Building Nonprofit Resilience: Strategic Steps in Times of Health

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

The past few years have tested the limits of nonprofit program design and organizational strategy. Nonprofits have navigated a global pandemic, a strong call to focus on racial and social justice, growing economic distress in our communities, and unanticipated changes in funding sources. The confluence of these forces has not affected every part of the nonprofit sector equally — while the turbulence has led to financial distress for some nonprofits, others appear to be weathering it relatively comfortably. In any event, recent circumstances have caused many in the nonprofit sector to reassess how they can build resilience amidst change and unpredictability in order to secure their missions for the long term.

This first article in our Nonprofit Resilience Series considers nonprofits who are financially and organizationally healthy despite recent challenging times, including those who may have experienced a buoyed donor base or increased access to other funding resources. These nonprofits may be considering how to pursue potential opportunities for expanding their impact. This article explores several strategies for building organizational resilience when proceeding from a position of strength.

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1. Recognize the Opportunity

Nonprofit organizations that are strong financially and organizationally face a time of great opportunity in the next decade. These organizations will be attractive partners for impact-focused collaborations with other nonprofits, government, and potentially private individuals or businesses. Other opportunities will arise with new and expanded funding sources and calls for establishing new programmatic focus areas.

To take advantage of these opportunities, a nonprofit's board and executives need to be able to recognize them. Management should shift from a defensive position (necessary for many nonprofit boards in the last several years) to a more proactive mindset that seeks out potential collaborations, funding sources, and

programmatic expansions and regularly brings them back to the board for strategic consideration. Over time, this can develop a culture of forward-visioning and flexible thinking that can lead the nonprofit to its Next Big Thing — and the one after that.

2. Know Thyself: The Wellness and Compliance Check

One of the simplest, yet effective steps a nonprofit can take to position themselves to take advantage of these new opportunities is to make sure its own "shop" is in order — including governance, operations, legal and tax considerations — so that when a potential opportunity comes along, it can move quickly with confidence and from a position of strength. One way to accomplish this is by conducting a "wellness check" of the organization's governance structure, strategy, and compliance. These may include the following inquiries, for example:

- Do we understand our nonprofit's assets?
- Do we understand our finances?
- Are we following our strategic plan?
- Is our governance structure an ideal fit for our organization?
- Are our governing documents consistent with how we take actions, do they reflect best practices, and are they aligned with our long-term mission and goals?
- Do we have any major compliance risks? How are we managing that risk?

Knowing the answers to these questions — and taking action steps where needed to strengthen these areas — will put the nonprofit ahead of the game in pursuing opportunities for growth and impact. This type of review can flag material liabilities or compliance gaps that otherwise would present barriers to such opportunities, and give the organization a chance to fix them.

3. Identify and Leverage Your Unique Assets

The nonprofit should identify the unique assets that make it particularly good at achieving its mission and impact. Think broadly about what constitutes an "asset" — it may be physical assets or real estate, intellectual property, deep expertise of staff, community relationships, a special sector of the population that the nonprofit is well-positioned to serve, or other assets. These are the nonprofit's "superpowers."

Then, harness those superpowers by weaving them into the nonprofit's branding, community, and donor communications, and ultimately into the nonprofit's strategic direction and how it evaluates potential opportunities, such as partnerships. For example, a college might serve a student population that is particularly diverse from a racial, ethnic, and socio-economic perspective. Currently, a number of higher education institutions are struggling with increasing the diversity of their student body. This college's superpower is its student diversity — and it may be particularly attractive to another higher education

institution to collaborate on joint programming that would serve both student populations, with the benefit of involving more diverse student participation.

4. Think Creatively about Strategic Collaborations

In the nonprofit world, it's "not just M&A anymore." There is a full spectrum of collaborations, affiliations, and joint ventures with creative legal structures whereby multiple parties can together achieve a greater good.

Some lesser-known forms of collaboration can help nonprofits leverage their unique assets, expertise, and capabilities in a way that a simple full combination may not. Factors such as funding opportunities, relationships with donors, carefully targeted missions, and other dynamics may weigh in favor of these limited collaborations.

The nonprofit's board and executive leadership should regularly assess and consider who the nonprofit can partner with, keeping in mind the diversity of "collaboration" structures available.

Consider the "collaborations arrow" below:

- **Independent Collaboration Models**

  On one end of the spectrum (at left) are collaborations that involve a modest degree of commitment, such as a services agreement or contractual joint venture, and allow nonprofit partners to leverage the strengths of their partner. Consider what efficiencies the nonprofit can gain — or what communities it can serve and serve better — by a method short of combining organizations. This may include combining back-office operations or engaging in limited joint programming at the intersection of the nonprofit's mission and the mission of its partner.

  For example, two nonprofits may provide similar services or serve the same community. While one organization's strength might be that it is place-based and has deep community connections, the other organization might be larger and have access to greater financial resources. By working together to pursue a joint program, share space as an outreach site, or pursue another collaboration, both nonprofits can benefit from the unique assets of the other while expanding their own reach.

  Nonprofit partners may choose to apply for funding to work together on the new initiative, which can be appealing to grantmakers. This type of small collaborative step can also be a useful way to try out a potential relationship with a partner with hopes of pursuing a more integrated relationship over time. A contractual affiliation also avoids the complexity of creating, owning, and operating a new legal entity, is a relatively simple method of achieving a certain level of integration, and does not require the risk

associated with combining all of a partner's operations.

- **Interdependent Collaboration Models**

  The center of the collaborations arrow describes a more interdependent relationship where the venture itself will provide services. In these circumstances, a legal entity is generally organized to jointly operate the venture. This entity can provide liability protection for the nonprofit participants, and through ownership in the joint venture, each party shares the risks, rewards, and responsibilities for governance and operations.

- **Integrated Collaboration Models**

  Finally, if organizations desire a greater level of integration, they may be willing to closely combine (the right end of the arrow). This may involve some continued legal separation, with one entity becoming a wholly owned or controlled subsidiary of the other. At the furthest extreme of the integration spectrum, two entities may choose to combine their identities through a statutory merger or asset transfer, each of which substantially combines the assets, liabilities, and operations of the organizations going forward.

  A nonprofit with strong financial and organizational performance will have substantial leverage in an integrated collaboration model. This might enable the nonprofit to negotiate, for example, retaining its branding across the entire new venture, obtaining a majority of seats on the board, and/or being positioned as the acquiring entity. It also helps support substantial commitments to continued focus on the nonprofit's core mission. It also underscores the importance of performing careful and thorough due diligence on its collaboration partner to ensure that the nonprofit's assets and operations are properly protected. Some of this risk can also be managed through the legal structure of the affiliation, such as by retaining the acquired nonprofit as a separate legal entity or using an asset transfer model instead of a legal merger.

5. Increase Financial Sustainability

Whenever possible, a nonprofit should proactively seek funding solutions that will support financial sustainability for the long term. The size of many grants, and the hurdles and reporting requirements attached to them, often don't align with the results that grantmakers seek.

Grantmakers are continuing to recognize that more flexible approaches will fuel nonprofit success — such as providing general operating funds, larger grant amounts, multi-year funding commitments, and support for capacity building and leadership development. Others are releasing grant use restrictions and caps on overhead amounts. Capacity-building grants also provide nonprofits with the opportunity to build certain core capacities in order to deliver results. This includes building strong leaders, financial management,

performance measurement and technology, along with supportive skills such as communications and relationship-building.

Nonprofits are increasingly making their voices heard to request these types of flexible funding. This also presents an opportunity for the philanthropic sector to adapt its grantmaking to uniquely support nonprofit financial resilience.

6. Prioritize Development of Future Leaders

Finally, in times of health it is critical to attract, retain, and support the development of strong nonprofit leaders. Robust leadership is a key distinguishing factor of effective nonprofit organizations. A nonprofit organization's resilience and ability to successfully navigate change depends in large part on its people. But for many nonprofits, there is not sufficient time or resources to make their talent and leadership needs a high priority.

Nonprofits who do have capacity are uniquely turning their focus to investing in leadership development as a way to strengthen their long-term performance and impact. They are developing a deep pool of talent, building a living and adaptable succession plan, providing a breadth of learning opportunities to leaders, developing a leadership team that inspires those around them, and bringing in expertise to advise the nonprofit on leadership development and succession management. In this way, a nonprofit can serve immediate community needs as well as build resilience in its organizational leadership into the future.

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Stay tuned for upcoming installments 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.