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Outrun the Recession

The seven healthy habits of nonprofits most likely to survive the economic downturn

BY ALAN TUCK, DON HOWARD, & WILLIAM FOSTER

RECESSIONS ARE NOT SPRINTS; they are endurance events. To find out how nonprofits are faring during the toughest recession in more than 30 years, we have been surveying 100 nonprofit executives across the United States at six-month intervals since late 2008. As of October 2009, some 80 percent of our respondents had experienced funding cuts, and a full 93 percent said that they were feeling the effects of the downturn.

Yet many of our respondents are also adopting healthy habits that not only will help them survive the present recession, but also may help them thrive when better times return. Below we summarize the seven healthy habits of nonprofits that endure.

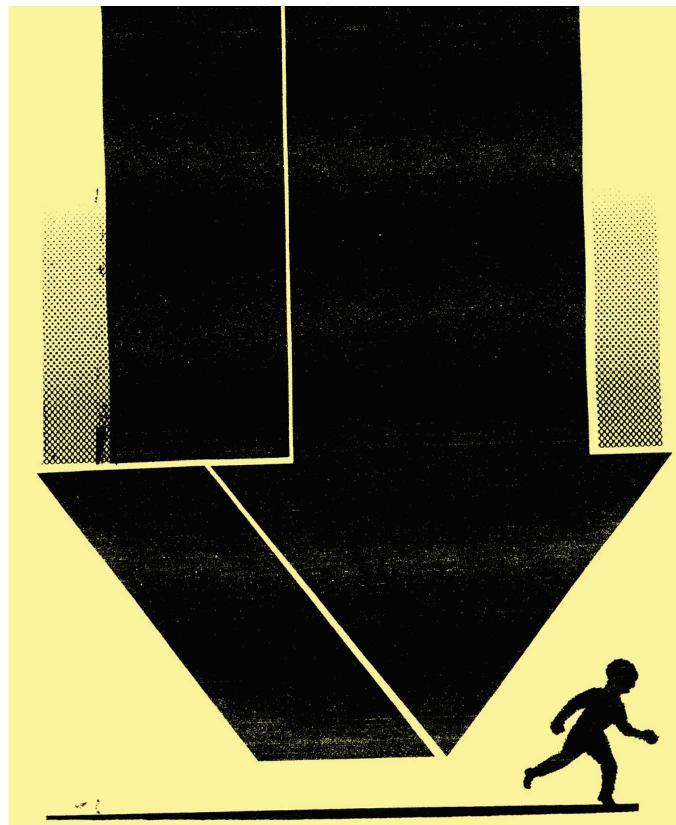

ILLUSTRATION BY YAREK WASZUL

ACT QUICKLY, YET THOUGHTFULLY

Anxiety tends to provoke one of two responses: unthinking activity or deer-in-the-headlights paralysis. Both are understandable; neither is helpful. Instead, nonprofits must be both thoughtful in their decision making and fleet-footed in their implementation. And that means planning for the worst, starting now.

For example, take the Women's Lunch Place, a Boston-based nonprofit that gives poor and homeless women and children a daytime refuge. By the fall of 2008, the organization had seen its funding reduced by $400,000 and wasn't sure what its future held.

In response, its executive team developed a contingency plan—that is, steps the organization would take if its funding continued to decrease. The plan focused on preserving the organization's flagship programs while steeply reducing its advocacy activities and general operating costs. When funding remained short in 2009, this contingency plan helped Women's Lunch Place continue to serve.

PROTECT THE CORE

Financial constraints often mean that nonprofits cannot pursue all of their usual activities. Rather than making across-the-board cuts, nonprofits should prioritize their core activities. They must then cut funding to less critical activities. To act on this advice, board members and leaders must agree on the answers to two central questions: What work and beneficiaries define the essence of our organization? And what do these core services cost?

The Doe Fund in New York City is one organization that has made trade-offs to protect its core. The fund provides employment, job training, and housing services to homeless and formerly incarcerated men. With funding shortfalls materializing in early 2009, the Doe Fund determined that its participants needed all of the services it offered, and at the level it was offering them. Rather than jeopardizing the integrity of its program, the organization made a tough decision: It closed two smaller locations and concentrated services in its larger facilities.

FORTIFY THE BEST PEOPLE

In good times, organizations need good people; in tough times, they need great people. Every organization has a small cadre—not just of staff members, but also of board members and volunteers—that propels its successes.

If organizations must lay off employees, they should not first think about whom they can afford to let go. Instead, they should first consider which people are central to the long-term health of the organization. They should then dedicate the lion's share of the organization's attention and resources to these employees.

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One organization that has managed to fortify its best people despite the recession is Opportunity Village, a Las Vegas nonprofit that provides services to people with intellectual disabilities. When revenue decreased, the nonprofit had to lay off staff. But to make sure that the organization retained its most valuable staff members, Opportunity Village's leaders performed two types of analysis. First, they identified positions to eliminate. Second, they identified the high performers the organization needed to keep. When a high-performing staff member occupied a position that was slated to be cut, Opportunity Village made sure to find her another role so as not to lose her skills and energy.

DRAW FUNDERS IN

The donors who know an organization best are the ones most likely to stay with it through tough times. Nonprofits should reach out to their most steadfast supporters, rather than waiting for their donors to come to them or looking for new sources. Organizations should then level with their donors about their financial situations and their planned responses. By working with funders as partners, nonprofits may be able to change their funding—for instance, a donation's timing or purpose—to support threatened infrastructure. They may also ask donors to solicit support from friends and peers.

The Forum for Youth Investment succesfully deployed this tactic for its Ready by 21 program. This national program helps state and local leaders prepare children and youth for college, work, and life. As the financial crisis accelerated in the fall of 2008, the forum and its partners decided to deepen their relationship with their largest funder. So the forum asked its funder to introduce Ready by 21 leaders to executives at other large corporations. This tactic strengthened the program's ties to its main donor while opening up new funding opportunities.

SHAPE UP

During these lean times, nonprofits should make low- or no-cost improvements to internal operations that make it easier for people to work smarter—and not just longer and harder. Clarifying roles and work processes will allow everyone to work more productively. Although a recession is decidedly not the time for growth-mode hiring, it may be the time to include people with different and broader skills—for example, adding a CFO who has more skills than a current controller who has to rely on contractors.

We at Bridgespan have seen how small changes in our operating procedures can have a big impact. With three offices, Bridgespan used monthly meetings to allocate resources. As we entered the increasingly uncertain world of 2009, we realized that monthly meetings were too infrequent to adjust to the rapid changes. By adding weekly half-hour calls between the three offices, we are better able to shift resources to meet the needs of clients and internal projects.

BRING IN THE BOARD

In times of crisis, everyone is expected to step up to the plate. As the organization's trustees, nonprofit board members are very much a part of that "everyone."

Board members can contribute expertise from other domains and sectors, test an organization's assumptions and plans, and help raise funds. They may also be able to complement staff efforts with focused operational support or to fill gaps if staff must be laid off. Greater Boston Legal Services can testify to just how important the advice of a board member can be.

Greater Boston Legal Services offers free civil representation to low-income people and community-based organizations. When the organization faced potential revenue cuts of up to 20 percent, its executive director asked the board treasurer to examine the nonprofit's contingency plan and cash flow. As a certified public accountant and CFO of a real estate development firm, the treasurer had deep expertise in finance, and therefore he could adroitly analyze the organization's financial position. With this board member's assistance, Greater Boston Legal Services identified potential cash flow issues early and took the necessary steps—primarily increasing its line of credit—to make sure that the program could keep running smoothly.

Nonprofit leaders' actions will make all the difference in whether—and in what shape—their organizations cross the starting line into the post-recession future.

COMMUNICATE OPENLY AND OFTEN

Leading a team through tough times calls for open and frequent communication from the top. People need to know that their leaders have a handle on the problem, as well as a plan for how to weather or even fix the problem. They want to know where they stand and what the organization's prospects are. They also need to know when and how those prospects change, and what they themselves can do to help.

In addition, staff members more than ever appreciate small gestures from their leaders, such as frequent praise when they redouble efforts or tighten belts. Staff members may also welcome extra help on the front line from their leaders. They admire and trust not just strategic commitment, but operating commitment.

One organization whose leaders have kept the lines of communication open throughout the recession is BELL, a multicity nonprofit that offers after-school and summer academic enrichment programs to youth.

Whenever BELL's CEO visits a city with a BELL site, she schedules town hall meetings with employees, taking their questions and explaining the actions that BELL is taking to stay strong. This openness and willingness to be transparent has helped BELL employees stay focused on their mission and avoid obsessing over rumors and unfounded perceptions.

The steps that organizations take to manage through tough times tend to endure. Making the wrong choices will have long-term consequences, but so will making the right ones. Constituents, staff, and funders will judge nonprofit leaders according to how well they run this recession marathon. These leaders' actions will make all the difference in whether—and in what shape—their organizations cross the starting line into the post-recession future. ■