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Managing in a Tough Economy:

How Nonprofit Leaders and Their Organizations Are Facing the Uncertainty

These have rapidly become some of the most challenging times most of us have ever seen. Even for nonprofit leaders who are accustomed to making much of little, the repercussions of the current downturn are difficult to fathom and challenging to address.

In November 2008, the Bridgespan Group published a survey of nonprofit leaders, in which they were asked how their organizations were managing through tough times. At the time, the respondents indicated that they were already experiencing funding cuts—but the number taking strong measures to cut costs was quite small. In recent conversations with Bridgestar's chief operation officer (COO) and chief financial officer (CFO) learning communities, however, we discovered that the cautious, somewhat optimistic sense of "wait and see" that we heard during the fall and early winter has evolved into conservative but forceful action.

Operations and finance professionals, along with colleagues in fundraising, are among the first to feel the effects of a weakening economy on an organization's overall health. As such, they are frequently the first to create plans and to take action to help sustain their organizations. Here we share steps some of the organizations we've spoken to have taken, in an effort to learn more about managing successfully through tough times.

Cutting costs

Organizations are being forced to make hard choices about where to focus their resources for the next 12 to 18 months. In light of the fact that staff usually account for the lion's share of nonprofit budgets, reductions in force would seem an obvious choice. But in many cases, tough times also heighten the demand for services, and many nonprofits run so lean that they can't afford to manage costs through layoffs. They simply would be unable to serve their constituents. So although some terminations are being made where services are being consolidated, or in some cases eliminated, we also are hearing about instances where employees are being re-deployed to other key roles—especially fundraising.

Another area in the organization where we're hearing about increased efforts to create efficiencies is operational support. One New York-based CFO reported re-negotiating every contract, from telecommunications to printing to hotel rates for traveling employees, and finding receptivity on the part of many vendors who would rather adjust rates than lose business entirely.

Many more organizations report they are making changes in staff salaries and benefits to weather the economy. Pay cuts based on job title and level appear to be a common response. And some organizations have eliminated performance-based bonuses, and have reduced benefits packages, and 401(k) or 403(b) matches as well. Hour reductions and furloughs also were cited by many as ways to cut costs while preserving employee positions.

Frequently, nonprofits are approaching this cost cutting within the context of longer-term planning. Nicholas Hodges, COO of Schwab Charitable, a national donor-advised fund based in San Francisco, noted that his organization took swift action last October. “When you see a double digit decline in contributions combined with a significant market decline, you know you’re going to be hit,” Hodges said. Schwab Charitable uses a combination of base salary and incentive compensation, so they can react quickly to market changes. The organization zeroed out incentive plans and reduced officer salaries to preserve as many positions as possible. “We could have cast our bets and said the market is going to recover and preserve more positions, but if it did, we wouldn’t have been able to pay out severance packages,” said Hodges of the organization’s decision. “We felt it better to give people more of a cushion to leave. The people who left felt that they were being taken care of, and the people left [at the organization] felt like we were taking care of their colleagues.”

Executives at Schwab Charitable also agreed to a pay cut, and, because of its decisive action in the fall, the organization currently has no further plans to reduce salaries. “We can’t be put in the position where we are reactive; we want to be ahead of this,” Hodges said. Training themselves to look 12, 18, even 24 months into the future has been critical to Schwab’s cost-cutting decisions. “This environment requires people to go through lots of scenarios,” he added.

Longer-term planning also played a role in Citizen Schools’ cost-cutting actions. “We seized the opportunity presented by the recession to streamline our national operations and to make strategic investments in regional capacity and evaluation and policy initiatives,” said Emily McCann, COO of Citizen Schools, a national network of after-school education programs for middle school students. “To hold our budget steady, we had to do some belt tightening at both an organizational level and in the national office specifically.” Her organization has taken a number of steps to date: “We have announced a one-week furlough for staff; eliminated cost of living increases while preserving merit compensation; reduced our organizational bonus structure for achievement of balanced scorecard goals; cut executive salaries by three percent; and set into motion a series of reductions in traditional spending across departments, including consultants and travel,” she said. Most recently, the organization has had to lay off nine employees with severance: six from the national office in an effort to streamline its cost structure, and three positions in Massachusetts, due to a merger of the organization’s Boston and greater Massachusetts regions. McCann is quick to underscore that these actions weren’t taken out of context; they are part of a broader strategic reorganization, which includes continued investment in regional staff and select national capacity.

Crittenton Women’s Union, a Boston-based nonprofit helping low-income women achieve financial independence, embarked on a similar process to evaluate cutting costs. “Last fall, we started scenario planning around what our budgets might look like given the economy, paying attention to philanthropic support and how that might change,” said Charles Carter, senior vice president and COO of Crittenton. “At that point, we decided to be cautious.”

The organization developed two scenarios: what would happen given a small reduction in giving and what would happen given a more significant reduction. “Part of our planning had to do with the principles we wanted to pay attention to: we wanted to think of this as a progressive instead of regressive way [of sustaining the organization through the downturn]," Carter said. To that end, a flat, across-the-board wage cut, which disproportionately affects those making lower salaries, wasn't considered. "By January we did find there were signs of shortfalls," Carter said. In response, the senior leadership team and the organization's directors agreed to reduce the number of hours they worked each week, taking a 20 percent reduction in hours and a 10 percent reduction in hours, respectively. The third measure related to salaries. "[We put in place] merit freezes for a year to make sure staff were affected equally regardless of the timing of their annual review," he added.

Careful planning and analysis is critically important—particularly during times of crisis, affirms Cathryn Mattson, chief administrative officer (CAO) of the Bridgespan Group. "Organizations should take the time to do a "front-end assessment" early on, well before action is required. Developing these scenarios can help leaders think through certain "what ifs" and alternative courses of action.

Emphasizing transparency and communication

Nonprofit leaders are unanimous on this topic: open and frequent communication is very important when facing uncertainty. All stakeholders—employees, board members, funders, and even constituents—need to know where the organization stands and what its plans are. Employees also need to know where they stand personally. This, said McCann, helps keep people engaged and inspires them to be part of the solution.

In McCann's organization, the CEO has issued formal communications about the broad effect of the recession on the entire nonprofit sector as well as on Citizen Schools' options, and explained how the organization's leadership is defining various scenarios that might have to be contemplated going forward. He has indicated what is already known (for example, current fiscal year budget changes) and what decisions have—and have not—been made. Employees are aware of the state of the organization's cash reserve, the institution of a hiring freeze, and all cost-cutting measures that need to be taken, including layoffs and pay reductions. Despite the obvious hardships the organization and its individuals are facing and could face, the CEO has been quick to point out positive aspects of the nonprofit's work up front and has suggested ways employees can help the organization—including encouraging them to help fundraise using Citizen Schools' Facebook pages. Those who have stepped up have been recognized in his communications.

However, cautions a New York-based CFO, discussing the organization's financial state has both benefits and potential drawbacks. While he encourages leaders to share the budget and raise employees' awareness of the costs of running the organization, he also points out that this information may include metrics the employees might not have seen before (such as training and benefits expenses). As a result, many will likely need support to understand the issues and make good financial decisions.

In many nonprofits, leadership teams are taking extra care to address the emotional aspects of the downturn, including using more "us" language—meaning the entire team, not just the management team. According to one COO, employees look to the CEO and the COO to gauge the tenor of the organization; so they have to strike a balance between the "sky is falling" and "Pollyanna."

"Our organization values transparency; our communication has been ongoing with staff about what we're trying to do," said Carter. Even though the cuts have been difficult, he added, people have appreciated the organization's effort to save jobs, and they've acknowledged the progressive thinking the nonprofit applied in making the cuts. "We're hoping that we not only make it through this downturn, but also preserve the morale of our staff; they are part of the solution with us, because we ask for their ideas as well."

Strengthening relationships

Engaging and reinvigorating the board is a common topic among COOs and CFOs. Board members can make important contributions in multiple ways: They can lend specific expertise to organizational challenges; pressure-test assumptions and plans; and help in fundraising. Organizations whose board members have expertise in law, real estate, finance, and marketing are finding opportunities to draw on this expertise in new and meaningful ways. As Amy Lockwood, the executive director (ED) and head of operations of Project Healthy Children, a Boston-based nonprofit working globally to improve the health of women and children, put it, "The opportunities during a recession are finding real estate and great people."

Carter says communication with Crittenton's board and its various committees, from finance to program quality, has been constant. "We keep them aware of where we are and where our planning is," he said. "The board is very invested in what we're doing to maintain jobs and to be viable and solvent, and they are doing their part to raise funds to fill some of the gaps."

Other relationships also are on leaders' minds. During a downturn, cultivating new donors can be challenging—but reaching out to existing funders can encourage them to help the organization navigate the economy, whether with additional funds, advice, or introductions to other potential donors. Lockwood's organization translated some existing donors into multi-year commitments. "[We] followed up with donors to encourage them to continue their commitment to help us complete projects, which last three to five years," she said. Others noted that they are making a special point of calling donors to acknowledge their support and to cultivate relationships for the longer term, but not to ask for additional funding.

Attracting and retaining great people

Finding and keeping great team members is no less essential in a difficult economy; in fact, say our COOs and CFOs, it is imperative to fulfilling the organization's mission. While emphasizing that retention is their primary goal, some leaders report finding that the caliber of talent now available is very high and that they are cultivating potential staff. The biggest challenge, they say, is ensuring that candidates are serious about the nonprofit sector and about their organizations, and not just anxious to find a job. "[We're using] reference checks to learn more about candidates, weeding out those who are desperate for a job from those who are committed [to working at a nonprofit]," Lockwood said.

Volunteers also can play an important role during tough times. Some organizations use volunteers to perform tasks usually managed by staff, freeing up more resources for direct service. Others are finding great resources in individuals who are between jobs and eager for the opportunity to put their skills to work, even if for a short period of time. As Carter noted, “[The benefit to the downturn] has been that there are a lot of volunteers out there who are unemployed, open to receiving free on-the-job training and developing long-term relationships.”

Looking ahead

To many, weathering the downturn means making tough choices in the near term—and communicating them widely and well, whether with staff, board members, donors, or others. However, longer-term scenarios also are being carefully planned and widely discussed.

“We’ve been doing long-term planning [over the last two years] around which programs are mission critical, and which directions we want to grow in and [how to] utilize the resources that we have,” said Carter. “I don’t feel like [the downturn] has changed our planning at all; it’s highlighted that we have been moving in the right direction.”

In fact, according to Mattson, tough times occasionally can offer insight into how an organization can become stronger. "Sometimes crisis forces us to take action that we should have taken a long time ago, and the organization emerges healthier and more sustainable as a result."