When Financial Stress Hits Your Nonprofit, Try These Steps



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Right now, many nonprofit leaders are drifting off in thought in meetings or lying awake at night.

One of the worries crowding their minds: Amid turmoil in the federal funding many nonprofits rely on, they may have to lay off trusted team members, or end programs that meet acute needs in their communities.

As we talk with leaders from an array of nonprofit organizations, many worry about the possibility of a recession. A recent Deutsche Bank survey found that the likelihood of a U.S. recession was nearing 50-50. Recessions can increase the likelihood that donors and other funders pull back on giving. In past recessions, some nonprofits laid off employees, cut services, or faced other painful decisions that affected people's access to food, medical care, and more.

This time around, economic worries come against the backdrop of a federal funding freeze that disrupted operations at many nonprofits. Ripple effects from that freeze and executive orders that affect nonprofits have many more charitable organizations concerned about financing operations for the long term.

Federal dollars have a huge impact on nonprofits. On a Chronicle of Philanthropy webinar last year, Nonoko Sato, Executive Director of the Minnesota Council of Nonprofits, cited a *Nonprofit Quarterly* study that found that local, state and federal governments provided $650 billion in federal funding to nonprofits as of 2020.

Worry is natural in uncertain times. But it's easy to get caught in a loop of worries and miss opportunities to take actions that might help. Our executive director's mentor likes to say that risk management is a discipline for dealing with uncertainty. When conditions around you feel like shifting sand, lean on this discipline.

Your nonprofit can take some steps at no cost to prepare for possibilities that concern you. The time you invest to do so should give you and your team some peace of mind in a challenging season.

This week, or anytime you face financial uncertainty, consider taking these actions.

Craft a risk action plan to prepare your nonprofit for an economic downturn. Outline what you would do if your organization's income decreased by a third or more. What programs or services would you pause or

scale back? How would you approach staffing?

What mission-critical opportunities might arise during tough times? What could you do to allocate money or staff time to those efforts?

Whatever risk action plan you undertake, know that it can't sit in a drawer (or an unopened computer file.) Expect that conditions will change rapidly—and in surprising ways—this year and beyond. Revisit your plan frequently and adjust it as needed.

Stay in touch with your community. In times of stress, it can be tempting to turn inward and make decisions solely based on our team's opinions, or engage in what thought leader Tom Chi calls decision-making "guess-a-thons." It's more important than ever to understand what your community needs, because those needs might be evolving. Without taxing the community you serve, how can you learn what they need from you in this moment? Is a brief survey possible? Could you add some questions or discussion topics to existing meetings to help you gauge what your service recipients need? Whatever you learn, bring their feedback to discussions at the staff and board level. (If you don't have folks with lived experience of your services on your team or board, think about how you could change that for the future!)

Hit pause on spending where you can. Historically, experts often advised nonprofits facing economic stress to cut expenses to the bone. That may or may not be the right strategy for your organization at this moment of great community need and social change. That said, you'll need to keep your organization financially healthy to best serve your community. What expenses could you trim with the least negative impact on operations and service delivery? Could you delay any items in the approved budget without short-term repercussions? Could you delay new programs until 2026 if revenues don't match projections? Could you share costs or consolidate back-office operations with peer nonprofits?

Take time for practices that restore you and your team. During stressful times, it can feel impossible just to keep the work going, let alone to take time for respite. It's also more important than ever to resource yourself. Take leave days as you need them, and make sure your team members do, too. Continue practices like retreats and reflection meetings, even if you must scale them down. If you never stop and take stock of what's happening, it'll be hard to respond to it thoughtfully.

A well-crafted risk action plan will prepare your organization to respond to mission opportunities as well as challenges, and help you engage in your community with care even as you weigh tough decisions in real time.

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