



Strategies Being Used by Nonprofit Leaders To Cope with the Nation's Economic Crisis

As part of our trend-tracking operations, the National Council of Nonprofits has been monitoring the fiscal health of the nonprofit sector during the past several months. Our series of Special Reports has focused on relaying information about patterns emerging as a result of the economic downturn. For instance, Special Report Number 8 documents how the nation's economic crisis has hit the nonprofit sector harder than most people seem to realize. Even while nonprofits are restructuring to deal with a significant reduction in donations, in many cases cutting programs as well as staff, many people still expect nonprofits to maintain the same level of services or take on larger burdens caused by the economic downturn.

The body blows hitting the nonprofit sector – skyrocketing demands for more services, escalating costs, and plummeting revenues – have forced most nonprofits to re-evaluate their current budgets and operational capacities. The most frequent question we used to receive – “How is the economy affecting nonprofits?” – has been replaced by: “What specific steps have nonprofits taken to address the sudden shortfall of resources in the face of heightened demand for their services?”

This Special Report collects the results of several national and state-specific surveys and offers a window into the strategies used by nonprofits across the country to cope with that financial stress. Many nonprofit leaders are unflinchingly optimistic; after all, that is why they are bravely fighting the major social, environmental, healthcare, and social justice issues of our times. Optimism alone, however, is not enough to address the lack of resources, which is why nonprofit leaders – board members and executive staff – have been taking proactive steps to safeguard their organizations, and thereby the communities and individuals they serve.

We encourage nonprofit leaders to review the survey findings with the perspective that, while sobering, the coping strategies other nonprofits are using may offer fresh strategies and prompt new thinking about how to face financial challenges head on. We also hope that the survey results shared on the following pages will equip nonprofit leaders with information needed to make bold decisions on behalf of their nonprofits.

How Nonprofits Are Coping: Findings from National Surveys

The survey findings collectively underscore how very few nonprofits have sufficient financial reserves to weather a protracted period of economic stress. Instead, for most, something has to give. Indeed, cutting programs and staff positions is the most frequently employed method of addressing financial shortfalls. However, many other strategies are being deployed, illustrating

how expansively the sector is thinking about solutions in the face of their financial strain. Coping strategies range from re-thinking strategic initiatives to partnering with other nonprofits. The surveys also show that as “belt-tightening” occurs, many nonprofits are increasing their efforts to attract contributions, largely through expanding (or launching) campaigns to attract more *individual* donors.

TIPS: As we reviewed the collective findings we were struck by how being transparent about financial challenges and “staying close to funders” emerged as an essential strategy for many organizations. Savvy nonprofits are asking grantmakers to be transparent – because nonprofits need to know how much to expect, and within what timeframe, in order to conduct realistic financial planning. For instance, asking foundations to expedite payments, in these times when “cash flow” for many nonprofits feels like “cash drip,” is a fair thing to ask. Likewise, it is better to hear bad news – that a grant will be smaller, or delayed, or even discontinued – earlier rather than later so that adjustments can be made immediately.

The Bridgespan Group: Update to “Managing in Tough Times – 7 Steps”

In June 2009, Bridgespan released its updated “Managing in Tough Times – 7 Steps” report (covering the seven months between November 2008 and June 2009).¹ Among other things, the Bridgespan survey explored how nonprofits are coping with the competing forces of increased demands and reduced resources. The results included the following insights:

- 33% of responding nonprofits reported they have had to tap into financial reserves (nearly doubling that figure from results in Bridgespan’s November 2008 survey).
- But 66% of small nonprofits (defined in the report as those with revenues under \$1 million) reported they had fewer than 3 months of operating reserves on hand.
- The vast majority of the respondents are cutting either services, or staff, or both: 43% of nonprofits in the survey group reported they are coping with their financial shortfall by cutting programs/services and 41% reported making cuts to staff positions.
- 62% of the nonprofits in the survey group reported they now have contingency plans (an increase from 48%).

TIPS: The Bridgespan Group asked organizations whether they kept track of “key trip wires” that would signal to the organization that it was time to cut spending or take other steps, identified in a contingency plan, to address the shortfall of cash or other specific challenges. Many organizations use a similar “dashboard” approach to alert board members and senior staff to key indicators relating to financial support, mission effectiveness, and program evaluation. One way to use a dashboard or trip wire system to measure financial health is to monitor cash flow and cash reserves so if the organization’s finances dip below the set figure the “trip wire” is triggered.

¹ [Update to Managing in Tough Times – 7 Steps](#) Further information about this and the other surveys included in the Special Report may be found in our [Special Report Number 8](#).

**Guidestar:
Report on the Effect of the Economy on the Nonprofit Sector**

In June 2009, Guidestar published the results of its updated online survey (2,279 useable responses) designed to gauge the effect of the downturn in the economy on the nonprofit sector from March-May, 2009.² The Guidestar survey asked nonprofits to describe what they were doing to cope with the financial stress of trying to do so much more with so much less:

- 54% reported a reduction in the services their organizations are providing.
- 44% have frozen staff salaries.
- 35% reduced their budgets.
- 33% instituted a hiring freeze.
- 29% laid off staff.

TIPS: Budgets are living documents that need to be adjusted based on the realities of revenue and expenses. Many of the organizations responding to the surveys were in the early part of their budget year at the time of the survey. Organizations that are mindful of their obligation as stewards of donated funds, and board members mindful of their fiduciary duty of care, should regularly review periodic financial statements against budget projections during a downturn so that the organization's budget, and thus its spending priorities, will reflect the realities of its income stream and expenses.

**John's Hopkins University Listening Post Project:
Impact of the 2007-209 Economic Recession on Nonprofit Organizations**

In June 2009, the Johns Hopkins University Listening Post Project (of which the National Council of Nonprofits is a partner) published a report³ of its nationwide survey which found that nonprofits are coping with the financial strain of reduced revenue and increased demand for their services by relying on a variety of strategies, including:

- cutting administrative costs (56%)
- expanding marketing efforts (48%)
- creating or expanding collaborative relationships with other nonprofits (47%)
- implementing or expanding advocacy for organizational funding (45%)
- postponing new hires (41%)
- reducing/eliminating travel budgets for staff (39%)
- reducing programs and services (39%)
- relying on volunteers more (33%)
- eliminating staff positions (34%)
- implementing a salary freeze (33%)
- delaying maintenance projects (28%)
- delaying or abandoning expansion or relocation plans (27%)
- drawing on reserves or endowment to maintain current operations (25%)

² [The Effect of the Economy on the Nonprofit Sector March-May 2009.](#)

³ [Communiqué No 14: Impact of the 2007-209 Economic Recession on Nonprofit Organizations.](#)

- setting aside plans to purchase or use new technologies (19%)

The Listening Post Project also reported that the majority of respondents were engaging in intensified fund development efforts, including refining their message for targeted audiences and stepping up efforts (either by initiation of or expansion of existing efforts) to obtain donations from individuals (61%), state or local government (57%), federal funding (56%), and/or pursuing new foundation or corporate support (55%).

TIPS: Cutting travel and professional development costs may be prudent if the travel is costly and the professional development only tangential to core mission, but nonprofits might also consider taking advantage of less expensive training opportunities to re-invigorate overstressed staff and spark new ideas. State nonprofit associations and local management support organizations offer cost-effective training. Mentoring or being mentored by another nonprofit professional does not cost any money at all. Providing the opportunity for staff to learn from their peers and sector leaders may offer payoffs in innovative ideas as well as re-energized staff. Perhaps your organization has connections to a corporation that is holding a training session for its own staff. Would the corporation be willing to extend an invitation to five staff members from your nonprofit to join the training? Or consider collaborating with a “home-and-away” training by swapping financial literacy training by your CFO in exchange for another nonprofit’s development director coaching your volunteers on prospect research.

How Nonprofits Are Coping: Findings from State-Specific Surveys

The state surveys⁴ reveal proactive management initiatives that are strategic in nature as well as more obvious cost-cutting steps. Organizations reported reducing costs through:

- adding new methods of giving
- renting out their facilities
- negotiating in-kind exchanges
- raising fees
- offering incentives to cut transportation costs
- cutting staff positions
- reducing work hours
- reducing employee benefits
- reducing travel and professional development budgets
- freezing salaries
- eliminating non-essential expenses

⁴ Our [Special Report Number 8](#) analyzed a sampling of state-specific surveys conducted by various state nonprofit associations across the country. For consistency, this Special Report relies on those same surveys conducted by the following state associations: the Alliance of Arizona Nonprofits, the Colorado Nonprofit Association, the Connecticut Association of Nonprofits, the Idaho Nonprofit Center, the Donors Forum (Illinois), the Louisiana Association of Nonprofit Organizations, the Michigan Nonprofit Association, the Minnesota Council of Nonprofits, and the Center for Non-Profits (New Jersey).

- canceling special events
- using reserve funds
- continuing to operate in a deficit mode
- scaling back plans for growth

Organizations additionally reported the following strategic management initiatives:

- renegotiating contracts
- revisiting program offerings to check alignment with the organization's mission
- increasing fundraising capacity, especially in individual donor programs
- increasing board development efforts
- engaging the board in more intensive planning and strategy work
- requiring active board involvement in stewardship and fundraising
- conducting "scenario planning" or drafting "contingency plans" for handling 'worst case' scenarios
- reviewing and revising financial controls
- increasing marketing
- outsourcing
- replacing full-time staff with part-time staff and interns
- focusing on better uses for technology, especially tracking donors
- partnering with other organizations for program delivery
- entering into collaborations and partnerships to reduce duplication of staff effort as well as increase efficiencies in programs and services
- lengthening the timeframe for implementation of the strategic plan

TIPS: Before taking steps to cut costs, conduct cost-benefit analyses that consider the long-term value of making investments as opposed to looking only at the shorter-term savings. Admittedly, crystal-ball predictions of the future are never perfect, but organizations owe it to themselves to recognize that some belt-tightening decisions may produce short-term savings but actually hurt organizations down the road. Consider, for example, these scenarios:

- Delaying maintenance projects may increase costs later, or cause a crisis, such as a burst boiler, that detracts from mission-delivery and will require the use of emergency funds. If possible, consider contracting for needed maintenance projects now, using a monthly payment plan if necessary.
- Delaying or abandoning expansion or relocation plans may be a missed opportunity for taking advantage of lower than normal construction costs in the current environment.
- Setting aside plans to purchase or use new technologies may prolong inefficient use of resources in the short term.
- Instead of renewing contracts with service providers and vendors for one year only, consider whether it would be possible and helpful to negotiate longer term contracts that will allow you to "lock in" an annual fee or hourly rate now, with the assurance that fees will not increase for a set period of time.

Conclusion

These reports show that nonprofits are searching for and finding ways to bridge the gap between income and expenses. Some solutions can help nonprofits emerge from this economic downturn as financially healthier organizations. Yet others might offer attractive short-term savings but actually impose greater long-term costs. Discerning true solutions from false façades is not easy, and true solutions are not always easy to implement once identified.

Consequently, nonprofit leaders – board members and staff members – should view these reports as a clarion call for strong leadership. Such leadership begins with pulling out your nonprofit’s mission statement. Reconnect with that mission. Get clarity, individually and collectively. Notice that the mission of virtually every nonprofit is external: to provide a community impact and public benefit. To do so successfully, especially in challenging times like these, nonprofit leaders must be disciplined, creative, and bold.

Bold leadership requires commitment to core values and courageous action. It may take the form of cutting back on services that are not central to the nonprofit’s mission. It may require declining foundation dollars that would take the nonprofit astray from its mission. Or it may mean consolidating operations with another organization in order to meet community needs.

Bold leadership means being prepared for change, so contingency planning should be a regular part of the core discussions held by finance committees and boards. Nonprofit leaders need to ask, “What would happen if _____?” (*Fill in the blank: A major donor does not deliver on a promised grant? A government contract is not renewed? Demand for services increases by 20 percent?*). And bold leadership means being prepared to stay the course: although it may be tempting to look at one day’s upbeat news from the stock market as a hopeful sign that the Great Recession is ending, we know from past recessions that the business sector recovers first, then the government sector, and finally the nonprofit sector. So now is the time for nonprofit leaders to focus on building organizational capacity, finding skilled staff and board members, and planning strategic solutions to weather the current downturn but also emerge better prepared for future tough times.

Finally, bold leadership in challenging times means avoiding the natural urge to retreat passively into our own organizations. Instead, we should affirmatively step forward to forge connections with others. Two actions in particular are needed:

1. **Pull up a chair to the public policy-making table.** Nonprofits cannot stand by politely, waiting to be invited; we must proactively and firmly bring our chairs to the discussions that matter. Our communities need us, now more than ever, to step forward to help governments find the best solutions. Dare to go boldly where you have not gone before – but where you are needed: as an informed voice in your community’s policy decision-making process.
2. **Unite as nonprofits.** There is strength in numbers (in the form of shared knowledge, common resources, a stronger voice, and collective influence), so make sure your nonprofit is a member of your state association. If not, find out how your organization

can become a member, and suggest membership to your board and colleagues. Review the resources available to you as a member, from information and cost-savings, to professional development workshops and influence. But don't just join ... get actively involved. (You can find your state association contact information [here](#).)

While keeping a positive outlook and wisely deploying resources will help us get through, coming together as a nonprofit community will help each organization emerge from this crisis stronger. Be inspired by this quote from a nonprofit leader: "Challenges like the ones we face today shake us back to reality, connect us once again with our fundamental purpose and passion, and promote growth. This is not a time to circle the wagons, but to grow and be creative."

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Special Reports on Economic Recovery

This Special Report is one in a series prepared by the National Council of Nonprofits to help nonprofit leaders, grantmakers, policymakers, and the general public better understand the intersections between the nonprofit sector and our nation's economic recovery. Review the other Special Reports at www.councilofnonprofits.org/specialreports.