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Managing in Tough Times: May 2009 Nonprofit Leaders Survey Update

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Responses of nearly 100 nonprofit leaders participating in a Bridgespan longitudinal study show nonprofits are turning to much tougher measures than foreseen six months ago to cope with the economic downturn. The percentage of nonprofits that have resorted to layoffs has increased, as has the percentage that has made broad-based programmatic reductions. More organizations have drawn down their reserves. Nonprofit leaders appear to be optimistic about the future, though: Almost half of the respondents reported that they believe their organization will be on stronger financial footing in a year's time. And two thirds have employed contingency planning, a key step for weathering the storm, as outlined in our original November 2008 report "Managing in Tough Times: 7 Steps."

These current findings follow from results of that November study, in which the Bridgespan Group surveyed nonprofit leaders across the U.S. to find out how the economic downturn was affecting their organizations. We reached out to approximately 800 nonprofit chief executive officers, presidents, and executive directors; more than 100 responded. At the time, many nonprofit organizations were struggling to meet increased demand for their services in the face of deep budget cuts. However, more than a third of the nonprofits that had already experienced funding cuts were *not* reducing costs to manage through the downturn. Instead, they were trying to compensate by increasing fundraising capacity.

Key Tactics Employed by Nonprofits to Manage in Tough Times

Tactic	Nov 2008	May 2009
Work closely with existing funders to address challenges	79%	81%
Redesign programs to achieve outcomes in a less costly manner	59%	67%
Examine and improve key processes and structures (e.g. improve decision-making, cross functional teams) to increase organizational efficiency	64%	67%
Have a clearly-defined contingency plan	48%	62%
Consciously identify key positions and shift resources to keep these positions filled	51%	60%
Renegotiate terms of funding to focus on core programs	34%	48%
Create new programs that are related to mission and can attract greater funding	39%	45%
Reduce the level of activity across all programs	31%	43%
Lay off staff	28%	41%
Dip into reserve funds	19%	33%
Cut staff salaries	16%	23%
Examine opportunities to merge with or acquire other nonprofit organizations	20%	21%

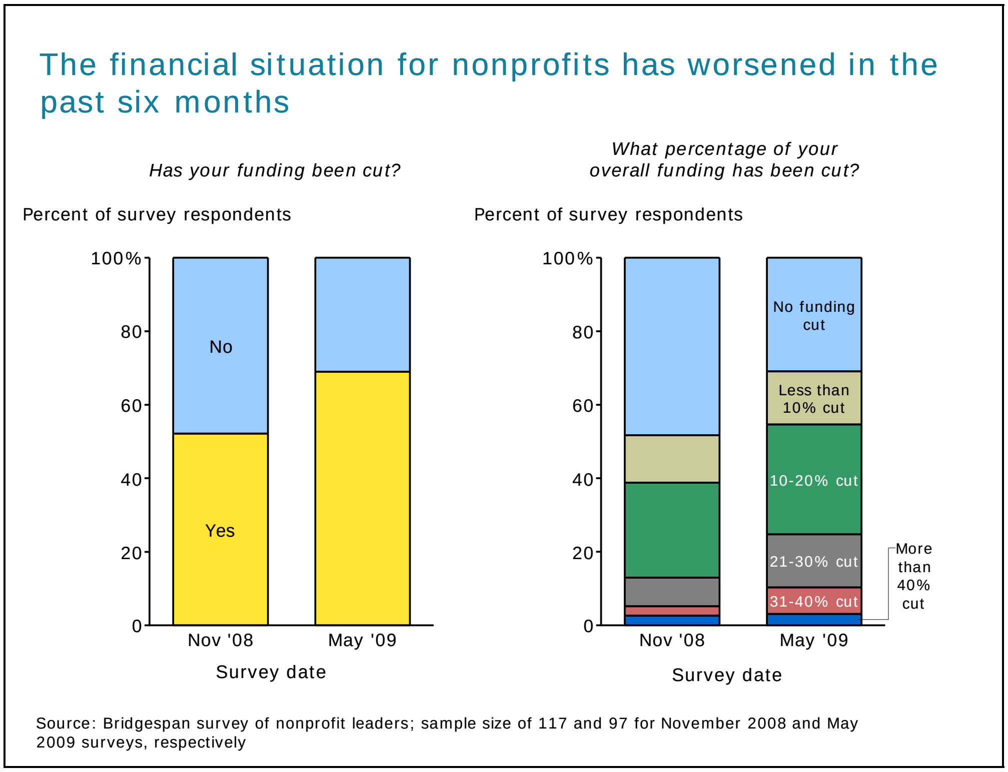
Much has changed in the U.S. since that initial research: There is a new President, a new budget, and a stimulus package of unprecedented magnitude. At the same time, the country continues to face a prolonged downturn and profound state budget crises. We completed our follow-up survey in May 2009 to gauge the effects of these developments on nonprofit organizations. We sent this survey to the same group of leaders who received the previous survey, asking all of the same questions, along with some new ones. The May 2009 survey findings, along with Bridgespan commentary, are presented in detail in this report. The findings indicate that nonprofits are taking many of the seven steps outlined in our original report as they strive to deliver in the short term while planning for the future.

Finding No. 1: The financial situation for nonprofits has worsened in the past six months, while the need for their services has increased, making it more important than ever for organizations to focus on their core programs.

As the economic crisis has deepened, the situation for nonprofits has continued to deteriorate. Ninety-two percent of nonprofits responding to the May 2009 survey indicated they were experiencing the effects of the downturn, up from 75 percent in the November 2008 survey. Forty-nine percent reported that their financial situation had worsened in the past six months.

More organizations have experienced funding cuts, and the magnitude of these cuts has increased, as Exhibit 1 shows. Since November 2008, the percentage of nonprofits reporting funding cuts has increased from 52 percent to 69 percent. And the percentage reporting cuts of more than 20 percent has increased from 13 percent to 24 percent.

Exhibit 1: Funding cuts, May 2009 vs. November 2008



All types of funders appear to have cut their levels of support. We grouped the surveyed organizations according to their primary funding source (e.g., government, foundation, etc.) and then determined the proportion in each group that had experienced funding cuts (see Exhibit 2). As in November 2008, the cuts were most prevalent among organizations that rely on the government as their primary funder. Seventy-seven percent of those organizations had experienced funding cuts, compared with 61 percent in our previous survey. The other funder categories displayed similarly bleak trends. According to one respondent, "On the foundation side there has been a sea change in the conversations I've been having. They really put brakes on what they were doing [and] that changed the tenor of conversations. Now you have to spend a lot of time managing and reassuring for things that have been routine in the past."

Exhibit 2: Funding cuts by primary funding source

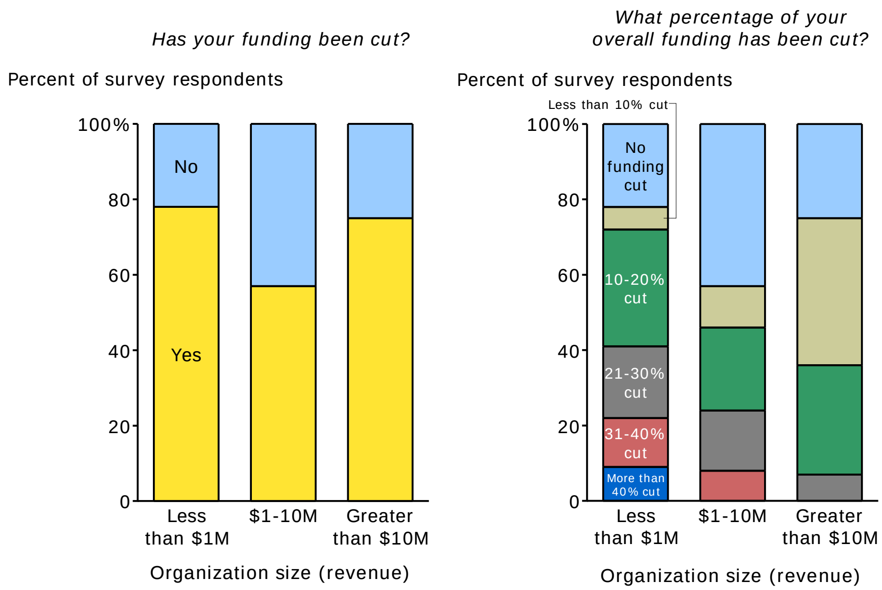
Primary funding source	Corporate foundations	Government	Fee-for service	Private foundations	Individuals
May 2009 survey					
Percent experiencing funding cuts	100%	77%	69%	62%	63%
Total number of observations	5	26	16	29	19
November 2008 survey					
Percent experiencing funding cuts	57%	61%	45%	48%	52%
Total number of observations	7	33	22	31	23

Small nonprofits (i.e., those with revenues less than $1 million) have been disproportionately affected by the downturn compared to medium and large organizations ($1 million to 10 million, and greater than $10 million, respectively). Seventy percent of the small organizations reported that their financial picture had worsened in the past six months, compared with 38 percent for medium and 41 percent for large organizations.

Medium-sized organizations have been best able to maintain their previous funding levels, with 57 percent of them reporting funding cuts compared with 78 percent of small and 75 percent of large nonprofits (see Exhibit 3). While large organizations have experienced funding cuts at almost the same rate as small organizations, their cuts have been a much smaller in magnitude. Only 7 percent of the large nonprofits reported cuts of greater than 20 percent, whereas 41 percent of the small nonprofits did so.

Exhibit 3: Funding cuts by organization size

Small organizations have been disproportionately affected by the downturn



Source: May 2009 Bridgespan survey of nonprofit leaders, N = 97

At the same time as the financial picture has worsened, the demand for services has increased. Fifty-six percent of the nonprofits surveyed noted an increase in demand. That's almost double the percentage reported in November 2008. One survey respondent described the challenge: "We've actually served 20 percent more people this year than we did last year, so we've had to be creative in how we use our resources."

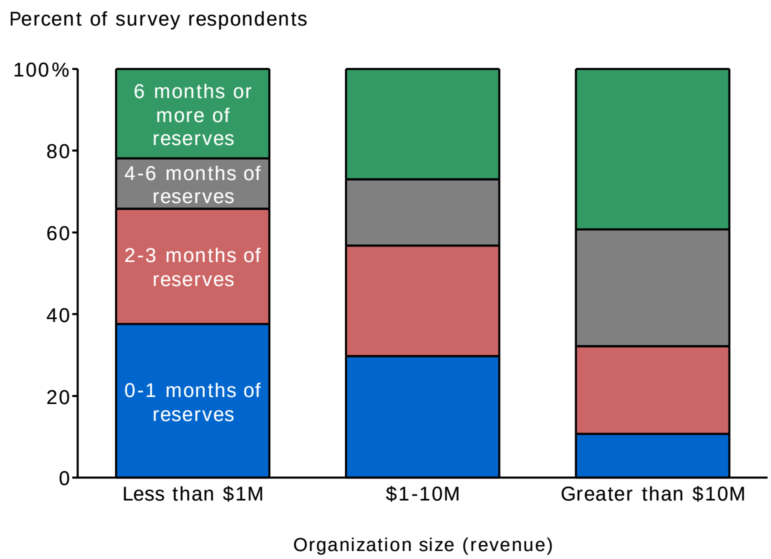
The financial scenario—coupled with the increase in demand for services—makes it more important than ever for nonprofit leaders to allocate their discretionary dollars and best staff to the activities that make the greatest difference in their organization's ability to achieve and sustain results. As "Managing in Tough Times: 7 Steps" noted, financial constraints may mean that a nonprofit cannot pursue all of its current activities. However, not all activities are equally essential in terms of impact. Surviving—and delivering—in difficult economic times means protecting the organization's core: the programs and services that have the greatest impact on those you serve, and the organizational infrastructure required to support them.

Finding No. 2: More organizations are tapping into reserves. Also, more nonprofit leaders are developing contingency plans, a key step that can help them respond purposefully when crises arise, and also prepare for better times ahead.

The percentage of organizations reporting that they have tapped into their reserves has increased from 19 percent to 33 percent over the past six months. One respondent shared, "In order to keep our strategic plan on track we dipped into 60 percent of our reserves." In a continuation of the differences by organization size, small organizations reported having fewer months of reserves than large organizations. Sixty-six percent of small nonprofits indicated that they had three months of reserves or less, compared with 31 percent of large nonprofits (see Exhibit 4).

Exhibit 4: Reserves by organization size

Small organizations have fewer months of reserves than larger organizations



Source: May 2009 Bridgespan survey of nonprofit leaders, N = 97

The number of nonprofits with contingency plans has increased from 48 percent to 62 percent since the previous survey. Additionally, respondents reported that their organizations were being more rigorous about contingency planning. The percentage claiming a "well-defined" contingency plan has increased from 28 percent to 38 percent. (By a "well-defined" plan, we mean one that: identifies key tripwires that will determine when to take action; clarifies which programs are critical to the organization's mission; and articulates where and how to cut spending, should large budget cuts occur.[1])

This last trend is heartening. Acute anxiety tends to provoke one of two responses: unthinking activity or deer-in-the-headlights paralysis. Both are understandable; neither is helpful. Having a contingency plan can help an organization be both fore-thoughtful about the decisions it may face, and fleet-footed in executing them at the appropriate time. Recessions are a time to keep up hope, and to plan, quite explicitly, for the worst. Well-defined contingency plans recognize that troubles may unfold in fits and starts. They set priorities in advance so that decisions made in a period of crisis are backed by thoughtful consideration. What's more, contingency planning can also help leaders recognize and respond effectively when conditions begin to improve.

Finding No. 3: The deepening recession has led more nonprofits to lay off staff and reduce program activity, while taking action to protect core services and activities. The specific tactics used to cope with the downturn have varied by organization size. But now, more than ever, it is important to identify the people who matter most to an organization, and to keep that group strong.

The results of both surveys indicate that whenever possible, nonprofits have avoided cuts in programs and services, and attempted to compensate for revenue shortfalls by expanding fundraising capacity. However, as funding cuts have increased, nonprofits increasingly have resorted to aggressive cost-cutting measures. The percentage reporting that they had implemented layoffs has increased from 28 percent to 41 percent since the last survey, and the percentage indicating they had reduced the level of activity across all programs has increased from 31 percent to 43 percent.[2] One respondent whose organization had recently tapped into its reserves explained why cutting costs had become imperative, "We realize that [tapping our reserves] has made us more exposed, which is why we've been so aggressive in reducing our expenses to get ahead of the funding cuts."

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[1] 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.

[2] Survey respondents rated various tactics according to how large a role each tactic played in their organization's strategy for addressing the downturn (i.e., no role, very limited role, somewhat of a role, major role). We considered "somewhat" or "major" ratings as an indication that they were using the tactic in a meaningful way.

Despite the increase in across-the-board program reductions, nonprofits still appear to be focused on protecting their core programs. Since November 2008, the percentage of nonprofits indicating that they had renegotiated terms with funders to focus on core programs has increased from 34 percent to 48 percent, while the percentage citing the re-alignment of staff to support core programs has increased from 55 percent to 61 percent.

Organization size appears to have influenced the specific cost-cutting measures taken. As Exhibit 5 illustrates, 72 percent of the large organizations participating in our May 2009 survey reported that they had cut overhead, compared with 47 percent of small and 50 percent of medium organizations. Small nonprofits reported the most dramatic programmatic cuts; they had the highest rates for reducing the level of activity across all programs and for scaling back a subset of activities to support core programs.

Exhibit 5: Percent of respondents who indicated that a particular tactic made up somewhat or a major part of their organization's strategy to address the downturn

Tactic	Small	Medium	Large
Reduce the level of activity across all programs	54%	33%	43%
Scale back or eliminate a subset of programs to free up resources for others	60%	39%	56%
Clarify key program outcomes and measure them	61%	53%	74%
Redesign programs to achieve outcomes in a less costly manner	73%	50%	82%
Lay off staff	45%	36%	43%
Cut staff salaries	25%	24%	18%
Cut overhead	47%	50%	72%
Consciously identify key positions and shift resources to keep these positions filled	52%	53%	79%
Examine opportunities to merge with or acquire other nonprofit organizations	27%	12%	26%
Actively look for newly-available talent	21%	18%	46%
Examine and improve key processes and structures (e.g. improve decision-making, cross functional teams) to increase organizational efficiency	53%	66%	82%

Additionally, large as well as small organizations indicated more interest in mergers and acquisitions than did medium organizations. Twenty-six percent of large organizations and 27 percent of small organizations noted that they had examined opportunities to merge with or acquire other nonprofits compared with 12 percent of medium organizations.

Further analysis of the tactics suggests that large nonprofits have been using the economic crisis as an opportunity to strengthen their organizations to a greater extent than small and medium nonprofits have. Large nonprofits demonstrated the highest rates of redesigning programs to achieve outcomes in a less costly manner, actively looking for newly-available talent, and examining and improving key processes and structures to increase organizational efficiency. One respondent explained, “We are working hard not to let the chaos in the short term impact our long-term priorities.”

This sentiment echoes the advice offered in “Managing in Tough Times: 7 Steps” to identify the people who matter most to the organization 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 short- and longer-term success. These people may not be organized as a group; they may come from vastly different areas and levels within the organization. Nonetheless, they are the ones who should be receiving the lion’s share of leadership attention, so that they can feel like allies and partners in keeping the organization focused on its mission and pulling through.

Finding No. 4: Nonprofits increasingly have received relief via additional support from funders, which points to the value in nonprofits forging close, transparent relationships with the individuals and organizations that support them. A sizable minority is counting on further assistance from the stimulus package. And almost half of the survey respondents expressed optimism about their organization’s future financial health.

Some funders have stepped up their giving to meet the challenges brought on by the recession. While only 11 percent of organizations in our previous survey responded that selected funders had provided additional support as a result of the downturn, that number increased to 33 percent in this survey.

This trend highlights the importance of staying close to key funders. The individual donors and funders that a nonprofit knows best are the ones that are most likely to help it navigate difficult times. Nonprofit leaders can be proactive with funders, letting them know what they’re expecting and how they plan to respond, explaining the choices they’re making, and asking funders to be equally transparent about their expected payouts or donations over the next six to 18 months.

Said one respondent to the May survey, “Special events [revenue] is down between 15 percent to 20 percent, but we’ve had some major donors step up. We’ve been doing more awareness events and that’s where these donations have come in from.”

Nonprofits’ expectations of the stimulus package were mixed. Twenty-six percent of respondents reported that they anticipated receiving additional revenue from the stimulus package, and another 34 percent were unsure if they would receive any money.

Finally, 45 percent of the leaders responding indicated that they believed their organization’s financial outlook would be better in a year, while 22 percent anticipated that it would be worse.

Conclusion: Tough times lead to tough choices, but there is a tangible opportunity for nonprofits to emerge stronger and smarter.

This survey highlights just how tough times really are, and the severity with which the economic crisis is affecting nonprofits. But there are purposeful steps that organizations can take to weather economic adversity while continuing to meet the needs of their communities. And tough times can be the catalyst for improving internal operations and making it easier for people to work smarter—not just longer and harder. Bridgespan has collected insights and advice from our clients, from other nonprofit leaders and experts, and from our own leadership in our Managing in Tough Times Resource Center. We hope it will help you manage through these tough times.

(William Foster is a partner at the Bridgespan Group and leads the firm’s research on nonprofit funding models. Gail Perreault, a Bridgespan manager, and Sarah Sable, a Bridgespan consultant, directed Bridgespan’s Managing in Tough Times May 2009 survey.)