Sustainability Strategies for Challenging Times

VANNO Just in Time series

February 10, 2009

Instructors: Katherine Morrison and Katherine Gekker

I. ***Introduction*** (Gekker)

"Adversity has the effect of eliciting talents which, in prosperous circumstances, would have lain dormant."
Horace

Develop Resiliency: Change views, habits, and responses by modifying thoughts and actions in nine areas:

- Acceptance of change
- Continuous learning
- Self-empowerment
- Sense of purpose
- Personal identity
- Personal and professional networks
- Reflection
- Skill shifting
- Your relationship to money

II. ***State of the Economy and Its Impact on Nonprofits*** (Morrison)

III. ***Resilience revisited*** (Gekker)

IV. ***Contingency Planning Key Issues*** (Morrison)

Financial:

- Assess current levels of liquidity, using multiple measures
  - Months of expenses covered by cash
  - Working capital – current assets less current liabilities
  - Liquid net assets –not all unrestricted net assets are available for general operations
- The amount in your reserve/endowment and any restrictions on its use
- Cash flow projections until the end of the fiscal year (e.g. when do key grants come in, or revenue from appeals or events)
- Dates of major expenditures including payroll and taxes, rent, major contracts
- Anticipated use of services until the end of the fiscal year (based on previous years' history)
- Percentage of revenues coming from sources (user fees, government, individuals, foundations, corporations, events, other)
- Critical unmet needs that currently are not reflected in the budget such as vehicle repair or replacement, major building repairs, needed IT equipment, etc.

© 2009

Katherine Morrison
Morrison Nonprofit Transitions
Katherine@morrisonnonprofittransitions.com
(703) 868-2036

Katherine (Katie) Gekker
Strategic Success
kgekker@yahoo.com
(703) 216-3714

- Consider possible reductions, delays, or losses of particular revenue streams such as government contracts or grants, foundation and corporate giving, individual donations and special events
- Make sure cash deposits are insured or distributed among banks and investments are varied
- Keep communication open
- Clarify financial responsibilities of management and board
- Assess board's ability and willingness to cover possible revenue short falls and/or tap into existing cash and investments
- Budget conservatively with best and worst case scenarios
- Assume cash will arrive late and bills must be paid sooner than expected

Strategic:

- If you were starting the organization over from scratch tomorrow, what would it look like? Would you start it now if it didn't exist?
- What does your organization do best that no one else does?
- How well are you meeting your key commitments to the community?
- Which of your programs and services are more closely aligned with your mission than others?
- Which of your programs and services pay for themselves or come closest?
- What is the relationship between the financially viable programs and the programs most closely aligned with your mission?
- Where should you be focusing your resources given the financial picture and its impact not only on your organization but also on your clients?
- Question why you are doing things and the the way you are doing them.

Increasing revenues:

- Stay in touch with funders
- Approach government for grants
- Reconsider plans for program expansion or development of new programs
- Diversify revenue streams

Reducing costs:

- Regularly review accurate, up-to-date figures for each and every item in your budget.
- Compare this year's overhead to last year's.
- Investigate options for renegotiating payables, debt, or leases
- Defer large investments in infrastructure, including facility projects
- Outsource work. Use volunteers
- Recycle any item that can be reused—paper, folders, etc.— or sell extras (or unneeded donations) on eBay

© 2009

Katherine Morrison
Morrison Nonprofit Transitions
Katherine@morrisonnonprofittransitions.com
(703) 868-2036

Katherine (Katie) Gekker
Strategic Success
kgekker@yahoo.com
(703) 216-3714

V. Strategic alliance overview (Gekker)

Nonprofit strategic alliances fall into three major types:

- Collaborations/Partnerships
- Shared back office/mgmt services org
- Mergers

Decision Tree:

- If your organization is weak: you might seek affiliation with a larger organization that has what you lack, or with other smaller organizations, with whom you can develop the necessary strengths.

- If you are ready to grow: you are probably a strong nonprofit and see affiliation as a way to further grow the organization.

- If you think it might enhance your mission and services: you might partner with others with whom you have a significant mission, program, or identity overlap.

VI. Collaborations/partnerships (Morrison)

Collaborations or partnerships: cooperative arrangements between organizations related to enhanced programs or services

Benefits:

- No legal constraints -- usually all that is needed is a memorandum of agreement
- Two organizations can accomplish the job better than one without straining resources
- Funder-generated nonprofit collaborations add a level of accountability

Risks:

- Each partner depends on the other to perform adequately
- Trust must exist between staffs because there is no real enforcement mechanism
- Potential danger of partners competing with each other for resources

Keys to successful collaborations include:

- Interpersonal connections between organization members
- Clear set of realistic goals and defined roles
- Board actively involved in planning and maintenance of partnership and holding staff accountable
- Maintaining multiple forms of communication
- Sharing ongoing evidence of success among both organizations
- Opportunities to reflect on process and obtain member feedback about the effectiveness of the collaboration, the satisfaction and participation of members, the quality of the decision-making process, and the level of trust

© 2009

Katherine Morrison
Morrison Nonprofit Transitions
Katherine@morrisonnonprofittransitions.com
(703) 868-2036

Katherine (Katie) Gekker
Strategic Success
kgekker@yahoo.com
(703) 216-3714

- Flexible approach because mistakes will be made and plans may change
- Clearly defined mechanism for canceling the agreement if the partnership is not working

Shared back office/management services organizations: Two ways to reduce operational costs

Shared Back Office: organizations are co-located and may share administrative resources such as IT, finance, human resources, reception, systems etc.

Benefits:

- Allows nonprofits to find quality, affordable resources and program space
- Helps lower rent
- Creates opportunities for collaboration
- Provides co-located services for clients as well as meeting space and community venues

Risks:

- Dividing shared costs fairly and transparently
- Confusion over reporting relationships and allocation of staff time
- Legal difficulties in ending relationship
- Loss of community identity for individual agencies

Shared management organizations: provide the same back-office services but through a new organization established expressly for that purpose. Organizations may not be co-located or share related programs or missions.

Benefits:

- Higher performing, lower cost administrative services
- Economies of scale
- Ability to focus attention on quality of services, fundraising and other activities

Risks:

- Relinquishment of hiring and promotion decisions
- Accountability for performance of services and cost distribution
- Difficulty ending arrangement

VII. Mergers (Gekker)

Merger: The integration of all programmatic and administrative functions to increase efficiency & quality through dissolution of organization(s) or creation of a new merged organization.

© 2009

Katherine Morrison
Morrison Nonprofit Transitions
Katherine@morrisonnonprofittransitions.com
(703) 868-2036

Katherine (Katie) Gekker
Strategic Success
kgekker@yahoo.com
(703) 216-3714

Benefits of mergers are medium- to long-term and STRATEGIC:

- Better market positioning
- Larger market share
- Higher public profile
- Greater political influence
- More strategic fundraising
- Larger staff, allowing greater specialization of functions & provision of more services
- Creation of continuum of services under unified control
- Better economies of scale

Risks/costs of mergers

- Financial: legal fees, consultant fees, moving costs, employee severances & benefits will need to be paid for
- Time: executive and board will need to devote many hours to process, taking away focus from actual work of nonprofit
- Cost savings from merged organizations rarely meet expectations, as new expenses will arise
- Losses in many areas for at least one organization:
  - Organizational name
  - Executive Director
  - Location(s)
  - Board members
  - Staff

Consider a merger when

- Level of integration and synergy sought by potential partners cannot be achieved through lesser means
- Clients and community already think of potential partners as the same organization, repeatedly confusing their identities
- A larger entity is needed to compete with other large nonprofits or businesses
- Organization has lost steam, experienced a scandal, or for other reasons cannot sustain and renew itself, and is considering closing its doors

Questions to consider when assessing a potential merger candidate:

- Is there an alignment between the two missions?
- Is there a "cultural fit" between the two groups?
- Is there board interest?
- Is there staff interest?
- Do we have past experience working with this group? If so, was it a positive or negative experience?
- What could this group potentially offer?
- Does the alliance fit our strategic interests?

© 2009

Katherine Morrison
Morrison Nonprofit Transitions
Katherine@morrisonnonprofittransitions.com
(703) 868-2036

Katherine (Katie) Gekker
Strategic Success
kgekker@yahoo.com
(703) 216-3714

and, **Is the potential new whole better than the sum of the two individual parts?**

Assessing a Collaboration:

Questions to ask about functioning of a collaboration:

- ❑ Do we have a shared vision and clearly understood vision?
- ❑ Do members understand goals and objectives?
- ❑ Are members clear about their roles and responsibilities?
- ❑ Are there effective decision making procedures?
- ❑ Are there procedures for changing members?
- ❑ Do we successfully manage conflict?
- ❑ Is leadership is shared and adequate?
- ❑ Do all members follow work plans?
- ❑ Do members trust each other?
- ❑ Do members communicate well with each other?
- ❑ Is external communication open and timely?
- ❑ Is evaluation built into all our activities?

From Evaluating Collaboratives, University of Wisconsin-Cooperative Extension, 1998

© 2009

Katherine Morrison
Morrison Nonprofit Transitions
Katherine@morrisonnonprofittransitions.com
(703) 868-2036

Katherine (Katie) Gekker
Strategic Success
kgekker@yahoo.com
(703) 216-3714