

The impact of the economic downturn on the nonprofit sector

Highlights of challenges, ideas and opportunities from a roundtable discussion among leading New York nonprofits December 2008

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The US economic crisis is impacting the nonprofit sector in unprecedented ways, forcing organizations to take a hard look at the way they do things—from the smallest of operational details to, in some cases, redefining organizational missions.

The US economy has entered a complex phase as the nation works to repair the financial system and business landscape. What are nonprofit organizations doing to address the difficult challenges that have arisen? To find out, Accenture joined with Crain's New York Business to facilitate a half-day roundtable discussion with the leaders of thirteen major nonprofit organizations located in New York City to candidly discuss current challenges, share ideas and learn from others' experiences. This paper presents the highlights of these discussions, that converge around four key themes of the session: (1) collaboration and organizational structural excellence, (2) impact measurement, (3) internal communications and (4) how unique challenges present opportunities in New York City for nonprofits.

As the nation's financial center, New York City has been hit especially hard by the economic downturn, which has, in turn, impacted the city's nonprofit organizations. The numbers are staggering. Wall Street's record-breaking boom of 2007 has ended in one of its biggest busts during 2008. The subprime crisis at Wall Street firms triggered \$82 billion pretax losses at the end of March 2008. The broad financial activities sector (including real estate employment) is expected to lose more than 33,000 jobs from the 2007 peak through mid-2009. And, after hitting 3.745 million jobs in 2007—the highest level since 1970—the average number of New York City jobs is expected to slip to 3.734 million in 2008 and fall even further in 2009.¹

¹Crain's New York Business, 2008 City Facts, <http://www.craainsnewyork.com/apps/pbcs.dll/section?category=cityfacts2008&profile=credits&nocache=1>.

Current Challenges

The impact of the current economic crisis and the unknown depth and duration of a recessionary economy are among the most pressing concerns among nonprofits. Organizations anticipating cash shortages or liquidity issues are trying to figure out contingency plans and new, sustainable business models for the next six months to two years. Related challenges include how to maintain continued excellence amid a sharp drop in funding, donations and revenue overall.

Nonprofit organization self-preservation challenges have risen to new levels. Some organizations are refocusing their missions and redefining what makes them unique in terms of the services they provide. It is an evaluation process that focuses on the core functions nonprofits provide to ensure continuity and survival, while shedding nonessential activities. In addition, nonprofits need to take actions to determine how to best move forward and change. They also need to craft

messages within the organization to help retain essential employees and continue to maintain morale.

Other key points from the session's discussion were broadly categorized around the four previously mentioned themes. Nonprofits of all types can benefit from the suggestions and ideas presented.

Collaboration and Organizational Structural Excellence

Recessions are a time to consider collaborating with other organizations to lower operational costs and to focus finite funds on the necessary infrastructure to support essential activities. Collaboration can take many forms. It may involve combining back-office operations with another nonprofit organization, or it can mean partnering with a government organization or an entity to share strengths and respon-

sibilities to better carry out a nonprofit's mission. Tough times call for taking a closer look at ways to excel at internal operations and better execute services, thus freeing up funds. Rethinking processes, organizational infrastructure and governance can help nonprofits bring about greater efficiencies and apply best practices that will help sustain them through uncertain times.

Collaboration with other nonprofit providers is one way to lower operational costs and leverage strengths, but each partnership should be carefully evaluated. The economic downturn is driving nonprofits to look at market pressures that, in turn, are driving the need for consolidation and efficiency of various services, such as back-office operations. Given the nature of the nonprofit market, however, each partnership is unique and needs to be carefully weighed. In the process,

they should consider moving away from operating in silos and instead think how best to leverage relationships with other related nonprofits as well. Rather than spending money individually for the same things, organizations can benefit from synergies by collaborating more in general across common areas such as accounting or human resources.

At a high level, organization leaders generally can agree on the idea of partnerships. But when it comes to forming them, every organization has its own interests in terms of partnership.

Collaboration and discussion are necessary at multiple levels of an organization, including the board of directors. When multiple organizations seek partnerships with the same pool of target entities, it makes sense to look at common areas where resources and efforts can be combined. Instead of each organization individually spending money on such efforts, potential synergies can be achieved by coming together. For example, to execute initiatives such as health awareness, conferences or educational programs, nonprofits can make these initiatives happen by partnering with companies, research foundations and other such entities. When coming together, each organization brings its strengths to the table.

Going forward, nonprofits need to determine how they can share resources across organizations to make finite money from partnerships work harder. And overall, it is important to not focus on one individual organization, but to do what is best

for the greater common good and to foster that mindset continuously.

In addition to partnerships, organizational consolidation is a strategy and opportunity to achieve collaboration and structural excellence.

Some nonprofits may need to merge with others to survive. Boards and leadership need to look and address the issues early while determining the path to consolidation. It is important to keep in mind shared values, trust and sharing of the same overall objective in the face of cultural differences to succeed.

One way to strive for structural excellence in tough times is to reevaluate the organization's priorities and core activities and focus on the problems that need to be addressed.

During tough times, every organization must look at itself in depth and determine whether it is doing its work effectively and whether what it is doing is sustainable. This is the time to reevaluate all activities, eliminate nonessential ones and hone in on those that will provide the greatest impact to those in need. A related exercise is to look at ways to provide value-added services to deliver more on the mission. Identifying and executing a particular value-added service that is aligned with an organization's mission can also help improve operational excellence. One organization, for example, dropped a service it provided when it realized its service was redundant with another organization that was already effectively providing the service. This decision helped the orga-

nization more effectively deliver on its mission. Short of merging with another organization, a nonprofit can get to know what other private- and public-sector organizations are doing and identify the services the nonprofit can provide to help and to create a win-win situation for all involved.

Reexamine the way money flows through an organization's system.

Money in the nonprofit sector is transaction based and costs are carefully monitored in a way that no other industry experiences. In the nonprofit sector, 15 to 45 percent of the revenue pool can be spent on tracking the status of dollars. A good amount of money is also spent on managing day-to-day operational activities, such as the processes around fundraising. Streamlining processes around funds tracking and operational activities would lower costs that would free funds that could be allocated toward the mission of the organization.

In some instances public expectations need to be recalibrated.

While the public's expectations around efficiency and effectiveness of services need to be met, nonprofit organizations need to clearly articulate the goals of their missions so that they can avoid having to deliver on services that are too expensive. One organization addressed some of these issues by moving away from project-based grants to general operating support. The organization also is focusing on two or three mission-based areas, and has turned down funds outside those areas.

Impact Measurement

The pressure for greater accountability and donors is inevitable. Being able to delineate between measurable outcomes and social outcomes helps nonprofit organizations measure their activities effectively and ultimately maximize the impact of what they want to achieve. Measuring impact effectively also fosters new levels of accountability and thus frees leadership to concentrate on their strategies for growth.

Accountability and measurement are important factors in the nonprofit sector.

Nonprofits of all types need to recognize the reality that demands are growing for greater accountability and performance, and that this is a trend that is here to stay.

A framework or model to measure effectiveness would help nonprofits better achieve their mission.

There is a need in the nonprofit sector for a standard measurement framework that each organization can use to measure its effectiveness in carrying out its mission. A critical element of the measurement process

is being able to identify the unit cost of delivering a basic service. Separately, in the nonprofit health-care sector in particular, there is a huge movement toward a pay-for-performance-based system.

There needs to be accountability, but not everything can be measured.

While accountability is important, it is also recognized that much in the nonprofit sector is immeasurable, such as quality-of-life improvements or a child's laugh.

Internal Communications

Internal communications are crucial in tough times. Below are some steps some organizations are taking:

Keeping staff informed.

At a time when funds are sharply diminishing for most nonprofits, candid internal communications is essential to retain effective services and staff. Ways to keep staff informed include regular newsletters, regular or monthly departmental meetings and one-on-one breakfast with staff members. One organization's newsletter, for example, is straightforward in its messages and spells out where cost cutting is occurring. Regular meetings bring

everyone one in the same room at the same time. And one-on-one breakfasts provide an opportunity to talk individually with staff members about the current environment.

Regular communication is essential, especially from the top.

In a fluid environment, people will want to be informed about what is happening with the organization, the status of the organization, what steps leadership is taking and what things staff can do to better support the mission. Frequent communication keeps people in the know and helps morale, leaving people feeling more energized and

engaged. All organizations are concerned about keeping key staff and recognize the need to generate more communications with that group to acknowledge their importance to the organization and to foster shared goals, a spirit of teaming and inclusion. Recognition of efforts, big and small, at all levels of the organization also helps to boost morale and keep people motivated. While it is helpful to acknowledge current challenges, leaders must also remember to reinforce the organization's mission and promote positive accomplishments.

How Unique Challenges Present Opportunities in New York City for Nonprofits

According to Charity Navigator, “No other city comes close to having as many charities as New York.”² The numbers tell the story: New York City is home to nearly 27,500 registered nonprofits, including 562 large charities and the highest concentration of international charities compared to other US cities from 2000-2001. New York City nonprofits serve 2.2 million people in the area and account directly for \$43 billion in annual expenditures. Nonprofits account for more than 528,000 jobs or 14 percent of New York City’s employees, and an annual payroll of more than \$22.7 billion.³

New York City offers breadth and depth to organizations.

New York City’s large and diverse population offers nonprofits a plethora of opportunities. The city also offers a diverse workforce speaking a wide range of languages, as well as a diverse range of clients.

New York offers many volunteers.

Nonprofits have an opportunity to use the resources of their volunteers, especially since 9/11 and during uncertain economic times. People want to come together and support others.

On the flip side, attracting and retaining talent can be an issue because of the high cost of living in New York.

New York used to attract college graduates, but this trend is declining because of the city’s high cost of living.

²Charity Navigator, www.charitynavigator.org.

³The NYC Nonprofits Project. This report is the result of a two-and-a-half year study conducted between September 1999 and January of 2002 by the New York City Nonprofits Project. www.nycnonprofits.org.

Summary

Accenture and *Crain’s New York Business* thank all the leaders who participated in the roundtable discussion. The session provided a tremendous opportunity to understand the current landscape and see how the organizations are evaluating themselves now to have a successful and sustainable future. Although these are challenging times, they are also ones of opportunity. As one participant noted, the current events provide an opportunity to innovate and change. The ideas discussed are

helping nonprofits in New York pave the way to a better future when conditions ultimately improve.

To learn more about how Accenture can help your nonprofit organization connect its vision to improve outcomes and lives, contact nonprofitgroup@accenture.com or visit www.accenture.com/nonprofit.

Helping nonprofits achieve results

Accenture has earned its reputation as an industry thought leader. Our High Performance Business research across 36 industry segments and more than 6,000 companies, including 500 high performers, has given us unparalleled insight into the defining characteristics of high-performance businesses. For the public service sector, the Accenture Institute for Public Service Value helps

public service organizations create value and improve social and economic outcomes for their citizens through its many rigorous research and development initiatives.

We marry what we have learned about high performance with what we understand about the unique environment of nonprofits. For example, Accenture’s survey of more than 200 nonprofit executive directors and board members titled “Executive Issues in Nonprofits 2007-

2008,” outlines seven recommended actions nonprofits can take to enhance their effectiveness and achieve high performance.

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