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.

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.