

Managing for Resilience in a Crisis

Introductory Seminar

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Nonprofits need a new way of managing

- Crises are the new normal
 - Economic recessions
 - Pandemics
 - Social unrest
 - Sudden political change
 - Environmental catastrophes
 - Organizational scandals
 - Combinations of the above
 - Others? We may not even be able to imagine what may be next.
- Nonprofits are fragile and unprepared for crises; many are being lost as we speak; emergency rescue efforts can be too little and too late
- Traditional nonprofit management approaches emphasize *efficiency*. What is really needed is *resilience*

The current crisis illustrates nonprofits' vulnerability

- In Ohio, 8 percent of sampled nonprofits have shut down operations indefinitely and another 10% are considering doing so; 14 percent have cut or furloughed staff. (Ohio Nonprofit COVID-19 Survey, Wave 2)
- Nationally, more than three quarters of surveyed organizations report a drop in revenues (LaPiana and Independent Sector)
- 7% of nonprofits are expected to close due to the pandemic with a loss of 1 million jobs (Independent Sector). 7% expected to close (median) with a minimum of 3% and maximum of 38% (Candid scenario analysis)
- The number of donors hit a 19 year low in May 2020 (Gallop poll; reported by Independent Sector)
- 61% of nonprofits reduced client services; 75% experienced reduced earned revenue; 50% faced reduced gift income; 27% faced reduced governmental revenue; **60% say they face long term financial instability** (Nonprofit Finance Fund Covid-19 Survey)

Crises: what could happen and how might nonprofits be affected? (just to cheer you up).



Are you ready?

- Natural disasters mostly or totally out of our control
 - Earthquakes, wild fires, asteroid and comet strikes, stellar explosions, solar flare-ups, volcanic eruptions, tsunamis, hurricanes, etc.
- Anthropogenic disasters partially, potentially controllable or preventable by society
 - Climate change, war, nuclear accidents or conflicts, pandemics, terrorist attacks, unaligned artificial intelligence, wide scale system failures (power, water, sanitation, communications system, computer and social media networks), market disruptions (supply chain interruptions, resource shortages, price spikes, general inflation, recession/depression), political crises – international and domestic, social unrest, technological obsolescence
- Organizational catastrophes – sudden and unanticipated; essentially confined to the organization
 - Scandal, loss of leadership or other key personnel, fire, theft, unexpected loss of sponsors or funders, lawsuits, internal systems failures (payroll, purchasing, physical plant, IT, utilities), labor strife, staff illness, quality or safety failures, loss of accreditation, failure of regulatory compliance
- Importance of assessing the probabilities of such occurrences and the magnitude of impacts if they do occur; and what preventative, ameliorative actions can be taken (risk management)
- See Toby Ord, *The Precipice*, Hachette Books, 2020 (In case you're skeptical.)

Efficiency drives contemporary nonprofit management thinking

- Nonprofits are expected to be efficient in the sense of producing the greatest possible mission-related impact with available (read minimal) resources at all times
 - Mantras of cost/effectiveness, managing for outcomes, etc.
 - Low overhead – minimal fund raising and administrative costs
 - Social return on investment
 - Minimal or no “profit”
 - Tight budgets
 - Limited salaries and benefits
 - Minimal reserves
- Funding institutions, ratings agencies, training programs, texts, and even many graduate nonprofit management education programs promote this *orthodoxy of being maximally efficient, all the time*
- This efficiency orientation favors short-term thinking, assumes environmental stability and leaves nonprofits *fragile*
- Efficiency and effectiveness are not inappropriate per se, but must be interpreted in the context of risk and the long run

How would Resilience-driven nonprofit management be different?

- It would ask “what if?” and prepare accordingly, including scenario planning
- It would prepare nonprofits for the long run and for a variety of contingencies, anticipated and unanticipated
- It would focus on understanding the nature of *risk* and the strategies available for coping with different kinds of risk
- It would focus on a variety of ways in which nonprofits can protect themselves from risk, and choose appropriate levels of risk-taking
- It would identify and operationalize a robust portfolio of strategies for *absorbing shocks and adapting to new circumstances*, including cost and revenue, asset and liability, technological, human resource, entrepreneurial leadership, and networking strategies
- It would incorporate measurement systems for detecting the threat and onset of crises and successfully coping with crisis conditions

The importance of *organizational slack*

- *Organizational slack* is not a pejorative term!
- Leading organizational and management scholars have highlighted the importance of organizational slack in assuring the proper functioning of organizations:
 - Albert O. Hirschman in *Exit, Voice and Loyalty* shows that a degree of slack is necessary to allow organizations to react positively to criticism and adjust to new conditions; too much slack leads to unresponsiveness; too little causes organizational failure because the organization loses external support before it can recover
 - Richard Cyert and James March in *The Behavioral Theory of the Firm* describe how businesses really work, depending on rules and procedures that are necessarily inefficient but critical to survival and growth, coping with internal conflict, and permitting adaptation to environmental uncertainty

Think of organizational slack as a set of *shock absorbers* that can be activated under stress

- Financial reserves and lines of credit that can be tapped in emergencies
- Costs that can be reduced without fundamental damage to organizational capacity
- Alternative sources of income that can be cultivated to make up for shortfalls in other sources (income diversification) and sources of income that are insensitive to crisis conditions (fixed income)
- Alternative technologies that can be exploited to compensate for interruptions in usual methods of service delivery
- Redundancies in staff capacities that can be exploited when reductions in force are necessary
- Entrepreneurial capacity to create new services and resources when conventional operations are threatened
- Network and collaborative relationships and “safety nets” that can be cultivated for when help is needed or when new efficiency savings can be achieved

Resilience-focused nonprofit management would....

- judge its success by how well organizations survive and thrive over time and through crises of various kinds
- cultivate multiple, specific strategies for ensuring organizational slack appropriate to mission
- be alert to risks associated with its particular mission and circumstances and design appropriate “red flag” warning systems and “stress tests”
- be alert to new opportunities stemming from crisis: “You never let a serious crisis go to waste...It’s an opportunity to do things...you could not do before” Rahm Emanuel

Just a few of the many illustrations of resilience in Cleveland area nonprofits during the coronavirus crisis of 2020

- Playhouse Square: accumulated a large reserve fund to weather closure of its theatres and pay its fixed costs
- Girl Scouts of Northeast Ohio: relies on volunteer labor and shared salary reductions to maintain operations with reductions in force; moves programming on-line
- Edwin's Leadership and Restaurant Institute: compensates for loss of in-person dining with expanded take-out, curbside pickup and home delivery engaging its own drivers, Door Dash and UberEATS; special "4 meals for \$40" deals; appeals to donors; and sales of gift cards

Take-aways from current experience

- Nonprofits are *diverse* in the exigencies and risks that they face in a crisis, and require *different solutions*
- Nonprofits have multiple sources of resilience on which they can draw. These include:
 - Drawing down on **emergency reserves and lines of credit**; selling excess marketable assets
 - Finding ways to **improve cost-effectiveness of current operations**
 - Opportunities to reduce variable costs and **convert fixed to variable costs**, including facilities costs and staffing
 - Opportunities to change relative reliance on different sources of income and to **diversify income**
 - Opportunities to **change or supplement technologies** for providing mission-focused services
 - Securing help from **safety nets** including government, philanthropy, and federations and other networks
 - Opportunities to **share burdens** among stakeholder groups including staff, board and members
 - Opportunities to share staff responsibilities through **skill redundancies and engaging volunteers**
 - Opportunities to generate new resources by **exploiting underutilized assets and entrepreneurial skills** to respond to new crisis-generated demands
 - Opportunities to **collaborate** with other nonprofits to achieve greater efficiency, capacity and resilience

Questions for audience members to contemplate;
(respond during the Q&A after the presentations of
Noha, Brian and Mark)

- What sources of resilience has your organization drawn upon to cope with the pandemic and its economic consequences?
- If you could have anticipated the pandemic, what would you have done to prepare for it?
- What organizational vulnerabilities did the pandemic reveal? What will you do to have your organization become more resilient in the next crisis?

Guest presentations

- What different resilience strategies have they engaged in the pandemic?
How has this prepared them better for the next crisis?
 - Cost-based strategies?
 - Revenue-based strategies?
 - Asset and liability strategies?
 - Technology-based strategies (in the broad sense)?
 - Collaborative strategies?
 - Human-resource management strategies?
 - Entrepreneurial strategies?
- Apollo's Fire (Noha Ryder)
- Jewish Community Center of Pittsburgh (Brian Schreiber) and Jewish Community Centers of North America (Mark Young)

Summary remarks: how can nonprofits be resilient? Let us count the ways!

- *Healthy balance sheets with sufficient liquidity and reserves*
- *Minimal fixed costs and ability to shift costs among profit centers*
- *Diversification of income sources and cultivation of fixed revenues*
- *Alternative and redundant technologies*
- *Supportive networks and collaborations; safety nets; potential economies of scale and scope*
- *Flexible human resource strategies*
- *Entrepreneurial capacity and mindset*
- *Good fortune!*

On the horizon for NCNE and the Mandel School

- A certificate program in nonprofit crisis management:
 - Required Modules
 - Understanding Risk
 - Understanding Organizational Resilience
 - Take two (or more) of the following Elective Modules
 - Cost-related Resilience Strategies
 - Income-related Resilience Strategies
 - Asset and Liability-related Resilience Strategies
 - Technology-related Resilience Strategies
 - Human Resources-related Resilience Strategies
 - Entrepreneurial Resilience Strategies
 - Network-related Resilience Strategies
 - Red Flags and Stress Tests for Nonprofit Resilience

Become a member of NCNE and
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program and other benefits!
<https://nationalcne.org>

Thank you!



And finally, a word of encouragement in these difficult days

- <https://www.youtube.com/watch?v=ifNygcpM4k8>