Building Nonprofit Resilience: Responding to Early Signs of Stress

November 17, 2022

In this multi-part series, we highlight strategic steps that nonprofits can take to build organizational resilience in three different phases of their life cycle — in times of health, when beginning to experience financial or other challenges, and in times of distress.

In our first installment, we discussed nonprofit strategy in times of financial and organizational health. In this second installment, we explore strategic steps a nonprofit can take to build resilience when there are early signs of organizational stress. A nonprofit organization will often experience multiple mild stresses before slipping into a state of distress, and much can be done at this stage to avoid further damage and to build organizational strength.

A variety of circumstances can cause stress on a nonprofit: the loss of a major funding source, rapid growth, the retirement of a founder or long-time leader, fundraising not keeping up with program growth or inflation, or program expansions that have resulted in mission creep, to name a few. The COVID-19 pandemic and rapid inflation have impacted almost all nonprofits in some way, although the effects have varied widely.

Early signs of organizational stress may manifest in a variety of areas, from finances to operations, staff morale, constituent satisfaction, or board engagement, and they often feed into each other. For instance, multiple years of missed budgets due to lagging fundraising may result in a nonprofit's leadership making difficult decisions, such as reducing or skipping pay raises for staff, delaying maintenance or improvements of facilities, or putting off investments in program development. Board meetings may become dominated by anxious conversation about balance sheets and the direction the organization is heading. Staff may feel unappreciated, under-resourced, or worried about job security. Eventually, these problems will begin to impact constituent experience and satisfaction. Responding proactively to these early signs of stress can help avoid serious financial distress and potential closure of a nonprofit organization.

Regardless of the cause, there are a number of steps that nonprofits can take to steer themselves from a position of organizational stress to organizational stability and strength. Key to any response will be an engaged board and staff leadership, and an openness on the part of both to conducting an honest assessment of organizational strengths and weaknesses. Although addressing signs of stress may require some tough decisions, when executed well, the decisions will pay off in dividends in the long term as the nonprofit builds to a position of strength. This article provides some strategies for responding to early signs of financial or organizational stress.

1. Know Thyself, Continued…Assess the Strengths and Weaknesses of Key Programs and Services

In our first installment, we discussed the simple and effective step of conducting a wellness and compliance check to place the organization in a position to take advantage of emerging opportunities. This type of internal assessment is also an important tool in responding to stresses, financial and otherwise. Specifically, a strength, weakness, opportunities, and threats (SWOT) analysis can provide the basis for an action plan to identify and address areas that are negatively impacting a nonprofit. Depending on the size and complexity of the nonprofit, it may be worthwhile to engage an outside consultant to assist with this analysis, but if that is not feasible, the board and key staff can lead this effort. The SWOT analysis should analyze both programs and services and their funding sources. As a nonprofit grows and shifts its programming, and as funding sources change over time, the organization may not realize the extent to which it is dedicating resources to under-funded and less mission-critical programs or services. These programs or services may be low-hanging fruit to phase out or transfer to another better-suited organization, thus permitting the organization to strategically redirect those resources to other activities. And, the nonprofit will likely identify areas to focus on for future growth.

2. Examine the Organizational Chart

A fresh look at the organizational chart, especially in concert with the outcomes of a SWOT analysis, may offer ways to both save money and optimize services. Whether organizational strain is from growth, contraction, or change, revisiting the organizational chart and creating a restructured staffing plan that meets the current and forecasted program needs of a nonprofit, as well a plan to finance all of those positions, will provide helpful guidance for fundraising and grant-writing. Although it may seem counter-intuitive to focus on increasing numbers or competencies of staff during difficult financial times, if a nonprofit's staffing does not meet the needs of the organization, this alone will hamper any progress toward organizational strength. It is important to at least develop a plan for optimal staffing, even if it cannot be immediately realized. In the long run, with strong planning the nonprofit will be setting itself up for successful growth. There may also be opportunities to add capacity without adding full-time staff; for example, especially in the areas of human resources, accounting, and grantwriting, a nonprofit may be able to share an employee with another organization or efficiently contract for those services.

3. Examine Board Composition and Structure

As an organization evolves, so must the board. Organizational strain is likely to occur if the board remains the same while an organization experiences significant changes, such as rapid growth or the loss of a founder or long-time leader. The skills and competencies sought from prospective board members should be examined regularly to ensure that the board meets the needs of the organization. For example, a nonprofit in its infancy or startup phase may seek board members who have a strong commitment to and understanding of the mission, have experience with the operational areas of the organization, and have significant time to devote to operational needs, because a startup board may be called upon to be much more hands-on than a board of a more established nonprofit. On the other hand, a more established nonprofit may prioritize identifying potential board members with skills in strategic planning, board governance, or risk management, and who have strong community connections that can bring resources for growth. In times of financial stress, it can be particularly helpful to have persons on the board with significant experience in accounting, finance, and fundraising. The board should also periodically examine whether the number of positions on the board, length of board terms and term limits, and/or the board committee structure, should be revisited as an organization changes and grows. By identifying whether there are gaps in critical competencies on the board, or if there are tweaks to the organization's governance structure that would assist the board in its analysis and decision-making process — and then implementing those changes — a nonprofit can position the board for robust analysis and healthy, informed decision-making with respect to financial stresses at hand.

4. Look for Opportunities to Reduce Costs and Increase Efficiencies

If a nonprofit is consistently missing budgeted goals with no single clear culprit, it may be time to look closely through the expense side of the financial statements for opportunities to reduce costs. For example, a nonprofit might consider the following:

- If occupancy costs are high, are there opportunities to negotiate better terms with your landlord or move to a less expensive location that offers similar or better amenities? The increasing popularity of working from home may mean opportunities for better deals on office space.
- Are you paying for services you no longer use or need? Look for recurring subscription fees you can cancel. If you entered into a contract that no longer suits your needs, examine the term and cancellation provisions to determine whether you can terminate without penalty or with minimal cost. For significant or unusual contracts, it may be beneficial to consult with an attorney about your options.
- Are there opportunities for cost savings with your vendors? It may be time to review your vendor list and bid out services for more competitive rates. Board members may be able to provide valuable connections for reduced-cost services.
- Are there opportunities to collaborate to share costs? In the first installment, we discussed the "collaborations arrow," and this continues to be relevant in addressing financial or organizational stress. There may be opportunities to share expenses for program delivery, staffing, training, space, etc. with another organization, to help reduce overall costs without compromising the mission. Collaboration may involve a limited scope of agreement — for instance, agreeing to collaborate for service delivery for one program or sharing back-office staff, a complete integration of organizations through a merger or

acquisition, or something in between. A nonprofit that has less than stellar financials will likely have reduced leverage in negotiations, but this does not mean that collaboration partners and funders will not recognize the strengths that a nonprofit brings to a collaboration. And, taking steps to address financial strain through collaboration signals to funders that the nonprofit is proactive and not waiting for the situation to become dire before taking action.

- Is debt expense eating up cash? Even if it is painful, prioritizing paying down debt will pay off down the road.

***

Stay tuned for an upcoming installment of our *Building Nonprofit Resilience Series*. If you have questions or would like to discuss these matters, please contact Catie Bitzan Amundsen at Catie.BitzanAmundsen@lathropgpm.com.