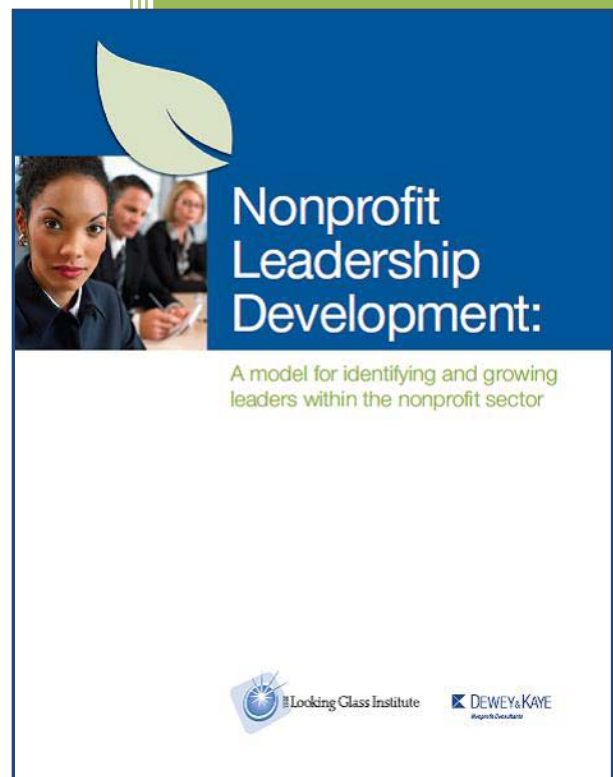


# UPDATE: How Nonprofit Leaders and Organizations in Western PA are Coping With the Recession



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## **UPDATE: How Nonprofit Leaders and Organizations in Western Pennsylvania Are Coping With the Recession**

In 2008 Dewey & Kaye released a study, *Nonprofit Leadership Development: A model for identifying and growing leaders within the nonprofit sector*, based on in-depth research with a group of 36 successful Human Services leaders and their boards. This research provided a model of competencies that successful nonprofit leaders will need to master the fluidity, complexity and turmoil facing their organizations. The study also highlighted ways to assess and develop successful leaders. This summer we followed up with 25 of these leaders to understand how they, and their organizations, were coping with the recession.

Our follow up interviews indicate that, while demand for services is up and revenue is down, the majority of organizations have found ways to deal with the economic downturn that in most cases avoid broad lay-offs or reductions in programs and services. Strong leadership, supportive boards and finance committees, and thoughtful contingency planning were all credited for allowing organizations to mitigate the negative impact of the recession. However, these interviews were conducted prior to the ongoing state budget stalemate that has left many of these same organizations to fall back to more drastic contingency plans.

Most of the organizations we talked to were able to close their fiscal year in June with break-even balance sheets or only modest deficits. Almost across the board, organizations were planning on delaying wage increases, freezing hiring in nonessential areas, looking for opportunities to cut costs, and increasing fundraising efforts.

From May through July 2009 Dewey & Kaye conducted follow-up conversations with 25 of the 36 Human Services leaders who participated in last year's Nonprofit Leadership Development study. The interviews were directed toward understanding how local nonprofits, and more specifically their leaders, are coping with the recession. We assume that other sectors with different types of revenue streams may be experiencing the recession differently and may have had to take more dramatic actions.

At the time of the interviews many of these organizations were struggling to meet increased demand for their services in the face of declining giving from foundations, individuals, and corporations. Those with endowments reported a large drop in the value of the endowments. Several of the organizations reported double-digit increases in health care benefit costs. Organizations relying on donated income and fundraising events for the majority of their income reported the least confidence in their ability to escape drastic cuts in staff and programs. However, those that received a majority of their revenues from county, state, and government funding were feeling confident about this "stable" revenue stream allowing them to sustain their current levels of staff and programming\*.

The majority of leaders anticipate 2010 to be an even more difficult year because of increased costs and potential cuts in state and government grants and continuing declines in individual, corporate, and foundation giving. Because of this organizations had begun to create contingency plans and conservative budgets for 2010. The key tactics included:

- Postpone salary increases until later in the fiscal year when the organizations' financial picture becomes clearer, or stop salary increases entirely for this year.
- Freeze hiring of nonessential or non-revenue generating positions.
- Reduce employee benefits in some way (suspending 401K matches, increasing employee contributions to healthcare insurance, reduce vacation days, etc.).
- Cut costs such as capital expenditures, travel, supplies, utilities, or mileage reimbursements.

- Increase fundraising capacity and efforts, such as looking at different types of funders than in the past or asking more people for less money. Several organizations reported postponing their planned capital campaigns. Some also spoke about aggressively seeking stimulus dollars – recognizing this as a temporary fix.
- Examine all programs and services and cut those that are being subsidized by the organization and that are not critical to mission.
- Consider other fee-for services or revenue-generating programs that the organization can offer.
- Look more closely at shared services or shared space arrangements.
- Examine organizational structure and processes, individual capacity, and staff productivity to find more efficiency in the system.

Of all of the organizations surveyed only two had reduced salaries. The first organization did so after meeting with staff and discussing what they saw as a potential choice in the upcoming months - layoffs versus an across the board salary cut. The staff chose the salary cut and salaries were reduced by 7%. The other organization cut the salaries of senior managers only.

### Contingency Planning

Not surprisingly, the organizations that we spoke with that had cash reserves and/or endowments were feeling more optimistic about continuing to weather the storm. Organizations without these safety nets were looking more closely at shared services, space and alliance opportunities.

A number of organizations noted that they had put contingency plans into place last year at the early indications of a recession, and that has allowed them to avoid the pain that they hear many other organizations are now experiencing. One leader said, “Good leaders respond to crisis but rise above it and are able to be strategic. We clearly heard the message at last November’s public meeting and began contingency planning. One of the speakers at that meeting talked about the importance of making the decisions NOW that you will have wished you made in 6 months. We took that seriously and created contingency plans.”

Another leader talked about how already having good business practices in place allowed them to respond more effectively to this crisis without compromising their mission, “We in the nonprofit sector need to make sure we always balance our mission of service with good business practices.” And from a seasoned Executive Director, “I can’t say enough about the importance of planning and budgeting. I’d tell everyone, don’t budget soft dollars and be mindful and prudent in staffing.”

All of the leaders we spoke to are anticipating 2010 will be a much more difficult year for their organizations because of funding cuts and increased costs said that they are creating budgets that are much more conservative than in the past. And this was before the state budget deadlock had begun to impact many of the organizations.

### How Leaders Are Coping With This Latest Challenge

Among the key findings from our leadership study was that successful leaders possessed a number of competencies which they have had to call on repeatedly in the last year. **Strategic Agility** allows them to see the big picture and to identify key areas or underlying issues to develop effective strategies. This strategic perspective allows successful leaders to anticipate future consequences and articulately paint credible pictures and visions of possibilities and likelihoods.

We also found that successful leaders had the ability to **Articulate and Manage Vision and Purpose**, which was defined as “developing and sharing a clear and optimistic vision for the future of the organization.” These competencies, along with **Managing Process and Planning**, **Decision Quality** and **Priority Setting** were more than ever being called upon by leaders coping with the economic crisis.

And while many of the leaders we interviewed spoke of feeling greater personal pressure, most of them also said that their staff and board had risen to the occasion and supported what needed to be done. The economy actually gave stakeholders a burning reason to rally around the organization. One leader we interviewed said that in a way, there was an upside to the added pressures: “This crisis has made me more assertive as a leader. Normally I work hard at being a consensus builder and empowering but now we don’t have that luxury. We have had to make tough and quick decisions. Everyone understands the need for urgency and accountability and actually seems to feel better when I act more assertively as a leader.”

One clear optimist in the group had these words of encouragement for organizations that may have to lay off employees, “I have found that you need to let rightsizing be your adrenaline rather than letting reducing services sap your energy. Keep focused on maintaining your quality and services while rightsizing your organization.”

Most leaders said that their boards, or at the least their board finance committees, had risen to the occasion and were meeting more frequently, were more engaged and were able to offer support and guidance. Yet one leader did express concern that as nonprofits become more complex, boards are having a harder time keeping up with the financial complexity, and that boards need to be cautioned not to insert a corporate mentality to the exclusion of a mission mentality, especially when making budget cuts.

Our conclusion is that, just as we found in our leadership study, overcoming adversity builds leadership muscle and makes you stronger. Organizations that can swiftly learn how to adapt to the new reality, combined with careful planning and creativity, will in fact be the ones that survive with programs and staff intact.

\*Interviews conducted prior to state budget stalemate.

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Copies of the original study can be secured by visiting: <http://www.deweykaye.com/dewey/leadership.php>

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