



GEORGIA CENTER  
for NONPROFITS

*Nonprofit Solutions At Work*

## Should Nonprofits be more business-like?

The superior person, when resting in safety, does not forget that danger may come. When in a state of security he does not forget the possibility of ruin. When all is orderly, she does not forget that disorder may come. Thus his person is not endangered, and her States and all their clans are preserved.

**Confucius**

As nonprofit leaders, we have been living with the reality of the economic downturn for more than a year. We don't need to tell you that demand is up, revenue is down, and in the case of the arts – both are down. What we forget, and what many policy makers and the public don't understand, is that in the period immediately preceding the financial crisis, nonprofits were dealing with the impacts of a national fuel crisis which affected the price of – well - everything. Many organizations who support the working poor, drive vans to camp and day care, feed the homeless, etc. were already feeling their own financial crisis related to the rising costs of responding to these issues. Concurrently, a series of major disasters in the US and abroad occurred that demanded enormous sums of money, time, volunteers and leadership attention. Our community and corporate volunteers and our philanthropic leaders stepped up mightily during this period of challenge as well, did the public.

Why are we focused on this brief history lesson? Because....we forget. As leaders, we often get wrapped up in our belief that the current crisis is the sole cause of our discomfort. If only our donors would give more, if only volunteers would volunteer more, if only the board would engage more, then insert magical outcome here. The reality is that, as nonprofits, we respond to crisis after crisis; we pursue mission with a single-mindedness that often clouds our business brain telling us to put off a program “want to do” in order to resource a diversified fundraising strategy, or we utterly deplete our reserves to avoid layoffs.

One of my favorite business quotes is from Warren Buffet who said, “you never know who is swimming naked until the tide goes out”. For many nonprofits, this could not be more true. A decade of worrying about the ratio of program to fundraising costs; adopting what we consider “business practices” and running “lean” has caused a state of operational anorexia that is taking its toll on communities and causes across this country as nonprofits must step up to and

through the deep challenges before us. A Nonprofit Finance Fund study of the sector's financial performance during and after recession tells a story of our own internal natural disasters – the economy recovers - we don't recover. The study, (available at [www.nff.org](http://www.nff.org)) shows unequivocally that after times of recession, nonprofit finances take up to five years to recover and a large percentage never do.

Therefore, many of us in nonprofit leadership roles are transforming old worn out conversations about being either “more business-like” or “grass-roots” into real practices of creating value. Creating value isn't about being for-profit or nonprofit. It just IS. Creating value and being able to substantiate its creation is not about the ratio of program to fundraising costs – it's about the ratio of impact to all costs. To do this well, to jump beyond the mere activity of being business-like means – for one thing -that we have to get comfortable with nutrition. Feeding our organization the planning, technology, staff skills and management techniques required to thrive and spew “community profits” (i.e. mission impact) is the new orientation that we as leaders need to grasp. The myriad of “business” advice during this period of crisis underscores the need for all of us to regroup and redefine what “nonprofit-business-like” really is. One of my favorite southern colloquialisms to describe uselessness is “it's like eating a water sandwich”. Indeed, the advice given by many of our board, consultants and nonprofit pundits during this period such as “be strategic”, “focus on the mission”, “manage costs wisely” seem to me a giant helping of water sandwich “duh”. *“And then there's the good advice (like “Diversify your revenue streams”) that's good advice the same way “lose weight” and “achieve inner peace” are good advice: the reason we aren't doing it isn't because it hadn't occurred to us”, it's because we have not put sufficient resources into feeding our organizations and it's because our investors pay for today and not for the long haul. Jan Masaoka, from whom the quote above was pirated, had some of the best advice I've heard, which is:*

***Do less with less.*** *Of course there is more need, more demand, and we probably have less money. And we love the gritty heartfelt nature of the cry, “We need to do more with less!” Pause. But it's not only unsustainable, it probably means you will be able to do even less in the future. If a program's funding has been cut by 30%, you may need to do 30% less. The best decision may be to be open fewer days a week, hold fewer performances, or stop taking children over 5. On the other hand, working harder might be necessary, at least for awhile, but only if it's to get to a different business model.*

Nonprofits are challenged inside and out and they continue to respond with grace and power and tenacity. Should they respond by merely being more businesslike? We assert that the answer doesn't lie in being more like another industry, but in becoming more value driven as an industry in our own right. We urge leaders to turn this time of challenge into a moment of transformation about how they conceive value creation to include both mission delivery *and* organizational sustainability for long term impact.

## Tough Times Call for Targeted Leadership Tools

### Leaders turn chaos into a collaborative treasure trove of planning data

Trees Atlanta, a nationally recognized citizens group that protects and improves Atlanta's urban forest, was experiencing the affects of the economy. *“I wanted the board to have a broad view of the nonprofit sector and to have a clear understanding of our position relative to everyone else. I also knew that I needed to have a subject matter expert speak to the board – someone who had the credibility to speak on this subject with authority.”*

And who better to speak with authority than 800 peers! In the fall of 2008, at the onset of the economic downturn, GCN launched The State of the Nonprofit Sector in Georgia quarterly indexing study. The study was meant to provide four critical informational perspectives to executives and boards attempting to plan and respond:

- 1.) A quantitative picture of the financial and capacity impact that the economy is creating in the sector
- 2.) A quantitative view of financial and funding outlook by category to identify leading and trailing trends
- 3.) A quantitative snapshot of how nonprofit employment was being affected
- 4.) Demand trends by subsector.

Over 1000 nonprofit professionals responded and over 83% of these were CEO's.

It was this data that GCN used to present a clear picture of reality to the Trees Atlanta Board enabling them to see how other nonprofits of comparable size and type were navigating decisions, and handling stress in order to benchmark their own processes. Similar presentations were made to other boards like the Junior League, Cobb Family Resources and Good Will Industries as well as to hundreds of groups including GCN's CEO Central alumni.

#### Leaders adjust to reality with expanded skill sets, tools and resources

Propelled by the overwhelming response to the survey and calls from participants for tools to cope, GCN launched a series of responses including a statewide round of multi-day scenario planning workshops; web tools; and podcast tutorials that enabled many to adjust plans and assumptions. Moreover, we reached out to donors with the survey data and recorded a series of interviews about what nonprofits could expect from them. Here are just a few of the ways we responded to nonprofit's need for practical and relevant tools to help them plan and thrive.

- **Clarifying Information** like the Economic Impact Study providing real-time data for decision making and managing change.
- **Donor Insights** via a series of podcast interviews providing up to the minute data on the impact of the current economy on corporate, foundation or individual gifts. And delivering Raising Change, an event focused on identifying methods for raising funds.
- **Practical tools** that support decision making, resource conservation, tactical operational changes and collaborative ideas
- **Free online classes** which address the various elements of management focus in times of change and crisis.
- **Policy and Information sessions** Advising nonprofits on the ARRA stimulus packages, the funding available to nonprofits and how to identify opportunities.
- **Career conferences** focused specifically on helping laid-off nonprofit job seekers connect with nonprofit employers and develop their career plans for the future.
- **Forums** to leverage collective action and wisdom. For example a forum with the chief economist for the southern region at the Federal Reserve who presented the economic outlook for Georgia to nonprofit CEO's and board members.

#### Nonprofit Leaders raise the power of a unified voice

GCN believes in the power of our network. The Impact study was covered in many news outlets, downloaded by countless groups, specifically requested by policy makers like Issakson and Chambliss and Congressmen Lewis, Kingston and many state representative and local leaders; it was also used by area donors to understand, plan and respond. For example, Bank

of America co-presented a free community event with GCN at which other corporate and philanthropic leaders presented plans and viewpoints.

While we constructed the tool and compiled the data, the power of our membership network is evident in the overwhelming response of our CEO's. As a result, more donors are funding operations, more donors have contributed to management needs/capacity needs, the public is more aware of the impact on the safety net, boards are more engaged in strategies for service provision AND sustainable planning. Using the power of our collective network to help nonprofits succeed – that is GCN's mission and that is no water sandwich.

### **The Secrets of Successful Scenario Planning** (Adapted from Forbes, David Niles, 08.03.09)

In business, as in life, real outcomes often don't follow the averages. Yet much of nonprofit strategy and finance is planned as if they always did. Far too many organizations make strategic and financial planning a routine exercise. They take last year's budgets and results and assume some modest variation from the mean. Even when they do regular scenario planning they fail to delve deeply into their operations, or look at how multiple events might interrelate (for instance, increased energy costs and their impact on interest rates, which in turn would likely affect the cost of capital for one's donors and their businesses).

From an investor/donor's perspective, the idea of planning for low-probability, high-consequence events is well treated in Nassim Nicholas Taleb's book *The Black Swan: The Impact of the Highly Improbable*. Taleb's method is very similar to what CEOs need to be doing--understanding the key leverage points of their economic models. For instance, many executives don't take the time to understand what alters the demand patterns of their customers, or what their investors' ultimate incentives are. Just that kind of misjudgment left many groups stranded in the fall of 2008, when the commercial paper markets dried up. They found themselves in a scramble for liquidity; they had to slash investments, hold back their strategies and shift their attention from their customers to their balance sheets.

By relying on simple variations on the mean, organizations effectively homogenize the data they get, and they miss crucial key information. When you average out your customers' demand, you lose sight of those customers' key decision thresholds. Which ones will buy tickets from you tomorrow or access your services and why? What does that say about their changing needs? Similarly, when thinking about competition, you can't just model out where your competitors were last year in terms of pricing and service. You have to discern where you think they'll be in the future.

These ideas may not sound revolutionary, but very few nonprofits show the discipline to create scenarios and measure probabilities for large but unexpected market changes.

Try it yourself. Start thinking about the four or five key assumptions you make in your forecasts. What will happen with your suppliers/partners? Why? What will happen with your customers? With your competition? Why? Then apply a probability to each scenario, based on your impression of the

likelihood of its occurring. Probabilities allow you to start to balance resource allocation to the most likely outcomes while not ignoring the possibility of others.

Lastly, look across those scenarios. What are their key themes and underlying drivers? When you do that you can model other scenarios and, just as important, set a focus on leading indicators that will help you prepare for different eventualities. I think you'll find that the result is a deeper understanding of your business, and greater agility. By better evaluating specific possible outcomes, their probabilities and their underlying drivers, you can greatly improve your company's ability to see around corners and prepare for the future.

### **Additional Resources for You**

You can view a summary report of The State of the Nonprofit Sector in Georgia survey here: <http://www.gcn.org/Learn/ToolsforToughTimes.aspx>

We created a special section of our website entitled "[Tools for Managing and Governing Through Tough Times](#)" that is dedicated to providing you with ongoing access to the above mentioned resources.

GCN and Opportunity Knocks created an HR tool set of 180 forms from severing employment to hire letters to help nonprofit managers comply with legal and regulatory issues.

Nonprofit University ® has partial scholarships available on a first come, first served basis. To view the full roster of available courses, go to: [www.gcn.org](http://www.gcn.org) You can also contact [nu@gcn.org](mailto:nu@gcn.org) for more information or to access the scholarship application.

Complimentary insurance consulting is available to all GCN members – at no charge. Contact [cw.copeland@gcn.org](mailto:cw.copeland@gcn.org) and he can advise you on how to lower your insurance bills.

### **GCN: Nonprofit Solutions at Work**

The Georgia Center for Nonprofits is often the first place that nonprofits across Georgia turn to for information and resources that they need to manage and govern effectively. Most of you have been part of the GCN family for many years. We wanted to let you know that we are here for you and we remain committed to a strong nonprofit sector **making an impact** on communities across Georgia.

Please call on us if we can assist you or your nonprofit organization.