

# Managing in Tough Times: 7 Steps

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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?