL

- **Peter Lowet, VP Strategy, NCOA**
 - NCOA uses a *Good to Great* approach, so they are always looking at the relationship between activities, actions and decisions as they relate to their own 'hedgehog.'
 - Have started asking managers to create "stop doing" lists with their teams, rather than simply add work and priorities
 - Importance of looking at your funding priorities and strategies
 - Getting all staff involved in framing of new initiatives
 - Involving the board as advisers
 - If you have to implement layoffs:
 - Make it a last resort
 - Be strategic about it, think hard about it, what the impact will be
 - Staff are your customers so let them go humanely
 - Be thoughtful about process, make it the least impactful on everyone
 - Think about the impact the way you treat those let go will have on those still working
- **Tom Turnbull, CFO, Volunteers of America**
 - Communication is your most effective strategy
 - Importance of idea sharing back and forth with affiliates – VOA has recently written several white papers for affiliates that have been well-received
 - VOA as an organization has been energized by changes in business model
 - Sharing opportunities and optimism
 - Keep people focused and engaged
- **Robin Robin, HR Director, Girls Incorporated**
 - Through involvement with an association of HR professionals in nonprofits, has seen survey data on what is happening within the sector
 - While there are hiring freezes, layoffs, and salary freezes, many organizations are just considering those steps vs. having actually implemented them
 - Bear in mind that 75% have **not** acted on layoffs at this time
 - It seems that the organizations that survive and retain a committed workforce are those whose CFOs, COOs and CEOs talk to the staff
 - Take these opportunities for communication and support – informal and more formal events and gathering – as a chance for staff at all levels to learn more about each other.
 - Remind staff about positives.
 - Remember that staff need to see the leadership, especially in these times
- **Michael Watson, Senior Vice President of HR, Girl Scouts of USA**
 - Importance of meeting and working as a leadership team
 - GSUSA has consistently sought input from Girl Scout Councils on important issues
 - Holding a series of staff meetings for communication and real engagement
 - Ensure leadership has a shared strategy and get plenty of feedback from affiliates
 - Remember that layoffs cause your best people to start worrying – often they then take the first opportunity to move on.

Highlights from Q&A with Panel

- Most important strategies
 - Balance between staff and leadership engagement
 - People want to be influential and help - everyone needs to be involved
 - Create and nurture relationships with funders
 - Give opportunities for affiliates at different levels to talk to each other
 - Communication between everyone, in all directions
 - Organizational culture needs to move with strategy
 - Keep your mission in front
 - Most important resource for accomplishing strategy is your people
 - Communication is key because informed people aren't frightened
 - Trust in the strength of the organization
 - Human capital just as important as financial capital
 - Look at how are you positioned to take a leadership role after the economic crisis is over

Small Group Work on Specific Issues

Participants chose small groups based on topics, and were asked to focus their discussion on three levels at which solutions could be implemented – headquarters/national, networks, and collectively.

- **Finance (short term and long term)**

HQ:

- Delayed hiring
- Require justification for salary increases
- Place greater emphasis on interns
- Kill hard copies – it reduces print and shipping costs and is greener
- Establish clear boundaries

Networks:

- Raise money collaboratively – national and affiliate pursuing funding together
- Encouraging affiliates to consider consolidating / sharing back office operations

Collectively:

- Take advantage of group purchasing (e.g. through NHSA) which produces a dividend payment to the national office, substantial savings at national and affiliate level
- Take a coordinated approach to travel – one organization has done this very successfully, saving considerable money
- Use one another's services to obtain mutual benefit
- Consider creating regional learning opportunities (e.g. on fundraising) – make available to multiple networks of NHSA member organizations
- Coordinate internship programs – explore rotation of interns through several member organizations
- Promote consolidation – bring together those who have done consolidation with those thinking about it

- **Morale/ Impact on Staff**

HQ:

- Importance of encouraging words from those in leadership and those with 'face time' with staff
- Giving Regular, thoughtful, truthful and consistent messages to staff and networks on where the organization is going
- Provide support for those leaving
 - Communicate reason for lay-off
- When you set a timetable, honor those deadlines with staff
- If you have recognition programs and awards, continue them
- Get together with staff to discuss life, the world, etc
- Encourage cross departmental work, assignments and cross-training – provides you with depth of bench and is a development opportunity for staff who are involved
- Clear and consistent policies that everyone understands
- Respect staffs' personal time and time off
- Do nice things for your staff
- "Myth busters"
 - People brought rumors they heard to the leadership
 - They reassured the staff they weren't true
 - Highly effective way to communicate with staff

Networks:

- Communicate best practices
- Work closely with affiliates so you can move together when opportunities arise
- Distribute ideas and help through networks

Collectively:

- Keep communicating with everyone involved
- Sense of control, consistency and stability

- **Working Together / Collective Action**

Networks

- More regular communication (e.g. conference calling)
- Develop a more active community with affiliates
- Importance of clarifying relationship and roles with affiliates
- Importance of investing in better systems for information sharing
- Seek better ways to fund this work
- Ensure high level quality of work
- Ensure that organization at any level gets to know other nonprofits well before seriously considering merger
- Look to NHSA to be a collective voice to advocate on behalf of the sector

- **Collaboration with National Assembly**

HQ and Networks:

- Look at back-office consolidation options
- Explore efficient ways to identify capacity excesses (e.g. in-house printing capacity, IT, office or warehouse space) to share

- Share good board members with other organizations, for mutual benefit and to build bridges

Collective:

- Borrowing talent and expertise
 - Joint fundraising
 - Knowledge management and sharing
 - Internships
- **What you want from the National Assembly?**
 - Packaging and consolidation of best practices
 - Every 6 months have a survey to follow up on organizations' progress
 - Explore build a database between organizations
 - Find inspirational stories
 - Collective story is more impactful than individual stories
 - Share new stories or data with NHTSA so they can send it to everyone else

NHTSA is committed to continuing to engage attendees and other members in collaboration and shared learning around our collective response to the economic crisis, co-navigating and ultimately weathering the perfect storm together on behalf of our employees, volunteers, constituents and communities.

This roundtable of NHTSA member executives was made possible through the sponsorship of Mutual of America. NHTSA is also grateful to Merrill Lynch and to Jim Schmutz for hosting our daylong event.

Weather the Perfect Storm Roundtable

February 18, 2009



Discussion Outline

- What in heaven's name is going on in the world?
- How on earth do we deal with it?
 - Seven Strategies for weathering the storm
- Brief case study: CIS Network
- Is there any silver lining?

What in heaven's name is going on in the world?

- Deep Recession
 - Scope and depth not seen since the 30s
 - Financial sector fundamentally under siege
 - Global implications
- Non profit sector's paradoxical situation
 - Increased competition for fewer resources
 - Increased demand for services

Unprecedented challenges require
unprecedented leadership actions

How on earth do we deal with it?

- No easy answers, but history is a good predictor of future behavior.
- Requires core leadership skills: individual and organizational
- Refer to “Managing in Tough Times: Seven Steps”
 - The Bridgespan Group (www.bridgespan.org)

Step One: Act quickly, but not reflexively, and plan contingencies

- Manage costs aggressively:
 - Cut “nice-to-haves”
 - Delay new initiatives
 - Develop contingency plans
- ↓
- Understanding your business model is critical.

Step Two: Protect the Core

- Allocate discretionary financial and human resources to achieve sustained and strategic results.
- Ensure organizational infrastructure is appropriate to support strategic results.

Step Three: Identify the people who matter most and keep that group strong

- Talent makes the difference is tough times.
- This applies to network operations as well.
- Fundamental question: Who are the best staff/affiliates and how do you know?
 - Be willing to protect “A players” with layoffs

Step Four: Stay very close to your key funders (income stream)

- Funders have to make tough choices, too
- Be their core staff; deliver strategic results for them
- Negotiate terms aligned with current circumstances → deliver strategic results

Step Five: Shape up your organization

Crisis is a great motivator to make tough choices

- Merge programs/positions
- Have in/out conversation with affiliates
- Recalibrate pace of growth/quality initiatives
- Make strategic hires (e.g. CFO or COO)
- Streamline management decision making

Step Six: Involve Your Board

- Fiduciary responsibilities: critical policy makers
- Strategy formulation: experience and support
- Resource development: guidance in managing business model

Step Seven: Communicate openly and often

- Transparency is crucial
- Remain enthusiastic and mission focused
- Be willing to absorb the hardship by helping out when things are tough (rolling up sleeves)

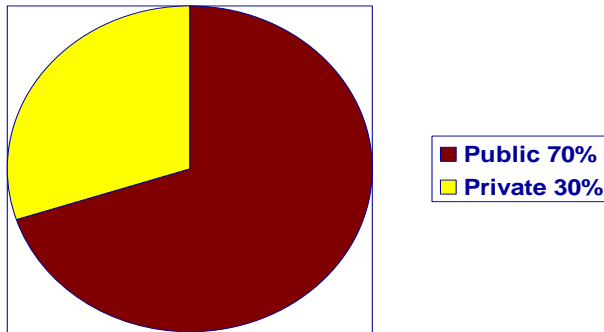
Brief case study:

Communities In Schools

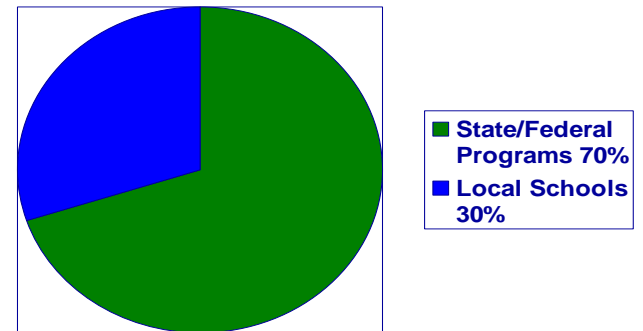
- Organizational Goal: Significantly reduce the number of dropouts
- Organizational Profile:
 - Largest dropout prevention network in America
 - Provides integrated student services
 - Federation of nearly 200 independent affiliates
 - 14 state offices
 - 1.2 million K-12 students
 - 185,000 parents/guardians
 - 50,000 volunteers
 - 3,200 public schools

Financial Model of the CIS Network

- \$225 million operation; largely funded by the public sector



- Breakdown of public support for CIS network



CIS Sustainability Strategy

- Private Investment for network:
 - \$50 million Impact Fund for network
 - \$100 million endowment to support national office operations
- Public Investment for network:
 - Need to create multiple stable streams of public capital for integrated student services
 - CIS' sustainability is linked to a policy strategy
 - Public education is a \$500 billion business annually; private investments total ~ \$1.5 to \$2.5 billion annually

Decreased Public Support Due to Economic Crisis

- \$40 billion state budget shortfall closed in '08
- \$30 billion additional state shortfall facing '09
- \$63 billion state shortfall projected for '10*
- \$350 billion project state shortfall from 2009 through through 2011**

Impact of Economic Crisis on State Education and School District Budgets

- Thirty-four states have enacted/proposed spending reductions (K-16)*
- Complicated mechanisms for cutbacks and eliminations (increase class size, shorter school year, teacher layoffs, hiring freezes, cuts in extracurricular activities)

Key Policy Opportunities for Integrated Student Services

Federal Stimulus for Education*: \$789 billion

- \$10 billion under Title I: help close achievement gap and help underserved students
- \$11.5 billion under IDEA: improved education outcomes for disabled children

Key Policy Opportunities for Integrated Student Service

\$54 billion State Fiscal Stabilization Fund including school construction

Incentive grants for Governors: 50 percent must be for education in four areas:

- \$650 million Innovation Fund: funds partnerships between a nonprofit organization and a local education agency that make significant progress in closing the achievement gap

Key policy opportunities for Integrated Student Services

Keeping Parents and Communities Engaged
(Keeping PACE) Act

The Graduates Act

Graduation Promise Act

Strategic Actions

- Allocate government relations staff and resources to support stimulus opportunity
- Build grassroots network to support short-term and long-term policy strategy
- Engage board to get to policy-maker support
- Engage network in building capacity to access the increased public dollars

Is There Any Silver Lining?

- Determine core business
- Align resource allocation to core business
- Prepare for competition: a healthy dynamic for the nonprofit sector

Managing in
Tough Times:
Survey Themes 2008

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For the nonprofit sector, the current economic crisis – which many argue will be the most severe since the Great Depression – brings with it the dual challenge of rising demand for services and declining revenues. To what degree have nonprofits already felt the impact of the downturn? What approaches are organizations taking to address the crisis? What contingencies do they have in place to cope with an uncertain future?

Seeking to answer these questions and to develop a better understanding of how organizations are managing in these tough times, Bridgespan conducted an online survey of nonprofit leaders from November 11-24, 2008. We reached out to approximately 800 nonprofit CEOs, Presidents, and Executive Directors across the country and received over 100 responses. Survey responses paint a picture of nonprofits struggling to serve their communities in the face of deep budget cuts. Many are thinking about which programs are core to their operations and mission. Some are taking decisive action to cut costs and plan for the worst. Others seem to be struggling to determine what strategies to employ in such uncertain times. In what follows, we share key themes emerging from the survey. Separately, we have collected insights on managing in these tough times; these insights can be found at in our article [“Managing in Tough Times: 7 Steps.”](#)

Many nonprofits are already experiencing funding cuts- some of them severe.

There is reason to believe that this recession is being felt more quickly and will be felt more severely than past recessions. During the four longest recessions since 1967, overall giving declined by 2.7 percent on average and the steepest declines in giving by foundations were not experienced until a year or two after the recessions ended.¹ In contrast, 75 percent of nonprofits in our survey reported that they are already experiencing the downturn. Specifically, our survey found that:

Funding has been cut, in some cases severely: 52 percent of survey respondents reported that they have already experienced cuts. Nearly half of these organizations have had their funding cut by 10 to 20 percent, and another quarter have had their funding cut by 21 percent or more.

Demand for services is increasing: 30 percent of organizations in our survey have experienced an increase in demand due to the economic crisis.

Staff anxiety levels are high: Cuts in funding generate uncertainty about the organization’s future amongst staff. The leader of a multiservice agency that has experienced a 10-20 percent drop in revenue describes a “general fear felt by employees who don’t know how this may affect them.” This fear is felt even amongst organizations that have yet to experience cuts. The leader of an educational non-profit reported that one effect of the downturn has been “staff anxiety and uncertainty about the level to which we will be affected--both in our earned income (sales) and our philanthropic funding.”

The effects of the recession are being felt across the sector, regardless of non-profits’ dominant funding source. Nonprofits that rely on government funding have been the hardest hit, with 61 percent reporting cuts. Even among organizations whose funding comes primarily from foundations, 48 percent have already experienced cuts, with 61 percent of nonprofits whose funding comes primarily from foundations being told to expect cuts in the future.

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On the positive side, nonprofits appear to be protecting their “core,” communicating broadly with key stakeholders, and actively engaging their boards.

The majority of nonprofit leaders are thinking critically about which programs are most vital to their mission and are considering actions that will focus resources on these programs. The majority (69 percent) of respondents to the survey showed a commitment to understanding the full costs of each of their programs. Over half (52 percent) of survey respondents report that they are seeking to scale back or eliminate a subset of programs to free up resources for others, compared with 31 percent who are reducing the level of activity across all programs.

Moreover, many leaders are making a firm commitment to communicating with and engaging stakeholders – including staff, volunteers, and board members – in discussions and, in some cases, decisions about managing through tough times. Indeed, 68 percent of respondents are developing plans to communicate with funders, an equal number are developing plans to communicate with their boards, and 64 percent of nonprofits are developing plans to communicate with staff. Three quarters (76 percent) of organizations are involving their boards or a subset in addressing the impact of the downturn on the organization.

While many organizations are prioritizing communication, some leaders highlighted the challenges that these communications strategies can entail. The executive director of a non-profit facing a 20 percent decline in revenue commented on the difficulties of communicating the organization’s financial situation with his staff: “It’s a delicate balance between communicating early on and creating anxiety or waiting until there is clarity on what is happening. I tend to share what I know early. I’ve been meeting with groups of staff for an hour at a time to let them know where things are.... Right now communicating with my staff and the board is consuming between 80-90 percent of my time.”

While some organizations have identified cost-cutting measures, it appears that many – even those that have already experienced cuts – are being slow to take action on this front. Instead, they seem to be spending the lion’s share of their attention on improving their fundraising capacity.

Our survey presented leaders with a variety of approaches related to programs, staff and operations for dealing with the downturn, and asked them to rate to what extent these tactics were part of their plan for coping with the crisis. Responses indicate that many organizations are avoiding cost cutting and instead focusing on fundraising.

Many organizations are not taking any cost-cutting measures: More than a third of organizations that have already experienced funding cuts are *not* using any tactics that involve cost cutting to address the downturn.² That said, organizations that have already experienced cuts are taking more aggressive measures to cut costs than those that have not. For example, 40 percent of respondents from nonprofits that have experienced funding cuts said that laying off staff plays somewhat or a major role in addressing the downturn, compared with 16 percent of organizations that did not experience cuts.

Many organizations are focused on fundraising: We presented nonprofits with eight different and often conflicting fundraising tactics (e.g. investing more deeply in relationships with core funders and expanding the total number of funders). Nearly half (48 percent) of respondents said that six or more of these strategies play somewhat or a major role in their approach to addressing the downturn.

This hesitancy to take cost-cutting measures may, in part, be influenced by organizations' overly optimistic outlook about the impact of the recession on their financial prospects. Many leaders said that they believe that their organization will not be affected by the recession to the same extent that others will be: For example, 74 percent of leaders responded that funding for nonprofits *like theirs* will decline by more than five percent, while only 55 percent of them believe that *their own* revenues will decline by this same amount.

Whatever the explanation, delaying expenditure cuts during a recession in the hopes of increasing revenues may have serious consequences. In an analysis of the impact of the 2001 recession on nonprofits, the Nonprofit Finance Fund found that from 2001 to 2003, on average nonprofits' expenses grew at a significantly faster pace than their revenues. This caused the number of nonprofits with budget deficits to increase by 20 percent in fiscal year 2001 and that number had not returned to 2000 levels by 2005.³

Unfortunately, many nonprofits seem un- or under-prepared to weather the downturn.

Our survey sought to understand the extent to which nonprofits had existing financial resources and/or well-developed contingency plans to weather the downturn. On both dimensions we found that many nonprofits appeared under- or unprepared to handle significant cutbacks in funding.

Few nonprofits have deep reserves: 54 percent of respondents have three months or less of operating reserves and 74 percent of respondents have less than six months of operating reserves.

Few nonprofits have well-defined contingency plans: While 48 percent of leaders say their organization has a contingency plan, only 28 percent of the nonprofits surveyed have a "well defined" plan, by which we mean one that

includes monitoring key tripwires to determine when to enact the plan, understanding which programs are critical to the mission, and knowing where/how to cut spending should large budget cuts occur.⁴

Tough times lead to tough choices

This survey highlights just how tough times really are. Given the severity with which the economic crisis is affecting nonprofits, what steps can organizations take to weather economic adversity while continuing to meet the needs of their communities? Bridgespan has collected insights and advice from our clients, from other nonprofit leaders and experts, and from our own leadership that we hope will help you manage through these tough times. Read the article "[Managing in Tough Times: 7 Steps](#)" for more information.

For additional resources and advice on managing nonprofits during a recession please visit our [Managing in Tough Times Resource Center](#) on Bridgespan.org.

1 *Giving USA Spotlight*, Issue 3, 2008

2 Organizations were designated as not taking cost cutting measures if out of 6 possible cost cutting measures they listed none as a major part of their strategy and listed only one or none as somewhat a part of their strategy.

3 "Nonprofit Trends: The 2001 Economic Slowdown and Its Aftermath", Nonprofit Finance Fund

4 Respondents were considered to have a "well defined contingency plan" if they somewhat agreed or strongly agreed to all of these questions: (1) My organization has a clearly defined contingency plan; (2) I have clarity around which programs and activities are core to our mission and this informs our contingency plan; (3) My organization monitors key tripwires to determine when to enact the contingency plans; and (4) If our discretionary income was reduced by 30 percent next year I would know where to cut spending.

Managing in Tough Times: 7 Steps

By The Bridgespan
Group

Tough times force hard choices. And these are rapidly becoming the toughest times most of us have ever seen. Even for nonprofit leaders who are accustomed to 'making much of little,' the repercussions of the unfolding economic downturn are likely to pose unprecedented challenges. It's hard to imagine that many (if any) of us in the sector will escape unscathed. The results of a survey we conducted of over 100 nonprofit leaders in mid-November of 2008 are telling: 75 percent of the respondents reported that they are already feeling the effects of the downturn, and 52 percent have already experienced funding cuts. (For more, see sidebar on "Managing in Tough Times Survey Results.")

So what to do? Not surprisingly, there are no easy, or even particularly novel, answers to that question. But learning from what others have done before in the face of less severe financial crises can be extremely useful. To that end, we've begun collecting insights and advice from our clients, from other nonprofit leaders and experts, and from our own leadership. The results are sketched below. We'll be adding to and complementing them over the coming weeks and months, as we all learn more about what it takes to manage successfully through tough times.

1. Act quickly, but not reflexively, and plan contingencies. Acute anxiety tends to provoke one of two responses: unthinking activity or deer-in-the-headlights paralysis. Both are understandable; neither is helpful. The challenge is to be both fore-thoughtful about the decisions you will need to make and fleet-footed in implementing them at the appropriate time.

In the current climate, this means taking immediate action: to manage costs aggressively; to do away with nice-to-haves (both because they are easily expendable and because of the signal it sends to the whole organization); and to delay undertaking new initiatives. It also entails developing explicit contingency plans, even if your organization is not yet feeling any pain. Waiting to get specific until the wolf really is at the door will not make the choices any easier, but it will sharply increase the likelihood that the available options will be fewer and more draconian.

Recessions are a time to keep up hope, and to plan, quite explicitly, for the worst, recognizing that troubles may unfold in fits and starts. Having Plans B, C, and D in place and knowing when to move to each can mean the difference between pacing your organization through a marathon and a slippery slide into financial and organizational exhaustion. How to craft contingencies? Many organizations start by asking themselves what they would do if they had to cut their budget by 10 percent, by 20 percent, and even by 30 percent. They also specify the tripwires that would cause them to move from Plan A to Plan B, C, or D: an X percent fall in fee-for-service revenues, for instance, or a Y percent drop in donations or foundation funding, or a Z percent decrease in the organization's cash reserves. A community-based after-school program with multiple sites, for example, might establish contingencies that called for renegotiating rents immediately; reducing staff and filling positions with volunteers as Plan B; consolidating one or two sites as Plan C; and consolidating to a core site as Plan D. Painful as each shift would be, both for clients and staff, the pacing signals clearly that the organization is doing all it can to preserve services and to keep the core of its mission alive.

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2. Protect the core. The bad news is that financial constraints may mean you cannot pursue all of your current activities. The good—or at least the less bad—news is that not all of them are equally essential in terms of impact. Now is the time to allocate your discretionary dollars and best staff to the activities that make the greatest difference in your ability to achieve and sustain results: the programs and services that have the greatest impact on those you serve; and the organizational infrastructure required to support them. It is also the time to consider whether you need to cut back or discontinue less critical activities—and to ask yourself, “If not now, when?”

Acting on this advice requires clarity about the programs and services that matter most, and about where your discretionary dollars are currently going. Your organization’s leadership may already be clear about what the most important priorities are. But if they aren’t we strongly recommend bringing board members and key staff together to wrestle with three critical questions that can help to create that clarity: “What results are we trying to achieve, and for whom?” “How do we achieve them?” And “What does that really cost?” Until everyone has agreed on the answers to these questions, it will be hard to develop a real consensus around which programs and activities are truly core and which ones, however reluctantly, can be let go.

3. Identify the people who matter most and keep that group strong. It’s often said that in good times you need good people; and in tough times you need great people. Every organization has a small group of people who are critical to its success—current and future. If you were to name your strongest performers, who would they be? Odds are not all of them are your direct reports. Some are likely to be board members and volunteers; others are probably less senior colleagues. These are the people who should be receiving the lion’s share of your attention, so that they can feel like allies and partners in keeping the organization focused on its mission and pulling through. This is a time for shared goals and creative solutions, not individual priorities and business as usual. Members of the management team, for example, might agree to take voluntary pay furloughs in order to keep frontline staff at full strength. Getting clear about who your strongest performers are also will stand you in good stead should the decision to lay off staff become necessary. It won’t make the process less painful, but it can reduce the odds that the layoffs will compromise the organization’s current and future effectiveness.

4. Stay very close to your key funders. The individual donors and organizations that know you best are the ones that are most likely to help you navigate this downturn. Remember that you don’t have to wait for your key funders to call you. You can—and should—use this as an opportunity to pick up the phone and call them: to let them know what you’re seeing and how you plan to respond; to explain the choices you’re making or expect to make; to ask whether they can be equally transparent with you about what they expect their payouts or donations to be over the next six to 18 months. You might also consider asking your established donors or foundation funders to talk with their friends and peers on your behalf. Downturns are usually a time to be cautious about trying to establish new funding relationships. But a referral from a trusted source might induce others to co-invest, at a time when they wouldn’t willingly do so on their own.

As a general rule, work to free up as much funding as possible for your highest-priority activities, for example, by renegotiating the guidelines on restricted grants. It's also worth taking the time to analyze your sources of revenue and to categorize each according to whether it is "in the bank," committed, fairly certain, or at risk. Such analysis will allow you to think through more nuanced financial scenarios over the coming year.

5. Shape up your organization. Running the kind of organizational marathon that a recession triggers requires planning, focus, commitment, and stamina. Like most feats of endurance, however, it can also engender healthy habits that will prove invaluable whatever the economic climate. The imperative of belt-tightening can facilitate hard-to-contemplate changes that could make your operations more efficient and your impact greater. Should you merge positions or programs, for example? Could you combine operations with another nonprofit provider in your field to lower back-office costs, create economies of scale, or leverage best practices across operations? Can you consolidate purchasing with other organizations in your field or geography?

Similarly, tough times can be the catalyst for taking advantage of low- or no-cost opportunities to improve internal operations and make it easier for people to work smarter—and not just longer and harder. For example, identifying the organization's critical decisions and then being explicit about whose responsibility they are will reduce the amount of time spent on inconclusive discussions (and the attendant frustration) dramatically. Establishing formal or informal linking mechanisms, such as cross-functional teams or liaisons, can make it easier for people to coordinate their efforts and to share knowledge. Clarifying and refining essential work processes will allow everyone to take advantage of best practices and avoid reinventing the wheel.

Finally, while this obviously isn't the moment to engage in high-growth-mode hiring, it may be the time to think strategically about bringing someone with different skills, or skills you previously might not have been able to access, onto your leadership team. Chief financial officers are a prime example. In the face of huge demand for the best-and-brightest financial talent, nonprofit organizations have typically had great difficulty filling this position. But with a decidedly less robust for-profit job market and many folks re-evaluating what matters most in their work, this may be changing. The challenge (as always) is to be scrupulous about your due diligence, so that if you do make an offer, you're sure it's to the right person.

6. Involve your board. Now more than ever, your board needs to be both well informed about the organization's financial health and a central part of the planning process. In times of crisis, everyone expects to step up to the plate. As the organization's fiduciary trustees, your board members are very much part of the "everyone." Board members can make important contributions in multiple ways: by providing experience and expertise from other domains and sectors; by helping to pressure test your assumptions and plans; and by playing an especially active role in the

organization's fundraising efforts. They may also be able to provide focused operational support to complement staff efforts or to fill a gap if staff must be laid off. At times like these, board members should expect to be called upon. They should also expect that what they will be called upon to do will be well considered and appropriate. Effective work on their part, therefore, will likely require thoughtful and tactful management, not only on your part but also on that of your board chair.

7. Communicate openly and often. The only thing worse than sitting, helpless, on a train that has slowed its speed or come to a halt in mid-journey, is not knowing why, or how long it will last. Passengers get antsy, worried, and even panic-stricken. Good conductors are on the intercom every few minutes explaining the situation, its root cause and when travel is likely to get back to normal. The best conductors will even suggest how passengers can make the most of their delay and boost morale with small gestures like telling local tales. Leading a team through tough times calls for similarly open and frequent communication from the top. People need to know that leadership has a handle on the problem and a plan to address it. They want to know where they stand, what the organization's prospects are, how and if they change, and what they can do to help.

Leaders who have weathered past downturns find such transparency is one of the best ways to keep teams engaged and enthusiastic—focused on the needs of the people they are serving and not on the organization's woes. Here, too, small gestures count: rewarding with frequent praise when staff redouble efforts and tighten belts; serving as a role-model in reducing a non-essential expense, or rolling up your sleeves to fill a gap on the front line. Remember that there is a world of difference between reactive pessimism and hard-headed determination. People will look to the leader who sees and conveys the brighter future.

IN CONCLUSION

Steps taken to manage through tough times tend to endure. Making the wrong choices—across the board cuts that weaken everything you do, for example, or fostering mistrust and fear by failing to communicate—will have long-term consequences. But so will making the right choices: reinforcing the organization's core values and mission focus; identifying leaner ways to execute business as usual; partnering with other nonprofits to be more effective; getting in the habit of making hard choices; becoming strategic about consolidations and/or taking new things on. Like it or not, we've probably all been assigned numbers for running this particular financial marathon. How we run it will make all the difference to whether—and in what shape—our organizations are able to cross the finish line.

SIDEBAR: MANAGING IN TOUGH TIMES SURVEY RESULTS

Managing in Tough Times Survey Results:

Bridgespan's Managing in Tough Times survey of over 100 nonprofit leaders validates the extent to which the current recession is being felt across the sector, sometimes severely.

Nonprofits are already hurting

- 75 percent of nonprofits surveyed are already feeling the effects of the downturn
- 52 percent of nonprofits surveyed have already experienced cuts
- Of those organizations whose funding has been cut, nearly half have had their funding cut by 10-20 percent and a quarter have had their funding cut by 21 percent or more

Few nonprofits have strong contingency plans in place

- 48 percent of leaders say their organization has a contingency plan
- Using a more rigorous definition, however, only 28 percent of nonprofits surveyed appear to have a "well-defined" plan, by which we mean one that includes monitoring key tripwires to determine when to enact the plan, understanding which programs are critical to the mission, and knowing where/how to cut spending should large budget cuts occur

Operating reserves are thin

- 54 percent of respondents have three months or less of operating reserves
- 74 percent of respondents have less than six months of operating reserves

SIDEBAR: QUESTIONS TO BE ASKING OURSELVES

- Are we managing costs as aggressively as possible?
- Do we know what, specifically, we would do if we had to cut our budget by 10 percent, by 20 percent, by 30 percent?
- Have we identified the triggers that will set our contingency plans in motion?
- Do we know which of our programs and activities are mission-critical, and what each costs?
- Are our discretionary dollars allocated to these programs and activities?
- Should we be cutting programs?
- Who are the people most critical to our success, now and in the future?
- What are our most important relationships and are we attending to them?
- Are we actively in touch with our key funders?
- How much of our revenue is "in the bank"? How much is at risk?

- Are there steps we can take to simplify our operations?
- Should we be thinking about a merger?
- Do we have low- or no-cost ways to strengthen our organization?
- Is this an opportunity to bring critically needed skills onto our leadership team?
- Are we involving our board members and using their talents and connections appropriately?
- Are we helping our folks stay focused on the people and causes we serve or getting bogged down in our own woes?