

## Feature

### Facing the Financial Crisis: 10 Smart Things Your Board Can Do Now

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It's undeniable, and the reality of that hits anew every morning. All we have to do is get out of bed and turn on the morning talk shows, retrieve the newspaper, or glance at the faces of passersby as we head to work. All tell us loud and clear that our economy is in turmoil. It's tempting to crawl back in bed, pull the covers over our heads, and pretend all is well.

As board members, we're not immune to these feelings. But in these very troubled financial times, our organizations are looking to us for leadership. How we react to the economic crisis can go a long way toward calming fears and ensuring that our nonprofits remain solvent in this difficult environment and are even better prepared to enact our organizational missions in the future.

Here, then, are 10 things your board can do now to address the financial crisis. It is, by no means, an exhaustive list. Your board may be coping in other ways. If so, I invite you to contact BoardSource so that we might share your ideas with others in the nonprofit sector, either in future issues of Board Member or on our Web site.

#### **1. Don't panic.**

Don't let fear freeze you into inaction. Read, research, and remain calm. Be deliberate in any action your board undertakes. On the other hand, do not underestimate the amount of anxiety this crisis adds to the already heavy burdens your chief executive and staff are carrying. Before pressuring them to forge ahead, ensure that they know that the board supports them.

#### **2. Think strategically.**

Examine your organizational goals and strategies in light of the current conditions. Consider scheduling an additional board meeting, in person or by teleconference, to discuss your organization's short-term strategy. Then ensure that a review of the longterm strategy is on the agenda. Eventually, the financial crisis will end, and the markets will recover. Organizations that have continued to think strategically throughout the crisis will come out of it in the best position.

Now is the time to think how your organization can become more competitive. With fewer contributed dollars available, funders may reevaluate their giving plans. Organizations that position themselves as useful in times of crisis may actually find themselves the recipient of *more* gifts, not fewer.

Thinking strategically also implies being conscious of how the board frames the questions it will discuss, which in turn directs where discussions will go. For example, if the board asks, "Where do we cut expenses to make sure we can balance our budget?" the discussion will center around expense reduction. If the question is framed as, "How do we maintain a balanced budget?" the discussion will include expenses and revenue. If the board asks, "How best do we serve our mission despite changes in our economy?" the board is likely to have a broader and more fruitful discussion.

### **3. Get a realistic picture of your organization's financial situation.**

Set aside some time at your next board meeting to talk to the chief executive and chief financial officer and determine where the financial downturn is affecting your financial picture. Assess cash availability if your revenue is tied to market fluctuations; make sure that your cash, investments, or reserves are parked some place safe and are getting the best possible return. Check to see if you have a diversified funding stream, and, if not, develop a plan to diversify. Get an immediate and firm grip on all your revenue streams and be clear as to what is – or is not – genuinely bringing in revenue. This does not mean cutting all non-revenue or negative revenue programs; it does mean seeing the whole picture and where your real costs are with open eyes.

### **4. Create a contingency plan.**

Ask yourself, how might we have to govern our organization differently if the economy enters a long-term recession? Ask the chief executive and chief financial officer to work with the board treasurer or finance committee to develop an alternate financial model for the organization based on the assumptions derived from that exercise, and create a contingency budget to account for potential shortfalls. Think outside your current structure: For example, consider a collaboration or even a merger with another nonprofit with a similar mission if your organization is in serious financial difficulty.

### **5. Work more closely with your chief executive.**

Any contingency plan must, of course, be developed in close collaboration with management. Now is the time to increase communication with, and support of, the chief executive and staff and help them keep their spirits high. At the same time, adhere to a culture of transparency. If the financial situation is grave, work with management to keep staff apprised of developments. Long faces emerging from behind closed doors will only foster anxiety.

### **6. Step up your fundraising.**

While it may appear counterintuitive to increase development activities when funders are also affected by the downturn, being proactive in this climate may yield surprising results.

Call on key funders to discuss your situation and reaffirm their commitment to your organization's mission. Go beyond your usual suspects by considering nontraditional funding sources, and don't forget former donors.

Be strategic in how you look at both current and potential donors. Some industries will be hit hard by the economic downturn; others will be less affected by it. Examine your list of constituents and stakeholders for organizations less affected and push harder on them than in the past. Conversely, step up your analysis of donors who have already pledged gifts for signs of financial distress to help anticipate possible contributed revenue shortfalls. Continue to recognize your current donors, too; it is still more cost effective to develop current donors than find new ones. Finally, but perhaps most obviously, use the crisis to your advantage: Don't be afraid to inform funders that your constituents need your organization's services now more than ever.

### **7. Tighten your belt.**

Now is a good time to examine the feasibility of reducing expenses. Consider a reduction in board-related expenses. For example, board members who are reimbursed for their transportation costs to and from board meetings could begin to pay for their own travel expenses. Consider canceling a planned face-to-face meeting in exchange for a well-prepared

teleconference meeting. For both your organization's financial and reputational health, think about canceling any "resort" location board meetings for the next fiscal year. Build cash reserves as you reevaluate the necessity of budgeted capital outlays. Is 2009 the year to invest in fixed assets or infrastructure? It may be. As suggested above, think strategically and remember that organizations that maintain their spending at near-normal levels during recessions are best positioned to excel during recovery.

### **8. Pump up your engagement.**

It is in difficult economic times that the worth of a nonprofit board is truly tested. Board members must step up and ensure that they are full, constructive partners with senior staff. The staff members of a typical nonprofit – even if very capable – cannot weather a crisis nearly as well alone as they can in partnership with a truly engaged and supportive board. The creative and strategic gifts that boards give to their organizations are needed now more than ever. All board members should be active ambassadors and friend-raisers and should help others connect the dots to see that your services are in great demand. This is not the time to retreat from public view and wait out the economic storm. Get out of the boardroom and nurture face-to-face relationships with key stakeholders as well as potential stakeholders. Consider increasing your personal contribution to the organization.

### **9. Evaluate your compensation structure.**

What could be worse now than newspaper headlines announcing the names of overpaid nonprofit executives? Benchmark your chief executive's compensation against survey data for comparable organizations. Such information has been compiled by *The Nonprofit Times*, Abbott & Langer, GuideStar, and *The Chronicle of Philanthropy*. Be prepared to discuss your findings with the chief executive.

### **10. Be a mission guardian.**

Finally, ensure that you, your fellow board members, and the chief executive recommit to forwarding your organization's unique mission and ensuring that all important decisions flow from the mission statement. Enacting all of the prior nine points will count for little if you lose sight of the why.

No one has a crystal ball. The economy may only dip, then recover quickly, or we may be headed into a prolonged recession. While we all hope for the former, boards that prepare for the worst – strategically, financially, and operationally – will be in the best position to fulfill their mission now and when recovery does occur.

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## **A POSITIVE SIDE OF HARD TIMES**

A 40-year (1967 to 2007) study of charitable giving patterns as they relate to recessions and economic slowdowns found that while there was an impact on giving, it wasn't as dire as conventional wisdom might assume.

Giving grew an average of 0.8 percent in years with an economic slowdown.

In years with eight or more months of recession, total giving fell an average of only 2.7 percent. Individual giving, which accounted for 80 percent of total giving, declined an average of only 3.9 percent. Foundation giving, which accounted for about 10 percent of total giving, dropped an average of only 0.1 percent. Corporate giving, which accounted for 5 percent of total giving, fell an average of only 1.6 percent. >

Human services organizations showed growth in giving in recessions (0.7 percent) and even higher rates of growth in longer recessions (5 percent). This may indicate an appropriate response to the level of need in difficult times.

*Adapted from "Giving During Recessions and Economic Slowdowns" by the Center on Philanthropy at Indiana University. Giving USA Spotlight, Issue 3, 2008, Giving USA Foundation.*