Sustaining Nonprofits During Economic Downturns

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When economic downturns reduce household incomes and lower investors' and consumers' confidence in the economy, nonprofits face especially troubling times. On one hand, most nonprofits' incomes fall during these recessionary times: private contributions decline as individual, corporate, and foundation donors are less inclined to give; governmental funding declines or disappears; and earnings from endowments shrink along with their capital market values. On the other hand, economic downturns put added demands on nonprofits' already dwindling resources: more clients ask for increased help; fewer volunteers, concerned about their own household incomes, willingly give their time to nonprofit service; and budgets for many routine activities — such as public outreach and maintenance of buildings and vehicles — are cut so that every possible dollar can be channeled more directly into client services.

Squeezed between rising demands and falling resources, nonprofits become unusually vulnerable to two major classes of surprising, unexpected events. The first class encompasses threats of unanticipated losses, either from accidents (such as fires, floods, lawsuits, staff injuries or resignations and adverse publicity) or from unfavorable economic or regulatory events (such as the public's rejection of a nonprofit's new publicity campaign, tightened regulations, or the launching of a new regional or national nonprofit that invades the client, donor and territorial bases of many smaller nonprofits). The second class encompasses unexpected opportunities for gain, which often bring new uncertainties into a nonprofit's future. For example, an economic downturn may bring to a nonprofit's door a very talented, motivated, college-graduating job applicant who in more prosperous times might have channeled their career into the generally more lucrative private sector. To reach its full potential, a nonprofit must be prepared to grasp opportunities whenever they arise, whether from sudden changes in the nonprofit's outside world or from innovations that originate within the nonprofit.

Risk Management: Countering Threats and Seizing Opportunities in Uncertain Times

Risk management deals with both major classes of surprises: surprising threats of accidental, economic, or regulatory losses; and surprising opportunities for gain from events outside the nonprofit or from within it. Risk management is both a way of thinking and a way of acting. It allows management to both anticipate and respond to surprises so that a nonprofit can preserve from surprising threats all that it has already achieved and also capitalize on surprising opportunities to reach its full future potential. Every nonprofit's future is to some degree uncertain, unpredictable and subject to potential good and bad surprises. A nonprofit is particularly vulnerable to unanticipated or other losses, as well as missed opportunities for gain during economic downturns, because it is at these times that a nonprofit's financial and human resources often are especially low. At these times, nonprofits have little cushion with which to absorb unanticipated losses or into which to dig for extra funds, or spare people to grasp any golden rings of growth opportunity that may suddenly appear.

Hard economic times make good risk management especially important to a nonprofit's short-term survival and ongoing mission fulfillment. Prevailing in the long run requires surviving — and hopefully thriving — in the short run, despite its many uncertainties. Within this process, risk is a measure of the possibility that the future may be surprisingly different — much worse or much better — than the management of a nonprofit expects. Surprise can be measured by four characteristics: direction, magnitude, probability and variability. Direction — positive or negative — indicates whether the outcome is surprisingly better (as when a deceased volunteer's bequest is much greater than anticipated, but comes with major strings attached) or surprisingly worse than expected (as when attendance at a fund-raiser is disappointingly sparse). Magnitude indicates size or extent.

Given that any fire damage to your building is a loss, is the amount of damage likely to be quite small or very large? Conversely, given that a campaign to broaden a nonprofit's client base is a growth opportunity, will the campaign generate the expected 50 new clients, or will it be 200, or even 1,000 new people to serve? Probability reflects the likelihood an event will happen□how likely is a fire to occur? What are the chances that a campaign to attract new foundation grants will persuade five, or even 15, new grantors rather than the expected two? Variability is the extent to which outcomes differ unpredictably from day to day, month to month or year to year, making budgeting and other planning very difficult and filled with greater uncertainty.

Risk management grapples with each of these four measures of surprise. Risk management seeks to influence the direction of the surprise: to minimize unforeseen threats of loss (negative outcomes), while nurturing opportunities for gain (positive outcomes) whenever they arise. Risk management strives to increase the magnitude of positive outcomes, while reducing the severity of negative ones. Risk management focuses on making positive surprises more probable and negative surprises less likely. Finally, risk management works to reduce the variability of both positive and negative risks so that their outcomes can be more accurately anticipated, their financial consequences better budgeted, and each nonprofit's future made more certain.

Context Is Key

A key step in the risk management decision process is to determine the organizational context within which these decisions are being made. Many nonprofits plunge head first into intensive risk identification when they begin developing a risk management program. Ignoring contextual issues is a mistake. Why? Two nonprofits facing otherwise comparable choices may, quite correctly, reach different decisions about risk because their objectives, the legal requirements they must meet, their resources, their past experience and their attitudes regarding risk, differ significantly. For example, in dealing with the threat of roadway accidents to its vehicles a nonprofit with just a few vehicles, little or no accumulated financial surplus, and members of senior management whose previous organizations have experienced severe automobile accidents, is much more likely to purchase automobile insurance beyond what is legally required, even when budgets are tight during economic downturns, than is a nonprofit with many vehicles, ample surplus, and no terrible memories of highway accidents. Attitude toward risk — ranging from paralyzing, fear-filled pessimism to resilient, constructive, yet careful, optimism — is a key to the context within which a nonprofit manages its threats of loss and opportunities for gain.

Managing Economic Downturn Risks Facing a Nonprofit's Key Resources

So far we have discussed at a general level how thoughtful, courageous risk management of threats and opportunities sustains a nonprofit during economic downturns. There are many risks — both threats and opportunities — which adverse economic circumstances intensify. Each of these threats and opportunities call for heightened, enlightened risk management to help sustain nonprofits in these trying days. To appraise these economically sensitive risks, consider the four broad categories of resources that, from a risk management perspective, are crucial to mission fulfillment for any nonprofit. These resources are its people, its property, its income, and its reputation. In the midst of economic downturns, each of these types of resources present special threats and opportunities, special risk management challenges.

People

During economic downturns, nonprofits tend to lose staff, particularly as organizations reduce their payrolls in response to funding losses. Those employees and volunteers who remain with a nonprofit are placed under greater stress due to increased responsibilities and longer hours. In some cases, these lead to greater fatigue and more accidents, particularly as staff attempt activities unfamiliar to them or for which they have not been properly trained. Work injuries and careless job performance may result and must be countered by paying attention to this often-overlooked threat. But on the opportunity side of risk, economic difficulties may benefit a nonprofit in an unexpected way. In many cases nonprofits that need to reduce staffing levels due to funding cutbacks take the opportunity to revisit the division of labor within the organization. A nonprofit may seize the opportunity to streamline functions, cross train long-term employees or combine functional areas to better serve clients. Or the organization may learn that one of its entry- or mid-level staff members is capable of taking on increased responsibility and is well-suited to a more responsible — and more fulfilling — position within the nonprofit. What was initially viewed as a negative — the loss of one or more staff positions — should have positive effects on morale and personal fulfullment.

Income

Nonprofits' incomes from virtually all sources are clearly threatened by economic downturns. Income from donations, revenues from sales of goods and services, investment earnings, revenues from governmental contracts and foundation grants are all in jeopardy. Good risk management suggests that economic downturns also offer special opportunities for truly innovative nonprofits to increase their incomes above normal, prosperous levels by, for example, broadening the client base to embrace people newly distressed, appealing to new groups of contributors, or marketing new types of goods or services that, when prosperity inevitably returns, can be important new sources of significant income for a nonprofit that proved itself innovative in difficult times.

Property

Recessions threaten nonprofits' property as aging buildings and equipment are less adequately maintained or replaced. These are threats against which nonprofits must be especially prepared. Simultaneously, some nonprofits will find that economic downturns offer opportunities to expand their property holdings. Equipment which was previously unaffordable may become available at distressed prices, as may real estate that its owners must sell to meet their own debts. In depressed times, some people may be increasingly willing to bequeath property to a deserving and stable nonprofit.

Reputation

During economic downturns, a nonprofit's conduct may come under especially close scrutiny as the overworked staff make errors that attract negative public attention or as disgruntled clients seek a public forum for imagined or exaggerated wrongs. Allegations of fraud or inappropriate conduct by senior management may be especially damaging to a nonprofit's long-term reputation when it is pressured due to economic conditions. This damage is true even when such allegations prove to be baseless. On the positive side, a nonprofit can greatly enhance its reputation by being of special public service to others who are in economic trouble or by being upfront about the challenges it faces. One Washington, DC-based nonprofit recently decided to counter widespread criticism of its former leadership by unveiling a banner reading "Under New Management" at its headquarters. The organization also posted detailed information on its Web site concerning the nonprofit's internal reorganization and efforts to restore the community's trust in the nonprofit.

Conclusion

Economic downturns bring both threats and opportunities to which a resourceful nonprofit can and should respond constructively — both for its own protection and for the greater well-being of its clients and of the general community of which that nonprofit is a contributing part. In hard times, it is easy to find and bemoan the threats. It is more rewarding for everyone, however, to seek out and seize the opportunities. In all of these circumstances, the discipline of risk management can provide resources and tools for sustaining a nonprofit and the clients and communities it serves.

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