# MANAGING
## IN HARD TIMES

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# MANAGING IN HARD TIMES

**F**or leaders of environmental or conservation organizations, there's almost nothing more troubling…or lonelier…than the realization that his or her group is in financial trouble.

"I couldn't sleep for weeks," said one, who'd rather not be named. "I still can't sleep. All I've got is my reputation. I testify about the state environmental budget every year. And here I was $40,000 in debt."

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## THIS ARTICLE CAN HELP YOU TO:

- Identify the right financial information to track, in order to anticipate financial difficulties before they occur;

- Understand how to recognize your organization's financial threshold and know at what point you need to take action;

- Make sure that you've considered all your options, including increasing revenue and working better with other organizations to achieve your goals;

- Learn methods for taking action to stabilize the organization, including which people to involve and how to proceed so that the changes you make are well-received;

- Consider whether your mission and programs are the right ones for the current situation;

- Frame your challenges in light of what's happening to the movement as a whole, and how we all need to respond; and

- Address other issues appropriate to your organization's needs.

The current financial downturn, coupled with the difficult political climate, has more and more organizations in a bind. All too often, their leaders are self-conscious, blame themselves, and try to fix the problem alone, spending late nights in front of the computer trying to balance the budget or decipher the financial reports. In some cases, embarrassed executive directors actually hid the problem from their boards and staffs, covering salaries with their own credit cards in the hope that new funds would come in and save the day. When the new funds never arrived, the debts were so high that the boards jumped ship and the organizations folded.

This article is an attempt to shine a flashlight into the dark closet of financial difficulties…and to encourage leaders to open the door and share the burden of managing them. It's true that some problems may be embarrassing, especially if they arise from bad management decisions. But that also means that executive directors and other leaders can do a lot to correct them.

This article, created with the support of the Beldon Fund, is based on dozens of interviews with leaders who've actually gone through "hard times," some of whose names we've listed in the back. Like the executive director with the $40,000 debt mentioned above, many have weathered the problems and come out stronger. Like her, they've shared their lessons with us. "I never, ever, ever manage without a cash flow budget now," she reports.

From these interviews, and from texts and articles on nonprofit management, we've gathered some of the best experience about:

- what information you should track;
- how to assess your situation;
- what options you have;
- how to proceed; and
- who to involve.

But let's step back. These financial problems are also part of the larger economic and political context, one which is particularly ugly as this is being written. Like the environmental issues we face, these financial difficulties will never really be resolved alone. The way you and every other leader approaches them will determine how we, as an environmental and conservation movement, grow in influence or decline. And so this article also attempts to create a broader context within which we can address them collaboratively.

# SHIFTS – IN OUR WORLD, IN OUR WORK

**W**e live in a time of fundamental change and shift. In 2008 we saw the deepest economic decline since the Great Depression. In the historic elections of that year, the U.S. elected Barack Obama, the first president of African-American heritage, a former community organizer who promised and has begun enacting significant economic and environmental change.

This guide, *Managing in Hard Times*, was originally written following the collapse of the 'dot-com' bubble in 2001, and the terrorist attacks of September 11, 2001, which also impacted market performance and government priorities. In the ten years prior to 2001, there was unprecedented growth for environmentally-focused organizations. Foundation assets grew and their giving fueled a rise in the number and size of organizations. Foundation funding reached 50% or more for a majority of the staffed grassroots nonprofits with which ICL and ESC worked.

Expansion stopped in 2001 as the decline in the stock market depleted foundation portfolios, curtailed growing tax revenues at all levels of government, and affected individual and corporate giving. In 2003, foundations that funded environmental nonprofits reduced their giving by roughly 20%. Terrorism and war dominated the national agenda, and many believed that economic growth might never return to previous levels. Despite dire projections, the economy expanded from 2003 to 2008, leading to significant support for environmental activity and groups. According to Giving USA's 2008 report, the number of nonprofit groups grew by 53.8% between 1998 and 2007.

In hindsight, the economic downturn of 2001 looks like a small valley compared to the canyon of economic woes we face today. In 2008 and 2009 we have experienced the reverberating effects of the credit scandals, the plummeting stock market, rising and persistent unemployment, and sharply reduced access to credit. The economic outlook for the next two to three years looks uncertain and bleak. Nonprofit organizations of all sizes have lost revenue from foundation, government, corporate and individual sources. Most foundation portfolios have decreased by 30-40%, and grant awards have fallen. Many foundations informally report that giving in 2010 could potentially be reduced even more.

In the current climate, almost all groups have already made adjustments in budgets, although many groups have felt the necessity to trim or cut budgets by small percentages. Strong individual giving programs provide many groups steady income, but donors' giving has dropped in reaction to shrinking investment income, loss of jobs, and worries about the future.

Unlike the "hard times" of 2001, financial resources are shrinking just as we have unprecedented opportunities for environmental protection. Although funding is scarce at all levels of government, the public and the political will for combating climate change, promoting alternatives to an economy based on fossil fuels, and tackling a range of environmental issues has never been higher. Many people seek meaningful volunteer work, ways to make a difference, and ways to create change.

True to the history of the community we serve, the leaders with whom we work are determined to carry on with their critical work. In the midst of opportunities and threats, we offer this guide for leaders who champion the work for human health, our communities and our Planet. We hope this guide provides timely wisdom to support their critical vision, passion, and commitment.

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# WHY MANY ORGANIZATIONS AREN'T PREPARED

**U**nfortunately, many organizations aren't in a position to take full advantage of the public's potential support, even now. Most haven't systematically developed the programs that would attract individuals, develop them into activists and leaders, and solicit them as donors. They have depended primarily upon grants, and have chosen to spend their time almost exclusively on their programs and campaigns—what many consider "the real work." This obeys the activist roots of our organizations, and also has a certain logic, since many grantors (especially governments) gave money only for program work – with no additional funding for overhead or general support.

Such a strategy is like giving a tree fertilizer but directing all the fertilizer to the leaves and fruit alone. The day the fertilizer runs out, the tree dies because it hasn't developed a root system capable of nourishing it.

At the Institute and at the Environmental Support Center, one of our greatest challenges is to convince leaders to set aside time and money from program work and dedicate it to developing their organizations. Building individual fundraising has been particularly difficult. In the Institute's long-term programs, leaders set goals for themselves, and the area in which they tend to be least successful is precisely that of building individual donations programs. Why? They usually report that other (programmatic) crises interfere.

Among staffed organizations, we perceive a similar problem with leadership development. At the Institute, for the past three years we have tracked how a group of staffed environmental and conservation organizations rank 46 different areas in which their organizations need strengthening. Dead last, in the rankings, are the systematic recruitment of members, management of volunteers, and development of leaders. (Many of these same groups also complain about the poor performance of their boards!)

We believe that the combination of funding downturn and anti-environmental administration is potentially a new chance for our organizations to re-dedicate themselves to building the public base of supporters and activists needed to provide funding and (more importantly) to ensure that our government protects the Earth.

## OUR OWN EXPERIENCE WITH "HARD TIMES"

Like many of the organizations we work with, we at the Environmental Support Center (ESC) and the Institute for Conservation Leadership (ICL) have been facing "hard times" ourselves. Part of this article comes from our own experience. It wasn't fun, but some of the things that worked for us were:

- Recognizing and addressing the crisis early on. For this, cash flow budgets helped ESC greatly.

- Relying heavily on the "Management Team," consisting of the executive director, and senior administrative and program staff, to generate and consider budget options. ESC's team met weekly and sometimes more often, as cutbacks approached.

- Planning within the context of its open and transparent budget process. ICL's executive director repeatedly requested (and received) suggestions for non-core budget cuts, and only proceeded with deeper cut-backs when it became apparent that these were insufficient.

- Touching base with the Board Chair and Executive Committee at key decision points. ICL's finance committee was deeply involved in the cutback choices.

- Informing staff about the process and where it stood, and listening to them for suggestions and their preferences. In general, the leaders tried to ensure that staff was sufficiently aware of what was going on, but not anxious.

- Employing a mix of solutions, including suspending whole programs, reducing the number of staff for programs, and employing a mix of salary and benefit cuts.

- Holding board retreats to set clear program and spending priorities.

- Considering new investments that would increase efficiency, even though the budget's tight!

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# ADVICE FOR MANAGERS IN HARD TIMES

## SECTION 1: PLAN FOR HARD TIMES __BEFORE__ THEY ARRIVE

### 1. Get Started While You Still Have Choices.

If you're getting nervous about your organization's long-term viability, it's time to start gathering data and figuring out what it means. The notion of doing this is scary, but actually *doing it* is really reassuring. There are three possible outcomes:

- You're doing pretty well, and don't need to worry;
- You're a little shaky, but now you know what to keep your eye on and what changes you could make;
- It's time to take action, and now you know it.

In any case, the sooner you find out you need to take action, the more options you'll have. As Dennis McCarthy, formerly with the Washington Environmental Alliance for Voter Education, and now the executive director of Project Alchemy, says:

*"Some of the groups I know are looking at merging with others. But some of those are already in so tenuous a financial situation that they don't really have that option any more—nobody else wants to take on their debt. I think the best thing we did in our organization was to go through contingency planning before the situation got too bad. In the end, that's the best thing for morale, too. I encourage leaders to consider their options while they're in a position of strength, not when it's an emergency."*

### 2. Make Sure You're Doing the Right Work for This Time.

Most environmental organizations were founded during the last three decades, an extended period of prosperity, internal peace, political stability (more or less), and growing support for environmental protection in the populace. Since September of 2001, all of these have been shaken. Our world is changing swiftly, and the challenge to us is to adapt (or jettison and recreate) our organizations so that our work remains relevant and effective. Luckily, our organizations were created by visionaries as suitable responses to the challenges of the time, and we can go back to the same source to re-assess our work today. The question is typically framed like this: If our current programs didn't exist, would they need to be created?

### 3. If You Face Major Uncertainties, Use Scenario Planning.

Scenario planning was devised to help corporations plan for a future in which many key developments are essentially beyond their control. In a nutshell, it asks leaders to clarify their idea of the organization's role and programs, and to identify its strengths and weaknesses. It generates a series of different possible futures, such as:

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- The stock market rebounds in a year and foundation funding picks up in two. Or: The stock market slump continues another three years and high yields aren't seen again in the next decade.
- The current administration lasts only another two years. Or: The current administration is reelected.

Then it tests the organization's role, program, and strengths and weaknesses under each of the possible futures. This leads to questions such as:

- Would we still be viable if the stock market's slump extends another three years? Can we continue our pro bono work for member organizations?
- Will our national lobbying continue to be relevant if the federal government abdicates its regulatory requirements and the states become the major battlefield for environmental rulemaking and enforcement?

Based on the results of these questions, organizations may decide to change their role or programs, or to strengthen certain aspects internally.

Scenario planning is essentially a complex form of strategic planning, although you can also apply it in compressed form just to test your current plans. It's probably useful to have a facilitator guide you through the process and ensure the quality of input that you get. A good description of scenario planning in the corporate context can be found in *Scenarios: The Art of Strategic Conversations*, by Kees van der Heijden.

## 4. Decide Whether Your Programs Really Fit Your Organization.

Many organizations chose their current complement of activities partly by design and partly in response to opportunities and crises. Some of the programs they created are central to their mission and their reason for existence. Others are tangential, related to their work and good ideas at the time, but not essential. Over time, entropy takes hold and most organizations end up with a spread of programs and issues. Every so often, organizations go through planning to re-focus their programs. For Marilyn Goris at Citizens for a Better Environment, the present is such a time.

*"We really take a hard look at all aspects of the organization. We put everything on the table, and ask, "What is our core business that we absolutely have to protect?" After we identify that, we look at everything else in terms of costs and benefits. This helps us make smart choices about what to keep and what to drop. Sometimes the process is difficult so it helps to have outside facilitators."*

One tool for using this is the "MacMillan Matrix," developed by Ian MacMillan at the Wharton School of Business, to help nonprofits assess their programs strategically. The MacMillan Matrix on page 39 can be used within your individual organization, or you can apply it together with other groups to think about the different programs that are needed for all of you to be successful, and how you can distribute and share the responsibilities for them— even the ones that aren't easily fundable.

Sean Hatt, a volunteer at the Washington Environmental Alliance for Voter Education and a principal in Altitude Consulting, helped the staff develop a WEAVE Program Analysis Chart on page 49 which breaks each project into activities and analyzes it according to its benefits and barriers. It then asks the question:

**Are Commitments <= Funding + People (Available Staff ) + Partner's Support + Time?**

They've abbreviated this as C<=$+P2+T and use it to analyze their own programs. Dennis McCarthy explains, "In three major program areas we're looking at finding an exit strategy, because we now have of a better sense of who we are."

These sorts of decisions about program focus are ones that should be made by the staff and board, together.

## 5. Test The Financial Viability of Your Organization and Programs.

In the recent past, many environmental and conservation organizations funded important activities from general support grants and other sources of unrestricted income. As we write this, general support monies have generally become harder to find, and most programs or activities need to cover their own costs, as well as some of the organization's overhead, too. (Of course, there are many situations under which programs won't be able to carry their cost—pilot efforts, for example, or some activities that are absolutely essential to your success, even if they don't break even financially. Most programs deliver benefits besides monetary ones. But long term, most of our programs should break even financially, and even generate some surplus to cover overhead, or you won't be able to keep the doors open.)

The first step in this "business analysis" is to figure out how much your programs really cost. Often, our accounting systems don't capture all the expenses, partly because it's a hassle. To calculate the true costs of membership, for example, one would need to track all the costs of managing the membership database, responding to members, writing, printing, and mailing the newsletter, and whatever other membership-related costs you have.

The second step is to figure out the revenue—and other benefits for the organization—which the programs generate. For membership programs, one would calculate how much you bring in from dues (and from subsequent appeals during the year, or other income legitimately ascribed to your membership efforts).

At this point, you'll have some hard financial data, and probably also a lot of good questions, which are often the real fruit of this exercise. For examples—are you really a membership-based organization, anyway? Maybe you should just collaborate with other organizations who do have members. Or can your membership activities be built into your programs, so that you could at least track the costs accurately? And so on.

## 6. Plan Collaboratively with Your Peers and Partner Organizations.

More than ever before, these times will require good collaboration. Foundations will probably encourage it, but leaders shouldn't wait for them to convene meetings, nor for them to establish the new rules. Leaders of the larger groups which are likely to continue to receive funding may want to initiate dialogue with all their partners before cutbacks begin to establish an atmosphere of competition and resentment between winners and losers. You may want to convene meetings among the groups working in your region or on your issue, and together develop strategies for getting your work done with more limited resources. Meetings might consider topics such as:

■ Which roles are necessary, which must be staffed, and which organizations fill those niches;

- Whether some organizations are not necessary, or should change their focus;

- What organizations need from each other, and in particular what support smaller organizations need from larger ones;

- How organizations can be accountable to each other;

- What goals for public involvement and support they should set, together;

- How they can work together to involve more activists and solicit more donors; and

- Which organization will be the "lead" and respond to funders for the overall management of the activity.

By framing a strategy together, openly, organizations can then approach donors with a stronger case. The movement can grow in a more thoughtful way, and emerge from the current difficulties more creative, resilient, and solid. Such an approach protects our most valuable asset—individuals' commitment.

Writing and implementing a joint project is a complex business, far more complicated than doing it alone. And the outcome will influence not just the project but also the relationship between your organizations. So it's important to think it through well. Leaders should:

- Make sure they budget for all the costs, especially those involved in coordinating between the organizations, which can be substantial;

- Specify who will receive the funding and how it will be distributed;

- Decide who is responsible for producing reports;

- Consider what you'll do if you don't receive full funding.

## 7. Identify Core Costs and Create Contingency Budgets Before the Crisis Hits.

Rick Johnson of Idaho Conservation League puts it simply. "Know what you'd look like smaller, now." It's unpleasant to think about financial difficulties, especially if you're hopeful they won't materialize. Creating contingencies budgets may seem a waste of time that you could spend on your issues and programs instead. But crisis planning is best done in the calm beforehand, and the measured decisions you make ahead of time will be your best guide if problems arise and emotions flare. As Dan Heilig of the Wyoming Outdoor Council says, "Our staff has a contingency plan that tells us what we would cut. It helps us make rational decisions during budget tightening times."

Usually, these contingency plans take the form of alternative budgets, sometimes with narrative. Jim Abernathy of the Environmental Support Center suggests identifying your "core programs," the ones essential to achieving your mission. Then pick out the "core costs" absolutely necessary to keep those programs going.

For a statewide rivers group, a contingency plan might look like the one at right. According to Donna Munoz at the Environmental Support Center, such a budget makes it easy to do contingency planning by zeroing out programs or other costs and seeing the result.

> "It's better to have one budget spreadsheet that you use for all your calculations and scenarios. That way you don't have ten or twelve different possible budgets running around."

As soon as you begin to prioritize programs, you enter into strategic questions—which *are* the programs essential to achieving your mission? Which are *their* essential

| PROGRAMS | ESSENTIAL COSTS | | OPTIONAL COSTS | |
|---|---|---|---|---|
| **Core:** Advocacy in the Legislature | Half of ED's time, lobbyist part-time | $__.__ $__.__ | Keep lobbyist on fulltime, hire policy aide | $__.__ |
| | Alert list | $__.__ | Office in the capitol | $__.__ |
| | Website | $__.__ | Rivers lobby day | $__.__ |
| | Action alerts | $__.__ | | |
| | FR appeals on urgent issues | $__.__ | Polling | $__.__ |
| | | | Media buys | $__.__ |
| | Conference calls for planning | $__.__ | | |
| Rivers Monitors | FT Monitor coordinator | $__.__ | Interactive website | $__.__ |
| | Office & phone | $__.__ | EPA certification course | $__.__ |
| | Travel | $__.__ | Monitors conference | $__.__ |
| | Materials for trainings | $__.__ | | |
| **Non-Core:** River Education | | | Education coordinator | $__.__ |
| | | | Travel | $__.__ |
| | | | etc. | $__.__ |
| | Total: | $__.__ | Total: | $__.__ |

components? These are the sorts of questions best discussed among a trusted team of senior staff and board members, which means that you'll need time. So meet and talk before a major crisis hits.

Check out our Sample Contingency Budget on page 42.

## 8. Make Sure You Have the Right Team.

As in good times, your greatest assets are still your people. As money and the political environment get tougher, you'll need to have different kinds of specialties and abilities available. On your staff, for instance, you'll want to have:

- Financial staff who can give you absolutely rock-solid financial data;

- Individuals dedicated to the organization and its mission;

- People who can tolerate ambiguity, stress, and financial uncertainty; and

- People who think creatively under pressure.

These characteristics are desirable all the time, of course, but in hard times they're essential.

As the situation becomes more difficult, your board becomes a more and more important resource. Do you have:

- A treasurer and other board members who really understand your financial reports?

- Individuals with experience in major organizational transitions?

- People with strong ties to your foundation or major donor funders, or to potential new funders, who can help maintain or establish relations with them?

- Others who can help you forecast the economic future as it relates to you?

Board recruitment requires a long lead time, so it's essential that you're *always* thinking about finding the kinds of board members who would be able to help you through tough situations. Once the problems arrive, it's late to be looking for new board members.

One organization we know has a board member from a major stock trading firm. As they tried to gauge how long the current downturn in foundation fundraising would last, this person said, "On Wall Street we're always trying to put on a good face, but the word is that even after the war in Iraq this market isn't going anywhere but sideways for a couple years." This assessment helped with their annual planning.

Jack Vanderryn of the Moriah Fund emphasizes this:

*"A board has got to have at least one person on it like John Riley at the Institute for Conservation Leadership, who really understands finances and budgets, helps the whole organization track things, and sends up warning flags early enough. Most boards don't have such a person. Many start out as friends of the executive director. They may not have the right expertise on them. Some don't pay attention … and sometimes the executive director doesn't seem to want them to."*

Too often, leaders underestimate their ability to recruit high quality board members, or seek out their friends or others who won't challenge their leadership.

But in the current situation, organizations need as many strong and committed participants as they can get, and smart leaders work to build those boards from the very start. Identify the kinds of skills you need, using a tool like the Board Composition Grid on page 50. Then recruit them. Don't underestimate your ability to recruit high quality board members. Quality people respond when times are hard. Let them know that their role on the board right now would be more important than ever.

**MANAGING** in Hard Times

# SECTION 2: ASSESS YOUR FINANCIAL SITUATION

The abundant monies of the past allowed many organizations to survive without really understanding their financial situation. That's part of what happened to the executive director with the $40,000 debt.

> *"The financial tracking system that we set up was fine for a staff of two or three. When we grew to seven, with complicated pass- throughs, we weren't tracking the payout on each of the funds. Then three of our core funders reduced their funding levels, and suddenly our picture changed. The pass-throughs had actually masked the fact that the program grant money was dangerously low. In fact, by the time we caught it we'd actually spent some of the pass-through funds."*

An even more common problem occurs with multi-year grants. Many organizations treat them as money in the bank, rather than as 'temporarily deferred" income which has to be realized through work. Another executive director reported,

> *"We had received a couple of big grants into a checking account, and those were registered as income without any qualifiers. I remember the next board meeting. There was lots of praise for our budget surplus. It had been the best year ever. Two months later we revised those budgets. In fact, we were doing poorly but our financial situation was masked by the multi-year grants. We didn't understand our revenue and expenses. We ran the organization on an accrual basis but we looked at it on a cash basis."*

To manage an organization you need certain pieces of information:

- how much money you really have;
- what the trends are;
- what new income and expenses will be and when they'll arrive.

These questions are complicated by the fact that as nonprofits much of our money comes to us with restrictions. Even though it's in the bank it's not really ours until

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## WHAT YOU NEED TO KNOW TO FLY A BUDGET
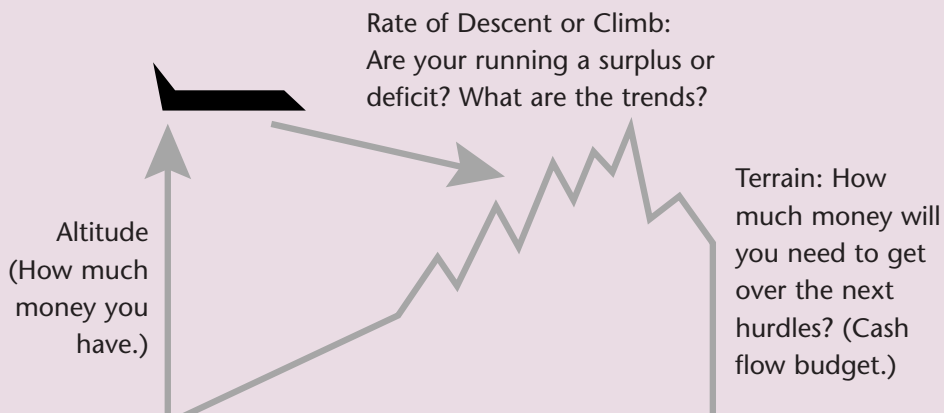


Rate of Descent or Climb: Are your running a surplus or deficit? What are the trends?

Altitude (How much money you have.)

Terrain: How much money will you need to get over the next hurdles? (Cash flow budget.)

we've earned it through our projects. Therefore, the calculation of how much money we really have must account for those future obligations. That's where the two leaders quoted above went wrong.

In our experience, many leaders track their budgets religiously, so they know the general trends. But they don't really know their altitude—how much money they really have if they had to shut down today. This isn't a big problem if they're flying high, but the more their reserves drop, the more important an issue it becomes. They need to keep close track of their net worth, and to run a cash flow budget so that they know that they'll always have money enough to meet expenses.

*"You must absolutely have these tracking tools in place, so that if you have to take action and make cutbacks, you're making deliberate decisions which aren't just based on your emotions. These are hard decisions to make, and if you start making them based on personalities, you won't act in the best interests of the organization."—Bea Covington, Missouri Environmental Coalition*

Many of these questions are answered by your annual audit, which should include a balance sheet (your net worth) and an income and expense statement (trends). But if money's tight, you'll want to be able to track these yourself.

## 1. Calculate How Much Money You Really Have.

Figuring our liquid reserves is an exercise we go through at every ICL board meeting, under the guidance of our board Chair, John Riley. As a CPA, John digs through our balance sheet to identify the amounts that are:

- liquid reserves that we could call in

quickly (not including the value of property like computers or furniture, which we really couldn't sell for what it's worth);

- money we're owed (and prepaid expenses that we could receive as refunds); and

- money we owe others, including outstanding bills, vacation pay that staff members have accrued, taxes we owe, penalties we'd pay on our lease—in short, all the expenses we'd have if we were to shut down the office today.

The result is the money that we really have to run the organization—unrestricted funds that can cover all of our costs. We've condensed John's process into a format to calculate your Bottom Line Financial Position on page 46.

## 2. Separate and Track Temporarily Restricted Funds.

Part of what complicates our "net worth" calculation is that much of what we have in the bank isn't ours yet—it's restricted to certain programs. If we don't carry them out we'd have to give it back. Some organizations don't track these restricted funds adequately. We've seen some groups crash because they assumed they had money in the bank and used it to cover other expenses. When the money ran out, they still had uncompleted grant obligations, making for unhappy funders, who refused to cover the losses and support them again.

If you're not already separating out and tracking your "temporarily restricted" funds, you should sit down with your accountant and modify your system to do it. In general, this involves:

- Including all money from grants and donations in your assets, as the Federal government requires;

- Offsetting those grants and donations with a "temporarily restricted" line in the Liability section. If you get a grant for

$100,000, you also add $100,000 to the "temporarily restricted" line. Thus, assets balance liabilities, and there's no increase in your overall net worth.

■ As you work on the project, and pay salaries and expenses for it, you reduce your "temporarily restricted" line. If you spend $10,000 on the project, you reduce the temporarily restricted line to $90,000. And so on.

## 3. Create a Cash-Flow Budget.

A cash-flow budget is a best guess at how income and revenue will flow month by month, calculating your net worth at the end of each. It's a way to make sure that you'll still have money in the bank and can meet all your obligations. Some organizations, like ICL, only run cash-flow budgets when times are tight. Others, like ESC, use them constantly. Jim Abernathy says it keeps them in practice.

> *"It's hard to do it only when you feel there's an emergency. You sort of have to keep doing it to make sure you know how to do it. And it takes a while for a board to learn how to read it. We created one during our last financial downturn, and made sure that we had one from then on."*

Cash flow budgets are also a clear way of presenting the financial picture, and for many board members, they're an easy way of understanding the organization's financial position. We've provided a Sample Cash-Flow Budget on page 52 to give you a notion. You'll want to elaborate one using your own budget format.

## 4. Identify Financial Trends.

**Track Your Income and Expenses Monthly, Comparing Them to Your Budget and to Last Year's Actuals.**
Each month, executive directors and treas-

urers should gather the last month's income and expense figures, and compare them to what's planned in the budget. A typical approach is to calculate what percentage of the year has passed, and then calculate what percentage of the line item has already been raised or consumed. See our Sample Revenue and Expense Statement on page 47. Most accounting systems will generate this data regularly. If you're not getting it, or you're not sure about the information that you are getting, you should talk with your accountant or bookkeeper.

**Test your revenue assumptions.**
■ **Talk to your major funders.**

Funders are changing with the world around them. Their assets are shrinking and rising, and the political shifts are causing many to reduce or delay payouts or just plain reassess their priorities. If they have an investment in you, they'll probably want you to know about any changes so that you can plan for them. Jenny Russell at the Merck Family Fund says that far from discouraging calls from grantees, she welcomes them.

> *"Make a call way before the next deadline to check on the health of the foundations that support you. And you can do the same with major donors. Many organizations did this sort of a survey a year ago because they knew 2003 would be difficult. And now we know it's not a short-term blip but a long-term economic downturn."*

■ **Track your fundraising data.**

Keep your eye on fundraising data, especially about more diversified resources like membership and appeals. Bea Covington of the Missouri Environmental Coalition uses the reports from her fundraising database to track these things (among others):

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- return on new member acquisition mailings;
- renewal rates;
- how much money she's raised, compared to the same point last year;
- the total number of donors she has this year, compared to last;
- the number of donors in different categories, compared to last;
- total giving in different categories; and
- average gifts.

Since September of 2001, the member and individual donations have become one of the more stable sources of organizational revenue. Bea Covington tracks them closely.

> *"What does all this tell you about the likelihood of revenue shortfall? It helps differentiate what I can count on. Over time if one of these steady sources changes radically, then that signals deeper problems we have to address."*

Rick Johnson at the Idaho Conservation League also looks at the number of memberships that come in from brochures, from the web, and from the envelopes they include in their annual reports. All of this helps him keep the pulse of his donors and anticipate future problems.

If your organization depends on realizing revenue from grants (like ours), monitor the progress of the grants to make sure they're progressing as planned. Based on the work you've done, decide how much of the money you've "earned" and move it from the restricted line item. (We do this by tracking our time and direct expenses against each grant.) This sort of account-

ing is more complex, but it makes it clear when we're not realizing our grant revenues as quickly as we should—which means the work's not getting done.

If you receive money from fees or other earned income, track that.

**Set key indicators, include them in your reports, and (possibly) share the regularly with staff.**
Most leaders look for these things:
- Positive net worth (In other words, if you were to shut down, you wouldn't be in debt);
- Adequate positive unrestricted reserves (See "What's Your Bottom-Line Financial Position");
- A balanced budget that you actually realized;
- Fundraising goals that you track and reach;
- Major funders (foundation and major donor) who are in a relatively healthy position and continue to be interested in the organization's issue; and
- Three months of expenses in the bank.

Jack Vanderryn of the Moriah Fund worries when he sees organizations without adequate reserves.

> *"I tell organizations that they should have at least three months, and better to have six months. Many can't do that. But for any organizations to run so close to the line that they're not sure they can pay salaries develops an anxiety amongst the staff which is very unhealthy."*

When one or more of these is lacking, it may be time to start tracking your financial position very carefully.

# SECTION 3: EXPLORE YOUR OPTIONS

If you decide that you need to take action, make sure that you really assess all your options. In our workshops, we often do an exercise in which we ask boards and staffs to develop a response to a sudden and unexpected budget reduction. Many of them go straight to cutting costs, as Jenny Russell of the Merck Family Fund observes.

> "There's a down side to continually thinking about how to shrink expenses. It creates an atmosphere of doom and gloom that can be unhealthy for an organization. This is where creative leadership can shine. Rather than crawl away, leaders need to seek new opportunities."

This is your chance to develop an appropriate response, taking into account your strategic thinking about your programs, your place in the movement, and what you know about your finances and your budget. Such a strategic approach is more likely to energize funders, constituents, board and staff.

We've compiled a list of the options that most organizations have mentioned, and which we think have large budget or strategic implications. (For a detailed list under each, see the Amherst Wilder Foundation's *Coping with Cutbacks*, in which the authors list 183 measures, large and small.) We've listed them in order of increasing severity, starting from a strategic refocussing of programs, to raising more funds, to cutting back, to closing your doors.

If you're facing cutbacks, a word of advice: it's not prudent to protect all

staff until you've exhausted every other possibility. As a leader, you should choose those options that best position your group to achieve its mission, whatever those are. The first step is to understand your core expenses—what it takes to operate your essential programs. It's possible, for instance, that you could hire consultants to take the place of full-time staff and lower your budget while still doing your essential work. Too many organizations fail to adapt quickly enough because leaders protect staff positions which are no longer optimal, or even sustainable. Sometimes a financial crisis gives you the impetus you need to make staffing decisions which are overdue.

## 1. Organization-wide Program or Structural Shifts

**Refocus Your Programs**
Using the tools mentioned in Item 4 above (**Decide Whether Your Programs Really Fit Your Organization**), select those programs that really fit and those that don't. For those that don't, you can:

- Refocus the program to empower constituents to do the work, instead of you. Make use of the tremendous volunteer capacity available, and re-energize your grassroots in the process. Remember that managing volunteer activities well generates great benefits, but it also takes considerable effort, though less than doing the work yourself.

- Spin programs off to other organizations where they have a chance to thrive. We have seen several groups do this recently, passing on a piece of their issue work or a successful cam-

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paign to another organization where it has a better chance of success. In some cases, the program staff are transferred too.

- If you have no other alternative, simply end the program. This is difficult, especially since it means layoffs and staff members will lobby hard against it. But dropping an unsustainable program may give someone else the opportunity to create it anew later on.

Brownie Carson, Executive Director of the Natural Resources Council of Maine, is disciplined and strategic in his approach:

*"We have been very realistic about funding prospects for a particular area that has been important to us, but is no longer of strategic interest to members or major donors or foundations. On the one hand, it's very important that environmental advocacy organizations not chase dollars because they're there and make our decisions based on them. But it also makes no sense to continue a program or activity if it's not fundable or the political climate is such that you are butting your head against the wall. We have scaled certain program efforts back. We haven't cut an advocacy issue or program entirely, unless there's a confluence of difficulties with political viability and fundraising. Both are important. And if you can make headway on an issue in tough economic times the results may enthuse members or funders."*

To assess your programs, begin the process by asking:

- Which programs are you legally obligated to continue and complete? (In our experience, funders are sometimes willing to be flexible about which deliverables they'll require of you.)

- How much staff time must be dedicated to them?
- Which programs do you do now that could be cut?
- Which current programs aren't cost effective?
- If you cut a program, does that free staff time for new, more strategic efforts?

### Restructure Your Staffing

Based on an analysis of their programs and their organizational needs, many organizations are shifting existing staff into membership or fundraising duties. One group recently rehired for their conference coordinator position, but restructured the position to half-time conference coordinator, half-time membership and outreach.

### Rely More Heavily on Volunteers

Some staff tasks can be shifted to volunteers, reducing the need for new hires. But in order for volunteers to have a satisfying and efficient work experience, they need to be well supervised by people who have continuity within the organization—typically staff. In our experience, good supervision usually requires two or more hours of time a week, so that volunteer labor is by no means free. But it is often less expensive, and there are other strategic reasons for using it.

Over this period of economic growth, many environmental and conservation organizations have professionalized, and some have lost the grassroots participation they once had. Some which still welcome volunteers now use them for tangential activities instead of their core work. As a movement, much of our legitimacy comes from these volunteers, who are willing to sacrifice time and effort for altruistic causes, and who speak with the genuine voices of the people on the ground. It is sad that our tendency toward professionalization has often displaced volunteers instead of assisting and empowering them.

At the Institute, we've watched a decrease in organizations' commitment to rebuilding the grassroots base that is absolutely essential to our political strategies. It's true that we need excellent technical prowess, but the best data in the world won't change the mind of "pollutocratic" politicians. Effective political activism will, and it may be that your organization should reposition itself strategically to generate such activism. As one leader mused, "It might be that we need go back to people power, rather than rely so heavily on the technical and legal work. That will be a cultural change in our organization, one driven partly driven by finances."

### Divest Whole Programs

In lean times, organizations need to select their programs strategically, and get rid of those they can't sustain and do well. This ability to focus strategically—to define a niche and stay within it—is one of the strongest indicators for organizational success. It not only allows the organization to specialize, it also allows it to play well with others, because it minimizes turf battles. This sort of focus is healthy all the time. But when supporters want to see greater results from fewer dollars, it becomes essential.

The "MacMillan Matrix" mentioned above provides a tool for assessing programs. It can be used to assess the programs of one organization alone, or to think about programs in the context of a broader movement. Some questions to ask are:

- Which programs and functions are essential to the kinds of environmental and conservation work you do?
- Do you have programs that would more easily fit in the portfolio of other organizations, that could grow and support those programs better?
- What level of funding and staffing must you maintain in order for the program to be effective?

- If you let the program go dormant, could you revive it well later on, or would it be better to give other organizations the opportunity to pick it up?
- If you decide to divest, which organization is best suited to adopt the program?

Divesting programs may feel like a kind of amputation—few of us consider it until we're forced to choose between that and death. But divesting programs that aren't good fits is actually a healthy thing to do all along. Rather than go into slow decline, the organization can rid itself of a cost center that wasn't a good fit, and perhaps also hand the program (and staff) off to another organization where it matches better. In doing so, it shores up finances and builds good will.

### Merge with a Similar Organization

The word on the street is that mergers usually result in better strategic positioning. This translates into better programs and outreach, and more access to funding. Thus, for example, Georgians for Clean Energy merged into the Southern Alliance for Clean Energy. The leaders there report that the merger has created a stronger entity. Similar results can be obtained by a close collaboration between existing groups. It's more difficult to achieve cost savings, as Peter Berns of the Maryland Nonprofit Association reports:

*"We have a lot of experience with mergers, but we've found that most of them we've worked on end up not saving money, because both organizations are so underfinanced that any savings you might get from combining them you have to pump back into the program. But there may be opportunities for administrative savings, because among like organizations there is a fair amount of administrative duplication."*

Part of the difficulty arises in the pressure to continue to employ both staffs or to carry all the members of both boards. In such cases, it's pretty obvious that costs won't drop. Consultant Michael Groh reports that about half of his mergers result in savings, especially when the two parties make cost savings a condition for merging, and force themselves to create a plan which lowers costs.

The shakier the finances, the more difficult it is to merge. New organizations don't like to take on the debt of old ones, and can be very cautious. Sometimes the simpler alternative is just to close the old organization and bequeath the programs to the new one, without saddling it with the old organization's debts, as a merger would do.

Mergers are long processes with many strategic ramifications. If you're seriously considering one, David LaPiana's book, Nonprofit Mergers Handbook, is a good orientation.

**Close Down Responsibly**
Like living organisms, institutions resist death. Even short-term coalitions, founded with "sunset clauses" and created explicitly to last only a fixed period of time, seem to survive indefinitely. It's rare that anyone "pulls the trigger" on such a group. Once we have invested enough time and energy, we can't stand to let our organizations "die." We are too attached.

This attachment can be healthy loyalty, but during hard times it can also trap us in a posture of fear, manifested in competitiveness and territorial thinking vis-a-vis others. We become fixated on survival. We can hardly see our final vision, let alone the many possibilities that might arise if we just let go and started afresh.

If handled well, the organization's "death" will also be a "birth." The people, the ideas, the funders, the programs and all the other elements that once comprised this organization will disperse but will flow productively into other arenas. Here at the Institute, we owe our flagship "executive director" program to the now-defunct Northern Rockies Action Group. When NRAG disbanded in 1992, its dedicated staff looked for a "home" for this program, and passed it to us at the Institute. Since then, we've offered the "E.D. program" 18 times to more than four hundred participants. NRAG's trainers continue to work through us. In a very real way, NRAG lives on, thanks to a savvy process of closing down.

Contrast this with another organization we knew. The executive director was embarrassed by financial difficulties and hid them from the board in order to resolve them himself. Finally the debt reached $100,000. At that point half his board fled, and a small group of dedicated funders was left to make peace with the creditors. The ashamed executive director exiled himself to a place far away, and we haven't heard from him again, although many of his talents could be used by organizations in our region. He's lost to us. And in the final turmoil, no one thought to consider how to pass the programs to other organizations. Most of that very valuable work has disappeared.

## 2. Ensure and Increase Revenue

**Protect Your Current Sources of Revenue**
With the current reductions in governmental budgets, many environmental leaders are presuming that our work, in particular, will be cut in order to maintain social service spending. Since it's essential that environmental protection be seen as more than a luxury affordable only in good times, it's also essential that environmental leaders speak up loudly for these vital investments in future quality of life. Use your legal lob-

bying capability to let decision-makers know that your programs matter.

For instance, in New Hampshire there's been a surge of local land protection work. Chris Wells of the Society for the Protection of New Hampshire Forests hopes that the state will maintain its current funding level of $6 million per year for land protection, even in the face of budget cuts.

> *"We're hoping that the voice of New Hampshire citizens expressed at town meetings will be heard by the governor and the legislature as they work on what is admittedly a very tough budget."[1]*

**Increase Your Revenues**

Barbara Rusmore of the Institute for Conservation Leadership advises, "If you have lemons, make lemonade. We all need to be looking for creative responses and new opportunities in this situation." It's not just environmental organizations who face new financial and political uncertainties—most of our members, activists and funders are sensing the same things, and are as worried as we are about continuing to protect the Earth today. Immediately after the September 11 attack, the National Wildlife Federation's Mark Van Putten contacted key supporters just to find out how they were doing, and to let them know that despite the events NWF was still active. Some wildlife refuge associations have invited people to come and refresh their spirits in nature, a haven of peace in these troubled moments.

In response to the economic and political climate, most leaders have zeroed in on members and individual donors. That

seems to be working, and apparently individual giving is currently the most stable source of revenues for most groups. At a recent meeting of organizations active in the Greater Yellowstone Ecosystem, for instance, all the participants reported that membership grew over the past 12 months. These western groups also reported that their individual donations held steady, because the number of gifts increased although their average size shrank slightly. One forest advocacy group in Oregon made large membership gains by proactively using every opportunity to reach the public. Board members stepped in and helped with tabling, marching in parades, holding forums and doing house parties. They capitalized on an appearance by George W. Bush to publicize their cause and attract yet more members.

Today's uncertainty creates new fundraising opportunities. Some organizations have done special appeals simply to build up a reserve fund so that they can continue their work as funding gets tighter. Many have gotten serious about board giving programs, and many boards have begun to help out with individual fundraising to a new degree, in order to cover the need for unrestricted dollars. A number of organizations reported that their fundraising events immediately after September 11 were actually more successful than ever before, apparently because participants felt the need to gather with others.

The process of refocusing programs can also help to draw in activists and funders, who are a great source of valuable input, and who will be eager to see that your organization continues to protect the things they care about. In addition, a funding crunch can offer a special opportunity to

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1   McConell, Amy, "Towns embrace land conservation plans. But state lawmakers may trim funding," *Concord Monitor*, Thursday, Mar 20, 2003.

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involve other staff, who often feel helpless when revenues are down. It pays to both keep them informed and to solicit their opinions on how funds can be raised and how they can participate. In this way, they can feel as if they are contributing to the organization.

If you provide services, this is the moment to consider whether or not you charge for them, or how those organizations and individuals you serve can help to support you financially so that you can afford to continue. Such a discussion is also an opportunity to draw them closer.

It's important to show that you're doing all you can to maximize income possibilities. One option is to store your dollars in short-term and secure investments such as certificates of deposit and money market accounts. They may not bring in much, but two to three percent interest is better than nothing, and they show that you're doing all you can.

If you rely heavily on grants, and you're unable to cover your administrative costs, you may want to try renegotiating the percentage of overhead included in them. Some organizations have managed this, even in the case of governmental grants.

## 3. Cut Expenses

### Delay Expenses
In tight times, many offices wait to pay their bills until they are absolutely due—taking care not to incur penalties, of course. This is just good cash flow practice. If a shortfall approaches, you may also need to contact some of your major suppliers or creditors and let them know that you'll have to postpone payment a while—and also when you're sure you'll be able to pay. Don't leave them in the dark, or promise payments and then postpone them again. If these are long-term business partners for

you, you'll need their good will in the future.

Some organizations move back the start date on planned programs or activities. (Just remember that this may also postpone revenue you might earn from them, and that the expenses will still be incurred, although later.)

### Cut Back on Optional Non-Salary Expenses
If you've decided cutbacks are necessary, a first and obvious choice is to look for reductions in non-salary costs that aren't part of your core budget. Many of the organizations we work with have managed budget cuts of up to 10% in this way. Executive directors usually accomplish this by working openly with the whole staff to identify possible cost-saving measures. Often it helps to train staff about the budget implications of their decisions—for instance, the importance of billing meeting time to the projects discussed, rather than just to an administrative line item.

The larger line items often include consulting costs, travel, and rent. In hard times, organizations typically rely less on outside consultants, shifting the work to staff. Many cut travel, using phone conferencing and web-meeting services instead of face-to-face meetings. They reduce their rental costs by sharing space, or by having staffers telecommute. They stop renting a copy machine and scale back on software upgrades.

At a certain point, however, pinching pennies becomes counterproductive. Taken to an extreme, skimping on direct costs ends up wasting money because without adequate equipment or support the staff spends more time on its tasks, and time is expensive. It also puts staff under pressure, increasing chances of burnout. Leaders need to protect their staff by protecting the core costs in the budget. And sometimes

even nonessential items—like training or celebrations—make the work load bearable.

### Cut Back on Salaries

Salaries are the biggest line item for most nonprofits, typically comprising 50% or more of the total budget. So when larger cutbacks are necessary, most leaders are forced to look there.

### Postpone New Hires

Facing economic uncertainty, many organizations postpone new hires. If they need additional personnel, they contract with them for the short-term (making sure that they arrange the tasks in such a way that they meet the IRS definitions of contract work).

### Share Staff or Services

One of the obvious places to start is to reduce administrative staff by sharing administrative functions with other organizations. Relocating together to share office space makes this more convenient. David LaPiana, author of the *Nonprofit Mergers Handbook*, offers this approach:

> *"Think of the organization as several different organizations under one roof. There are administrative functions and programs. Think about what adds value. It may turn out that some of the administration can be reduced. Maybe you can find another organization that already does that kind of administration well and rely on them, instead of cutting the programs."*

In rural areas or places where it's difficult to find good program staff, some organizations have also begun to share fundraisers, or easement monitoring, or even outreach staff. This requires a high degree of trust, but it avoids the requirement of burdening each organization with a full salary. Such collaborations are also an opportunity to generate some income, if an organization can hire out staff expertise to others.

### Offer Unpaid Leaves of Absence

One organization we know has instituted two weeks of leave without pay this year, resulting in around a 4% savings in expenses. This particular organization insists that staffers actually take the leave, and not sneak in to work. In many nonprofits, staffers continue work during the unpaid period, assuming that their sacrifice will be repaid with a stronger organization later on. But if the fundamental problems haven't been solved and the organization's economic situation doesn't improve, staffers soon begin to feel the economic stretch, and can't continue this.

If you do offer leave without pay, it's important to give employees enough lead time that they can plan around them. They may need to save money to tide them over, or arrange to pick up consulting work, or make other plans to minimize their personal expenses.

David LaPiana thinks it's probably not a good idea to offer unpaid leave with the promise that the time will be repaid later. "I've seen people use salary cutbacks or nonpayments for a period of time, but that can backfire too." he says. "One board I know told me, "We'd like to dismiss the executive director, but we haven't paid him and owe him $10,000, so we can't.""

### Reduce the Number of Paid Staff Hours

Faced with cutbacks, many leaders reduce the number of hours paid, looking first for staffers who don't need to be full-time. Some of the strongest leaders take the biggest reduction in pay themselves, in order to lead by example.

The problem, of course, is that in times of crisis most organizations need more work from employees, not less. Unless you actually reduce the amount of work done, staffers will often continue to work the unpaid hours as volunteers. This is tenable

for a certain period, but over time even the most committed activists become embittered by the economic hardships they endure. One deeply dedicated activist confessed that it made him deeply conflicted when he had to pull back.

> *"The board felt that it just didn't have the money and couldn't raise it, so they cut us back to halftime. There's no way I can answer all the illegal tree sales working just halftime. But I got to the point where I just said, 'I can't do this any more. The original salary wasn't adequate anyway. I can't do this any more.' And I know the government has increased the pace of logging sales because we're not there to monitor it, but I just can't work full-time for this pay. I just got too angry."*

On one hand, the staff's willingness to return to volunteer status underscores their commitment, and earns the support of other volunteers who have always worked for free. But Rick Johnson of the Idaho Conservation League believes that long-term reductions in pay can slowly strangle the staff's motivation and ability to do the work well:

> *"Other groups are going to three-quarter time, or cutting benefits. I don't believe we'd do that. We'd be more likely to close an office or stop a full program. Because the assumption is that when you cut back to three-quarter time everybody still works full time. That's not the organization we want to create. You move all your people to three-quarters time, it shows the boat's leaking. We'd rather cut back to two people, and the boat wouldn't be leaking, we'd just be small. We consider ourselves a profession, and we're going to deal with it that way."*

One young executive director we know recently held her organization together through a 50% budget reduction, in large part because she listened hard to staff and did her best to meet their needs. If you're considering cutbacks, survey your staff about their preferences in types of salary and benefit reductions. Their flexibility (and inflexibility) could surprise you, and allows you to tailor the solution to their needs. If you are trying to maintain a core group of employees, you need to know what sacrifices they can bear and what would cause them to begin looking for other work.

If you cut back on hours, find out what the required minimum is for receiving individual benefits, in order that you and the staff understand the full consequences.

**Cut Positions and Let Staffers Go**
This is the option most of us fixate on, because it causes so much personal tension and organizational turmoil. In order not to damage staff morale, it's essential that the process be handled in a way that staff views as fair (see the following section on Process.) But salaries are typically the largest part of the budget, and cutting staff is usually the most effective way of reducing expenses.

Good information is essential. Knowing your financial situation exactly, your future staffing needs, your strategic directions, and any necessary information about staff performance will make the decision easier. Explaining these things to the staffers you let go will help to depersonalize their departure. Some staffers will even stay on as volunteers for a limited time period, if they agree with the decisions made.

Such information will also help you document the justification for the layoffs, which you'll need to have in order to protect yourself legally. There are many sources of

information about handling dismissals well. One widely quoted article is "Layoffs: Negotiating the Rough Surf in Your Nonprofit," available on the web at http://www.mnaonline.org/whatrisk.htm and various other sites.

Unless the organization is under severe duress, or the staffer performs badly, it's good to give at least a month of notice. This also allows departing staffers to transfer knowledge to others who'll have to take over their work. In general, a staffer's efficiency will slip during this month as they prepare to leave, but that's to be expected. Leaders should invest some time helping staffers find new employment.

Diane Jensen of the Minnesota Project advises that in some states, there are economic reasons to place laid-off workers in a new job.

*"Minnesota nonprofits should make sure they've planned ahead for layoffs, because having staff unemployed raises the organization's unemployment insurance rates. It can quickly amount to thousands of dollars. Instead, the organization should try to create new "pools of talent" and help the staffers find new jobs quick. That cuts costs and keeps the talent in the community."*

When feasible, providing severance pay for terminated employees will both ease their financial loss and give a feeling of greater security to those employees who stay. It is also good practice to have some type of farewell for those leaving, and to acknowledge their contributions.

# SECTION 4: FOLLOW A GOOD DECISION-MAKING PROCESS

You've assessed your situation and developed some options. Now what do you do? For many of us, by the time we've chosen *what* to do, the pressure to act is so great it propels us forward quickly. We may do the right thing the wrong way, and leave scars unnecessarily. So it's often worth thinking through the process *before* you need to go through it.

Consider three criteria to help you decide how to resolve a problem:

- **How Much Time You Have.** If decisions need to be made in a short time frame, ask the board to designate a small decision-making body, such as the executive committee, that will be readily available to answer questions, give you feedback, and make decisions.

- **How Much Support You Need.** The more support you need, the more board, staff and other stakeholders should participate in identifying the problem and choosing solutions.

- **What Values Must You Demonstrate?** The way you make critical decisions will reverberate through your whole

organization. People won't forget how you acted when the chips were down, so it's important to act in a way that models your values. Do you need to show your commitment to participatory decision-making? A willingness to act decisively? If part of the problem was a lack of foresight, you may need to show that you're involving more people who can see the larger perspective.

## 1. Identify Decisions You Must Make Immediately, and Those That Can Wait.

In difficult situations most organizations need as much support as possible, and that takes a while to mobilize. On the other hand, if they're in a crisis, some decisions can't wait. It's important to distinguish between decisions with flexible timelines that allow for planning, and decisions that must happen quickly.

Here are some examples of the kinds of decisions that require urgent action, and those that which usually allow enough time to plan strategically.

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**DECISION-MAKING IN DIFFERENT SITUATIONS**
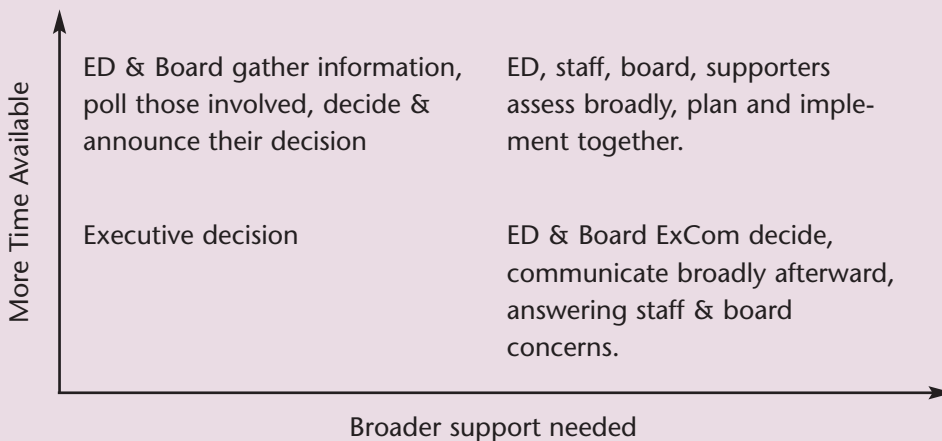
| More Time Available | | |
|---|---|---|
| ED & Board gather information, poll those involved, decide & announce their decision | ED, staff, board, supporters assess broadly, plan and implement together. | |
| Executive decision | ED & Board ExCom decide, communicate broadly afterward, answering staff & board concerns. | |

Broader support needed

**Situations Requiring
Quick Decisions**

You can't determine your cash flow for the foreseeable future. You need to act fast to change this.

A major funder is revoking or reducing a grant commitment or donation on which you had counted. How will you fill the gap?

You face external attacks (or fundraising difficulties) because of a position you've taken on an environmental issue. How can you make that into a plus?

You face external deadlines on important decisions within the next three months. For example:

- A foundation grant deadline for a program you can no longer maintain with the funding you foresee.

- A request for a government contract.

- An offer of a new collaborative project which requires a substantial new investment of time, for which you must commit now.

You face internal short-term deadlines on important decisions. For example:

- A staffer is leaving soon, and you have to decide whether to start the hiring process to refill the position.

- Your cash flow budget indicates you'll be without enough liquid resources to meet payroll and cover the rent in two months.

**Situations Allowing Longer-Term
Planning**

You foresee major shifts in the issues you work on, or in the external trends that effect them. Are your programs still the best response to the need? You may want to convene a program planning group.

Your current rate of membership renewal is satisfactory but you know that a major employer in your community is likely to significantly reduce staff in the next three years. Should you change your membership projections?—It may be time to analyze your membership demographics.

A long-time major donor who has served on your board for many years is retiring, will move to another state in two years, will leave your board, and may reduce giving to your organization when that happens. How will you replace this person's expertise and generosity?—You may want to involve the board in a discussion about board renewal.

A program has secure funding into the next fiscal year but the funders hint that they want significant changes before they'll renew the funding. Is this the right program? Are the changes the right ones?—It may be time for a serious program evaluation.

## 2. Make Clear Who Decides and What the Process Is.

Although it's uncomfortable, especially for new leaders, it pays to identify and openly acknowledge who is in charge of making these difficult decisions. In most cases, it's the executive director, although most executive directors will work very closely with senior staff and the board and rarely make decisions that run counter to the consensus of opinion (if one exists). In cases where cutbacks imply a change in organizational focus or strategy, it's essential that the board approve.

Besides board and staff, people you may want to involve in the process include:

- Supporters and members;
- People or groups you serve;
- Funders;
- Suppliers; and
- Creditors.

When you have determined your decision-making process, share it with the others involved. This helps structure their expectations, lets them know where they can have input, and demonstrates that you're proceeding in a logical manner.

## 3. Make Hard Decisions Based on a Positive Vision.

All nonprofits must demonstrate an obedience to their mission, and make decisions (especially hard ones) in order to achieve it, rather than on the basis of friendships or other concerns. Michael Groh, who works with environmental nonprofits throughout the U.S., recommends that leaders approach painful decisions, like layoffs, with a positive vision of the way the organization will have matured after the current cutbacks are past and it's growing again. This vision can help you identify the attributes you'll need from staffers in the future,

and that can guide you when you hit the really hard choices.

For example, imagine a wilderness protection organization facing a financial crisis. The board and executive staff might decide that, after it weathers the current storm, the organization will reform itself into a powerful mobilizer of individual activists and donors. As a result of this vision, they prioritize positions according to the following criteria:

- Ability to maintain existing members and recruit more;
- Development of new electronic activist tools;
- Focus on the most compelling issue work, where you can win victories.

They might also decide to keep individuals who have the attributes needed to achieve these things—such as a natural outgoing attitude, and comfort with new technologies and the changes they bring.

Creating criteria like this doesn't eliminate the need to cut back, but it makes the cutbacks serve the future vision, and help everyone understand the larger organizational reasons that some individuals will go while others remain.

## 4. Involve the Board as Soon as You Have Good Information.

Your board is fiscally responsible for the organization, and if the situation is tenuous the board should know about it as soon as hard information exists. Marilyn Goris, of Citizens for a Better Environment agrees.

*"The number one thing is to inform the board—or at least the Chair—when you suspect something is going wrong. Send them a memo about your concern so there is a record of the communication and ask for a*

*meeting to discuss ideas. Make sure you have at least one board member who really gets it—someone like a banker or business person who can communicate it well to other board members. On my board, they really trust that person. I reviewed things weekly with that person when we were at our lowest point."*

Above all, do not conceal the difficulties in the hopes that you can solve the problems quietly. We at ICL and ESC have seen more than one organization sink in just this way, as well-meaning executive directors tried to find a way out of financial difficulties alone, until there was no option but to close down. Hiding the problems prevents the board and others from helping, prevents the organization as a whole from learning, and exposes leaders to potential legal difficulties. If you wait to tell the board and the situation worsens, members may be spooked and bolt—after all, how can they shoulder the fiscal responsibility if they're not getting good information? So swallow your pride and deliver the unvarnished truth.

The executive director with the $40,000 debt was candid, and as a result she had solid board support.

*"I was swamped with legislative work, so it wasn't until May that I realized the situation. I immediately told my board chair. He was understanding. He said, 'We're all in trouble. My own organization is having difficulties too.' I laid out a plan for re-balancing the budget, which involved increasing board contributions, among other things. I laid out different scenarios, and kept updating them. The board quickly contributed $10,000."*

## 5. Involve the Staff.

In our experience, savvy leaders involve the staff in these decisions as broadly as they reasonably can, because it's the staffers who will execute any decisions that are made. Many leaders openly discuss general (and even specific) financial indicators, budget to actuals, strategic choices, ideas for new income sources, and possible ways to cut expenses, as a matter of routine. Depending on the situation, you may want to give staff a specific menu of options to consider when presenting the situation to them. Some leaders involve staff in determining what the options are.

In our experience, organizations tend to weather crises better if they've practiced "open budgeting." When most of the staff members see the full budget each year and make suggestions, they develop a shared sense of responsibility for the organization's well-being, a common understanding of the business plan, and a shared platform from which problems can be solved. If a crisis arises, they can suggest ways to balance the budget, and they learn the depth of the problem. And of course, it's easier for the program managers to make suggestions for reductions, because they understand the budget numbers best.

Finally, involving staff in the challenge of balancing the budget also helps prepare them for larger cuts, if those become necessary. If the deficit is too great to resolve with small cuts, then everyone sees the deficit at the bottom of the budget page, and they know that the biggest expense line is titled "Salaries." They now understand the context within which senior staff will have make tougher choices.

For the really hard decisions—usually choosing which staff to lay off—executive

directors tend to rely upon a "rump committee" of senior staff and sometimes lead board members. These meetings are almost always secret, and should be held before it's necessary to cut staff. The staffers often consider various contingency budgets, and eventually choose which individuals to lay off in the event that certain financial goals aren't met. If that situation materializes, the executive director talks first with the individuals who will be leaving, and later with the whole staff.

Announcing impending cutbacks usually hurts morale, because it puts everyone on edge. Equally bad is communicating nothing about the budget and then suddenly dropping the axe. "I've always said that our organization's biggest asset is the commitment of our people," one division manager confided recently. "But when twenty percent of the staff got cut without warning, the rest of us really had to wonder whether that commitment was well-placed."

## 6. Communicate Proactively with Your Supporters.

Your best supporters are the ones who share your commitment to your issues, and they'll want to learn with you—not just about the successes, but also the difficulties and failures. Such funders appreciate honest discussion, and also want to avoid any surprises that would make it seem as though they'd invested unwisely. They're in this with you, and should be treated that way. Jack Vanderryn at the Moriah Fund has supported environmental organizations for years:

> *"I prefer to be well informed and have more rather than less information. The more communication there is between funder and grantee, the more mutual trust develops, the more comfortable we feel. And that would give us incentive to help in times of need, to offer advice, or contact other donors to jointly help address any significant problems."*

# SECTION 5: MANAGE YOURSELF

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When really hard times arrive, stress falls on everyone, but in particular on the executive director and other leaders. Many tell us that they lie awake grappling with pros and cons, and then wonder, when they look at the clock and realize that they haven't slept at all, how it ever happened that the dream of working to protect the Earth turned into organizational trauma care. Some of them say they've lost the sense of joy that brought them to their jobs, and are instead toppling into burnout. Some—more than we know about—don't say anything until long afterward, because they've simply withdrawn and are slogging blindly on.

Unfortunately, at times of organizational stress everyone else is likely to be anxious and thus doubly sensitive to whatever the leader says, or does, or doesn't say, or doesn't do. It's at these hard times, when leaders feel most pressure to shut down emotionally, that the greatest balance is needed.

One of the leader's greatest responsibilities is simply to take care of him or herself. How do you do that?

## 1. Go Back Regularly to the Fundamental Places, Beliefs, and Activities That Reenergize You.

We advise environmental and conservation leaders to develop regular practices that let them really escape from their worries, get in touch with how they're feeling, and rejuvenate themselves. Almost all the long-term leaders we know do this in one way or another. Some buy season tickets for sports

events, others do regular meditation and yoga. Some dance, some garden, some fly fish. The staffers in one forest protection organization do regular hikes in the woods. During a long budget crisis, the time pressures on them mounted, so they went out together and held meetings during their hikes.

The worse the time pressures, the more important it is to schedule these activities in advance, and to hold to them. Many leaders we know are very serious about their outside hobbies, and become real experts. It seems to be a necessary balance.

## 2. Develop and Use a Support Network.

In our experience, the "strong and silent" approach of Hollywood heroes flat out doesn't work—especially not during crises. The best leaders we know ask for suggestions and for help. (In fact, although asking for help is often taken as a sign of weakness in our culture, in our experience it's actually a strong indicator of success.)

Marilyn Goris recalls that she went to a variety of people for suggestions during her organization's difficulties:

> *"I had some board members who had been with the organization for a long time. I also had two close friends, both involved in labor issues, and they were right with me either on the phone or helping draft letters or reviewing letters…legal parts of things. They also understood the human aspects. Another staff person here*

*was a real mentor as well as a leader in the community. And I was lucky to have that group of mentors already in place. I think any executive director needs to have that for perspective and mental well-being."*

For some help thinking about who you might want to have in your support network, see our worksheet on Support Networks on page 53.

## 3. Just Make the Tough Decisions.

One of the toughest things for leaders to learn is that, in hard times, others expect them to make the tough decisions. That's why they have their positions, one told us. "I procrastinated for months before I asked my first staff person to leave," he said. "Even though it was obvious to everyone that they weren't a good fit. And when I finally bit the bullet and did it, it made a tremendous difference to the other staffers."

Another executive director agreed that it's eventually necessary to make a decision and move on. "When I just tried to fix things rather than deal with it, staff wanted something stronger. Trying not to hurt people is not leadership…making the best decision you can in the fairest way and then stepping up to it is."

The experience of actually managing a crisis and having to lay people off, or to implement other unpopular decisions, is a formative event for most executive directors. Many say that they learn that they have to put behind them personal considerations such as friendships, and to act on behalf of the organization. Sometimes this hurts, but that comes with the territory, and most leaders eventually get used to it as a part of their job.

## 4. Leave It at the Office.

Once you've made tough decisions to the best of your ability, don't torture yourself about alternatives. You will soon know whether your choices were good or not. If you're open and honest, you'll learn and so will the rest of your organization. That's all you can ask. So turn off the lights, close the door, and leave your worries at the office.

In particular, it's important not to take them home. Spouses or domestic partners are usually the first ones to hear about work difficulties, and they are an invaluable source of support, but it's important not to abuse them. If they only hear about the stressful elements of work, they may conclude that the job is a nightmare and that their loved one should leave it! David LaPiana says that stress in the workplace too easily transfers into the home.

*"I've seen people lose marriages or relationships in these crises, because the spouse gets tired of the leader working so many hours and then not being in a good frame of mind when they come home. At some point you've got to remember that this is just a job."*

## 5. Don't Expect Thanks, but Hear It Whenever It Comes.

*"And after the work I've done, all my board chair can do is criticize! I seriously considered just quitting right there at the board meeting."*

One of the sorest of sore spots is the lack of adequate thanks at times when people are making great sacrifices. It often takes a change in the organizational culture—which usually involves the leader first and foremost—to create a tradition of celebrating one another's contributions. And during crises, many people tend to focus on

problems. To counteract this, leaders need to establish a tradition of thanking others.

They should also know that, in general, leaders of organizations in crisis are never adequately thanked. Others simply can't know about the sleepless hours, the emotional turmoil, or the weeks of back tension. And probably they shouldn't.

Nevertheless, leaders should carry with them the satisfaction that comes from doing this work. It helps to remember that building and sustaining organizations *is* truly important. It may not be the same as the on-the-ground work of protecting the Earth, but it is necessary because it is *through organizations that others participate.*

Your organization is a door for others to join in, and that is essential if humankind is to live sustainably on this planet. It's a door for humans to reconnect with nature, and to learn.

So whenever you can, hear the thanks…
- from those of us who wrote this;
- from the participants in your organization, current and future, who enjoy contributing without knowing the human cost;
- from all the creatures of the world who have no voice, except that of those who organize in groups like the one you lead.

Thanks from all of us.

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# MATERIALS AND WORKSHEETS

## The "MacMillan Matrix"

This matrix, developed by Ian MacMillan of the Wharton School of Business, helps you to decide how well your programs "fit" your organization, and whether they're a good strategic investment for your organization. It was developed mainly for social services agencies.

| | | High Program Attractiveness: "Easy" Program | | Low Program Attractiveness: "Difficult" Program | |
|---|---|---|---|---|---|
| | | **Alternative Coverage** High | **Alternative Coverage** Low | **Alternative Coverage** High | **Alternative Coverage** Low |
| GOOD FIT WITH MISSION AND ABILITIES | **Strong Competitive Position** | 1. Compete aggressively | 2. Grow aggressively | 5. Support the best competitor | 6. "Soul of the Agency" |
| | **Weak Competitive Position** | 3. Divest aggressively | 4. Build Strength or Get Out | 7. Divest systematically | 8. Work collaboratively |
| POOR FIT WITH MISSION AND ABILITIES | | 9. Divest Aggressively | | 10. Divest systematically | |

**Explanations**

Competitive Position refers to:
- how much loyalty you have from your client group or community;
- your success or failure in securing funding;
- your ability to advocate for the program;
- the quality of work you do;
- whether you have the skills to do the work.

**Alternative Coverage refers to:**
- whether other organizations can do the work instead of you.

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**Program Attractiveness refers to:**

■ good funding possibilities;

■ attractiveness to volunteers;

■ breadth of support from your constituents or supporters;

■ availability of concrete, measurable wins.

When thinking about social service nonprofits, MacMillan presumes that nonprofits should avoid duplicating services (competing unnecessarily) because it fragments resources. He also assumes that nonprofits should specialize in order to deliver high-quality services.

| "MACMILLAN MATRIX" REPHRASED FOR ENVIRONMENTAL AND CONSERVATION GROUPS | | Attractive Program | | Difficult Program | |
|---|---|---|---|---|---|
| | | Other org's cover this. | Few other org's cover this. | Other org's cover this. | Few other org's cover this. |
| **GOOD FIT WITH MISSION AND ABILITIES** | **Strong Competitive Position** | 1. Affirm this program and negotiate functions with other org's. | 2. Grow in order to provide this service to the movement. | 5. Collaborate to share the load or help to find resources. | 6. "Soul of the Organization" – find support for this or limit its scope. |
| | **Weak Competitive Position** | 3. Give this away quickly. | 4. Decide with other org's who should do this. | 7. Give this to other organizations, supportively | 8. Collaborate to share the load or give it away. |
| **POOR FIT WITH MISSION AND ABILITIES** | | 9. Give this away quickly. | | 10. Give this away systematically | |

**MANAGING** in Hard Times

For the environmental and conservation community, the matrix might be rephrased as follows: An interesting way to use the matrix is to categorize your programs in Squares 1 through 10. Do you, for example, have a bunch of "Soul of the Agency" programs (square 6) which absorb your energy but can't be funded? (This is a typical problem when organizations have long-standing programs no longer attractive to funders. You can only afford a certain number of these.) Have you recently expanded into new areas in which your position still isn't strong, so that you now need to decide whether to divest systematically (square 7) or get out quick (square 3).

In difficult times, there's strong pressure to gravitate toward squares 1 and 2, and to compete for those niches which funders will support. But the protection of the Earth requires a host of functions, some fundable and some less so, and as a movement it's essential that we figure out together how to cover them. The advantage of the current financial downturn is that it highlights our need for each other, and offers an opportunity to create a more resilient network of organizations with a clearer sense of accountability to each other.

You can also use the above matrix in discussions with partner organizations, to determine who does what. This involves being willing to hear from others how they view your programs, and where they think their work and yours overlaps.

# SAMPLE CONTINGENCY BUDGET

(Modified from an actual organizational budget.)

**Page 1: Income**

| | CORE BUDGET Assumes we don't get the state grant, no conference this year, small dinner. | | | | ADDITIONAL BUDGET Assumes we get the state grant, plus increase individual and board fundraising. Larger annual dinner. | | | |
|---|---|---|---|---|---|---|---|---|
| **INCOME** | Cutback Programs (restricted) | Cutback Fundraising | Cutback Unrestricted | Total Core | Additional Programs (restricted) | Additional Fundraising | Additional Unrestricted | Total Additional |
| GRANTS | **70,000** | | | 70,000 | **50,000** | | | 50,000 |
|   foundation grants | 70,000 | | | | 50,000 | | | 50,000 |
|   corporate grants | | | | | | | | |
|   government grants | | | | | | | | |
| GROUP CONTRIBUTIONS | | | **1,000** | 1,000 | | | | 0 |
|   student groups | | | 1,000 | | | | | 0 |
|   non-student groups | | | | | | | | |
| INDIVIDUAL CONTRIBUTIONS | | | **12,100** | 12,100 | | | | 0 |
|   individual donations | | | 5,000 | | | | **5,000** | 5,000 |
|   major donations | | | 3,500 | | | | **6,000** | 6,000 |
|   board donations | | | 3,600 | | | | **3,600** | 3,600 |
| EVENTS | | | **9,000** | 9,000 | | | **9,000** | 9,000 |
|   ticket sales | | | 6,000 | | | | | 0 |
|   silent auction | | | 3,000 | | | | | 0 |
| MERCHANDISE SALES | | | **1,000** | 1,000 | | | **1,000** | 1,000 |
| CONFERENCE FEES | | | | | | | | |
| TRAINING FEES | | | **2,500** | 2,500 | **1,000** | | **2,500** | 3,500 |
| BOARD EVENTS | | | **4,000** | 4,000 | | | **8,000** | 8,000 |
|   house parties | | | 2,000 | | | | | 0 |
|   special events | | | 2,000 | | | | | 0 |
| CONTRACTUAL INCOME | | | 600 | 600 | | | | 0 |
| REIMBURSEMENT | | | 200 | 200 | | | | 0 |
| MISCELLANEOUS | | | 300 | 300 | | | | 0 |
| INVESTMENT AND INTEREST | | | 150 | 150 | | | | 0 |
| TOTAL INCOME | 70,000 | | 30,850 | 100,850 | | | 20,500 | 71,500 |

**MANAGING** in Hard Times

This budget was elaborated after a weak fundraising year, when two expected individual donations didn't come in. The board's first inclination was to cut back staff positions and salaries, which were already low. The feisty executive director created a budget scenario which explored all her considerable fundraising options, and triggered an important board discussion about their involvement in major donations, which the board had previously avoided. This eventually led to a discussion of the board's governance role in general, and, down the line, to some important transformations.

Usually, executive directors share contingency budgets with senior staff and perhaps some trusted board members, after having discussions with the broader staff about the financial picture. These contingency budgets emerge from the desk drawer if needed.

This actual case occurred differently. The board approved the cutback budget, with an agreement to help with additional fundraising and to implement the "expected budget" if additional funds arose. The executive director, one of the most tenacious fundraisers we know, made sure the funds were raised. This was the benefit of addressing the financial challenges openly and asking for help.

(Modified from an actual organizational budget.)

**Page 2: Expenses**

| | CORE BUDGET | | | | ADDITIONAL BUDGET EXPENSES | | | |
|---|---|---|---|---|---|---|---|---|
| **EXPENSES** | Basic Programs | Basic Fundraising | Basic Admin | Total Core Budget | Additional Programs | Additional Fundraising | Additional Admin. | Total Realistic |
| **PAYROLL** | **40,120** | | **15,310** | **55,430** | **42,500** | | **7,600** | **50,100** |
| Executive Director | 34,000 | | 4,500 | | | | | |
| Admin' Aide | 5,000 | | 10,000 | | 5,000 | | 7,000 | |
| Watershed Director | | | | | 32,000 | | | |
| Payroll Liabilities | 6,120 | | 810 | | 5,500 | | 600 | |
| INSURANCE | **300** | 150 | 300 | **600** | | | | 0 |
| TELEPHONE | **3,000** | 1,250 | 150 | **3,300** | **150** | | 150 | 300 |
| POSTAGE | **2,500** | | 100 | **3,850** | 1,250 | | 1,250 | 2,500 |
| UTILITIES | **1,400** | | | **1,400** | | | | 0 |
| PRINTING | **9,000** | | | **9,000** | | | | 0 |
| DEPRECIATION | | | | **0** | | | | 0 |
| OFFICE SUPPLIES | **1,500** | | 500 | **2,000** | | | | 0 |
| RENT | **5,550** | | | **5,550** | | | | 0 |
| TRAVEL | **1,870** | | | **1,870** | | | | 0 |
| COMP NET FEES | **1,500** | | | **1,500** | | | | 0 |
| MERCHANDISE | | 700 | | **700** | **700** | | 700 | 1,400 |
| REGISTRATION FEES | **200** | | 100 | **300** | | | | 0 |
| ANNUAL DINNER | **500** | 3,000 | | **3,500** | | 2,900 | 3,000 | 6,000 |
| restaurant contract | 500 | 500 | | | | 500 | | |
| art auction | | 1,500 | | | | 1,500 | | |
| invitations | | 1,000 | | | | | | |
| PROFESSIONAL SERVICES | 250 | | 250 | **500** | | 1,000 | | 0 |
| MISCELLANEOUS | | 400 | | | 400 | | **400** | 800 |
| REIMBURSEABLE | 400 | | 400 | 1,200 | | | | 0 |
| EXPENSES | | | 200 | **200** | | | 5,000 | 5,000 |
| BOARD RESERVE FUND | | | 8,000 | **8,000** | | | | |
| | | | | | | | | |
| TOTAL EXPENSES | 68,090 | 5,550 | 25,310 | 98,900 | 48,000 | | 18,100 | 66,100 |
| NET GAIN (LOSS) | 1,910 | (5,550) | 5,540 | 1,950 | 3,000 | | 2,400 | 5,4001 |

Note that among the expenses is $8,000 in a board-administered reserve fund. (This is a minimal reserve: it amounts to only half a month's operating costs.) You'd wonder why, with a $10,000 surplus, the organization put $8,000 into a reserve fund. With such a tight financial situation, the board-administered reserve served as an automatic red flag to the board—if the staff requested permission to draw from it, then funds were about to run out.

This budget attributes many costs to programs, as it should. It probably doesn't include enough fundraising costs.

## What's Your Bottom-Line Financial Position?

| | Program<br><br>restricted—must be used for a specific project or activity not yet completed. | Organization<br><br>unrestricted—can be used as you want. |
|---|---|---|
| ASSETS | | |
| Cash in your bank accounts | | |
| Money in endowments or board-restricted accounts, which you have to get permission to use. | | |
| Money you're owed—fees, refunds, deposits that you can get back. (This *doesn't* include grants you've been promised, since they might not materialize.) | | |
| LIABILITIES | | |
| Money you owe, or *would owe* if you closed down today. Outstanding bills? Accrued vacation? Taxes? Penalties on your lease? | | |
| TOTAL | | |
| (Add up the assets and subtract the liabilities from them.) | | |

This money isn't your organization's yet; it can be used only for your programs. **Many of your fixed costs (like rent and telephone) should be covered her**e. Once your programs have been completed and your report submitted, any left-over can be shifted into unrestricted funds.

This money is really yours; it can be used to cover your overhead and other necessary organization costs, such as fundraising, outreach, board expenses, audits and financial services, planning, and oversight. Without unrestricted funds, it's very hard for your organization to sustain itself.

**RED FLAGS:**

1. Negative Cash Balance. If you closed down today, you would owe money — to your employees in unpaid vacation, or perhaps to your programs for costs that have been charged even though the work hasn't yet been done.

2. Little unrestricted cash. Your organizational costs will have to come from somewhere — perhaps from unpaid staff hours.

Return to Assessing Your Financial Situation

**MANAGING** in Hard Times

# Sample Revenue and Expense Statement (Budget to Actual Comparison)

## SPRB REVENUE AND EXPENSE STATEMENT — THROUGH MARCH 30 (BUDGET VS ACTUAL COMPARISON)

| | Year-to-date thru March | Annual Budget | (25% of year elapsed) | Amt raised by this time last year |
|---|---|---|---|---|
| **REVENUES** | | | | |
| Foundation | 25,000 | 80,000 | 31% | 20,000 |
| Corporations | 7,500 | 10,500 | 71% | 7,000 |
| Government | 20,916 | 151,833 | 14% | 25,453 |
| Member Dues & Donations | 0 | 10,000 | 0% | 0 |
| Board Giving | 1,000 | 2,000 | 50% | 0 |
| Major Donations | 1,000 | 2,000 | 50% | 1,500 |
| Events | 0 | 2,000 | 0% | 0 |
| Earned Income | 0 | 0 | 0% | 0 |
| Interest | 109 | 500 | 22% | 98 |
| Other | 0 | 0 | 0% | 0 |
| **Total Revenue** | **55,525** | **258,833** | **21%** | **54,051** |
| **EXPENSES** | | | | |
| Salaries | 43,728 | 175,032 | 25% | 39,030 |
| Supplies | 1,000 | 23,100 | 4% | 4,097 |
| Printing | 200 | 10,200 | 2% | 0 |
| Phone & Fax | 300 | 4,297 | 7% | 920 |
| Postage | 75 | 1,300 | 6% | 120 |
| Rent | 2,070 | 8,280 | 25% | 1,950 |
| Real Estate taxes | 1,127 | 4,508 | 25% | 1,127 |
| Transportation | 1,554 | 5,928 | 26% | 1,623 |
| Insurance | 4,550 | 24,200 | 19% | 3,800 |
| Professional Svcs | 2,825 | 600 | 471% | 1,250 |
| **Total Expenses** | **57,429** | **257,445** | **22%** | **53,917** |
| NET FOR PERIOD | (1,904) | 1,388 | | 134 |

How much had you earned or spent in this category at the same point in the last year? This figure tends to track the seasonal variations. For instance, if your annual event comes in September, you won't have earned 50% of its income by June. So the percentage doesn't say a lot. But the amount that you'd earned in the event category by last June would reflect that.

**RED FLAG:**
Your monthly net is a deficit, even though you've budgeted the year for a surplus. The trend this month is downward.

What percentage of the yearly budget has been achieved now? Usually, this should be about the same as the percentage of the year that's elapsed…that is, by March, 25% of the year has gone by, and you (usually) expect about 25% of your revenue to have come in, etc.

Bottom line: Compared to last year, income is on track. But staffing expenses have gone up, and there's a big jump in professional services (perhaps temporary help). Why? Are these one-time expenses? Investments that will pay off later?

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# How to Analyze a Revenue and Expense Statement

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An income statement is a snapshot of your present financial situation in relation to your budget. It imposes reality on your speculative budget. An income statement is a report that presents your total revenues and expenses and compares them, by line item, to your original budget.

To understand an income statement, identify the most important numbers, compare them to the budget, and ask questions about anything you don't understand.

**1. The Most Important Numbers**
- The entire "comparison to the budget" column

- Cumulative net profit or loss

- Cumulative total revenues

- Cumulative total expenses

- Any line item you are concerned about, or interested in

- Spend more time on the bigger dollar amounts, and less on little items.


**2. Comparisons to the Budget**
- Which lines or items are above or below budget?

- Do you know why? Look for causes ("we were late in sending out renewal notices") rather than symptoms ("fewer renewals came in")

- Are the variations good, bad, or neither?

- Are there lines or items that ought to have varied but did not?

- Is some action required by the board or executive director?


Share this list with your Board of Directors, finance committee, and new directors and staff. This brief instruction can help them focus on the important numbers, saving hours of explanation and misdirected energy.

# WEAVE Program Analysis Chart

| Program | Activities | Benefit | Barrier | C <= $ + 2P + T? |
|---------|------------|---------|---------|------------------|
|         |            |         |         |                  |
|         |            |         |         |                  |
|         |            |         |         |                  |
|         |            |         |         |                  |
|         |            |         |         |                  |
|         |            |         |         |                  |
|         |            |         |         |                  |

Back to "Assessing Your Programs"

## Board Composition Grid

Use the following chart to decide how well your current complement of board members covers the professions, abilities, and constituencies you need. First, decide what those are. Get together to review the suggested list below, and to create your own.

Once you have your own list, write the names of your current board members in the columns across the top. Then have each board member check off the professions, abilities, and constituencies they cover. Then see where the gaps are, and let that guide your recruitment of new board members.

### BOARD COMPOSITION GRID

| | Current Board Members | | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| P | Public Relations | | | | | | | | | | | | | | |
| R | Marketing/Media | | | | | | | | | | | | | | |
| O | Personnel | | | | | | | | | | | | | | |
| F | Accounting | | | | | | | | | | | | | | |
| E | Law | | | | | | | | | | | | | | |
| S | Arts & Culture | | | | | | | | | | | | | | |
| S | Corporate | | | | | | | | | | | | | | |
| I | Medical or Health | | | | | | | | | | | | | | |
| O | Religious | | | | | | | | | | | | | | |
| N | Scientific | | | | | | | | | | | | | | |
| | Education | | | | | | | | | | | | | | |
| | Foundation Work | | | | | | | | | | | | | | |
| | Other: ... | | | | | | | | | | | | | | |
| | | | | | | | | | | | | | | | |
| | | | | | | | | | | | | | | | |

## BOARD COMPOSITION GRID (CONTINUED)

| | Current Board Members | | | | | | | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **A** | Fundraising | | | | | | | | | | | | | | | | | | | |
| **B** | Expertise on Your Issues | | | | | | | | | | | | | | | | | | | |
| **I** | Board Leadership | | | | | | | | | | | | | | | | | | | |
| **L** | Facilitation | | | | | | | | | | | | | | | | | | | |
| **I** | "People" Skills | | | | | | | | | | | | | | | | | | | |
| **T** | Political Spokespersons | | | | | | | | | | | | | | | | | | | |
| **I** | Outreach | | | | | | | | | | | | | | | | | | | |
| **E** | | | | | | | | | | | | | | | | | | | | |
| **S** | | | | | | | | | | | | | | | | | | | | |
| | | | | | | | | | | | | | | | | | | | | |
| **C** | Communities or Groups | | | | | | | | | | | | | | | | | | | |
| **O** | | | | | | | | | | | | | | | | | | | | |
| **N** | | | | | | | | | | | | | | | | | | | | |
| **S** | | | | | | | | | | | | | | | | | | | | |
| **T** | Geographic regions ... | | | | | | | | | | | | | | | | | | | |
| **I** | | | | | | | | | | | | | | | | | | | | |
| **T** | | | | | | | | | | | | | | | | | | | | |
| **U** | | | | | | | | | | | | | | | | | | | | |
| **E** | Ages ... | | | | | | | | | | | | | | | | | | | |
| **N** | | | | | | | | | | | | | | | | | | | | |
| **C** | Female | | | | | | | | | | | | | | | | | | | |
| **I** | Male | | | | | | | | | | | | | | | | | | | |
| **E** | | | | | | | | | | | | | | | | | | | | |
| **S** | | | | | | | | | | | | | | | | | | | | |

Return to "Make Sure You Have the Right Team."

# Sample Cash Flow Budget

A cash flow statement starts with the cash balance from the beginning of the month.

It tracks the money that comes in . . .

… and the money that flows out…

And calculates the end of month final balance.

| | Jan | Feb | Mar | Apr | May | June | July |
|---|---|---|---|---|---|---|---|
| **OPENING CASH** | | | | | | | |
| - Cleanup Acct | 6,000 | | | | | | |
| - Environ' Education | 4,000 | | | | | | |
| - Sanctuary | 15,000 | | | | | | |
| - Savings | 4,000 | | | | | | |
| Total | 29,000 | 35,674 | 40,264 | 22,987 | 7,011 | (13,965) | (6,790) |
| **CASH INFLOWS** | | | | | | | |
| Foundations | 25,000 | | | | | | 45,000 |
| Corporations | 2,500 | 2,500 | 2,500 | 3,000 | | | |
| Government | | | | | | | |
| - Environ' Education (paid out in September) | | | | | | | |
| - Cleanup Grant | | 20,916 | | | | 20,916 | |
| Member Dues & Gifts | | | | | 2,000 | 1,500 | 1,000 |
| Board Giving | | 500 | 500 | 500 | 500 | | |
| Major Donations | | 500 | 500 | 500 | 500 | | |
| Events | | | | | | 2,000 | |
| Earned Income | | | | | | | |
| Interest | | | | | | | |
| Other | | | | | | | |
| Total Cash on Hand | 56,500 | 60,090 | 43,764 | 26,987 | 10,011 | 10,451 | 39,210 |
| **EXPENSES** | | | | | | | |
| Personnel | | | | | | | |
| Roberta (Exec. Dir.) | 3,000 | 3,000 | 3,000 | 3,000 | 3,000 | 3,000 | 3,000 |
| | 2,400 | 2,400 | 2,400 | 2,400 | 2,400 | 2,400 | 2,400 |
| Cleanup Mgr | 2,000 | 2,000 | 2,000 | 2,000 | 2,000 | 2,000 | 2,000 |
| Sanctuary Mgr | 2,000 | 2,000 | 2,000 | 2,000 | 2,000 | | |
| Admin' Assist' | 1,800 | 1,800 | 1,800 | 1,800 | 1,800 | 1,800 | 1,800 |
| Subtotal Salaries | 11,200 | 11,200 | 11,200 | 11,200 | 11,200 | 9,200 | 9,200 |
| Payroll Taxes | 1,680 | 1,680 | 1,680 | 1,680 | 1,680 | 1,380 | 1,380 |
| Fringe Benefits | 3,696 | 3,696 | 3,696 | 3,696 | 3,696 | 3,036 | 3,036 |
| Subtotal Personnel: | 16,576 | 16,576 | 16,576 | 16,576 | 16,576 | 13,616 | 13,616 |
| Direct Expenses | | | | | | | |
| Supplies | 1,000 | | | 150 | 500 | | |
| Printing | | | 200 | | 2,000 | | |
| Phone & Fax | 100 | 100 | 100 | 100 | 100 | 100 | 100 |
| Postage | 25 | 25 | 25 | 25 | 1,300 | 25 | 25 |
| Rent | 690 | 690 | 690 | 690 | 690 | 690 | 690 |
| Real Estate taxes | 376 3 | 76 | 376 | 376 | 376 | 376 | 376 |
| Transportation | 518 | 518 | 518 | 518 | 518 | 518 | 518 |
| Insurance | 1,517 | 1,517 | 1,517 | 1,517 | 1,517 | 1,517 | 1,517 |
| Professional Svcs | 25 | 25 | 775 | 25 | 400 | 400 | 25 |
| Subtotal Direct Expenses | 4,250 | 3,250 | 4,200 | 3,400 | 7,400 | 3,625 | 3,250 |
| Total Program Expenses | 20,826 | 19,826 | 20,776 | 19,976 | 23,976 | 17,241 | 16,866 |
| | 35,674 | 40,264 | 22,987 | 7,011 | (13,965) | (6,790) | 22,343 |

Return to "Assess Your Financial Situation."

**MANAGING** in Hard Times

## Support Networks

Human relationships serve a variety of important functions that help to keep us human. Please read the descriptions below, then enter the names of the people in your life who provide that function in your relationships with them. Think of friends, family, neighbors, work associates, etc. While some individuals in your life can provide you with more than one specialized function, try to think of individuals who provide you with a special resource.

**Function**

**Who?**

**Prevent Isolation:** Inclusion, people who like me, will affirm me.

_____
_____

**Prevent Marginality:** People who are like me, shares values. Mentors who can assist, guide, and open doors for me.

_____
_____
_____

**Affirm Competence:** People who know enough about what I do and can evaluate my competence.

_____
_____
_____

**Teach:** People from whom I can learn new skills, knowledge, and perspectives on the world; who keep me growing and up-to-date professionally.

_____
_____
_____
_____

**Prevent Crisis Overload:** People who will move in at bad times (foul weather friends).

_____
_____

**Provide Intimacy:** Close personal friends.

_____

**Stimulate/Challenge:** People who challenge and stimulate me.

_____
_____

# How to Build a Support System

Assess your current support system by reviewing the types of needs listed below. For each type, rate the state of your current support system. For the areas that are low, think of ways you could strengthen your support and put a note to yourself under that category.

+ My support system is in good shape

- The safety net has a few holes

0 This does not really apply to my situation

| TYPE OF NEED: | RELEVANT SUPPORT: | CURRENT STATE: |
|---|---|---|
| Prevent Isolation | People who like me | _____ |
| Prevent Marginality | People who are like me | _____ |
| Affirm Competence | People who know me | _____ |
| Teach | People from whom I learn | _____ |
| Prevent Crisis/Overload | Foul weather friends | _____ |
| Provide Intimacy | Close personal friends | _____ |
| Stimulate/Challenge | People who stimulate | _____ |

Write a note to yourself about what you can do to strengthen your support system. What's one specific thing you look forward to doing?

Return to "Manage Yourself."