

FROM SUSTAINABILITY TO SURVIVABILITY

By: Steve Zimmerman

In the nonprofit sector, the fragility of life is always very present. Likewise, for nonprofit leaders the fragility of our organizations is also always present. Fears of an impending recession and the decline in the percentages of individuals donating to nonprofits have made the sustainability of organizations a top concern for Executive Directors for quite some time. But none of us expected the sudden disruption of our lives and society brought on by a pandemic.

As nonprofit professionals scramble to devise new operating plans designed to serve as many as possible while protecting and caring for employees, the thought of [sustainability](#) seems almost quaint. All revenue streams, from foundations to individuals and even fees for service, are under extreme pressure. Indeed, for many executives, thoughts today are not on sustainability but survivability and, as always, it is at these times our constituents need us most.

The initial steps to respond to the pandemic have varied by type of organization with the focus, rightly so, being on humanity – serving our clients – as well as safety and protection. Arts and culture organizations, educational institutions and other community organizations have closed their doors for extended periods while several social service organizations continue to operate, balancing constituent service with social distancing. One constant across the sector has been the cancelling of Spring fundraising events and the upheaval of development plans. As organizations struggle to maintain operations, payrolls or both while revenue is decreasing, there are steps they can take to increase likelihood of success:

- Understand your cash position
- Assess damage to revenue streams
- Look at the dual bottom line
- Include everyone in the discussion
- Communicate consistently

Understand Your Cash Position

Cash is king. With expenses continuing and revenue on hold, knowing your cash position serves as a foundation for action. Certain common ratios like the [quick ratio or current ratio](#) calculate whether the organization has enough cash to pay its bills today, but they don't provide guidance on how long it can weather this disruption. The best ratios for that help with understanding your liquid reserves:

$$\frac{\text{Cash} + \text{Cash Equivalents} + \text{Accounts Receivable} - (\text{Restricted Cash} + \text{Restricted Receivables})}{\text{Typical Month's Expenses}}$$

This ratio calculates how many months of savings the organization has if it operates at its current rate and receives no additional income. The numerator subtracts restricted cash and receivables, assuming the organization will not be able to perform the work necessary to release those revenues. The denominator is simply the annual budgeted expenses divided by 12 months. This is the purest form of a reserve. It allows leadership to understand how much time they have to stabilize the organization. For many organizations, this is somewhere between 2 weeks and 4 months.

For organizations that have ceased operations but are committed to maintain payroll as long as possible, a separate calculation which only includes essential expenses such as payroll, health insurance and occupancy-related costs in the denominator may be useful:

$$\frac{\text{Cash} + \text{Cash Equivalents} - \text{Restricted Cash}}{\text{Typical Month's Payroll} + \text{Health Insurance} + \text{Rent \& Occupancy Expenses}}$$

This formula lets leadership see how long their current position allows them to maintain these basic expenses. In this ratio we have excluded receivables, but they can be included if the organization believes there is a high likelihood of collecting them.

These formulas are the simplest way of calculating and monitoring the organization's savings. A more strategic approach would be to prepare or update the organization's [cash flow projections](#) for the next six months showing expected inflows and outflows of cash. With the ratios as a foundation and the cash flow projection as a tool, leadership can work with the board to build out scenarios if they have time. At the very least, leadership can monitor the urgency of the situation and make informed decisions about how to continue.

Assess Revenue Streams and Damage

The formulas above focus on the organization's expense side assuming no additional income. Attention should also be paid to revenue. Many foundations are attempting to continue grant making, and many local government agencies are seeking to fund expanded social service activities for vulnerable populations with emergency dollars. Therefore, revenue projections, based on the updated development plans and budget, which take into consideration our new reality, can be inputted into the cash flow projection for a more realistic picture. While it is conservative to assume your organization will not receive any new income, acting on a "worst-case scenario" does not necessarily lead to strategic or beneficial decision making.

Revisiting revenue streams also allows leadership the opportunity to discuss revised plans and to focus on those efforts where the organization has the strongest relationships and greatest likelihood of securing funds. For example, some special events have already moved online, with operas live streaming performance and social service agencies holding online auctions and sending videotaped messages to supporters. While less revenue has been raised, there may have also been fewer expenses. This is also the time to identify areas where board members might have relationships and could meaningfully engage in sharing the fundraising workload.

Look at the Dual Bottom Line

When cash gets tight the financial bottom line becomes readily apparent. But in stressful times, it is important to consider both bottom lines: impact and financial. Especially if challenging decisions need to be made about where to focus, consider the impact of each program and fund the highest impact programs first. This is often a difficult discussion. Everything an organization does has value but given the current situation in which we find ourselves, which aspect of the organization has the *most* value today? Are there longer-term programs or projects which could be put on hold? Could unrestricted resources and staff be transferred to those efforts with the highest impact, such as direct services? Could reducing expenditures on lower impact programs allow the organization to build cash reserves?

This is especially helpful if cuts need to be made. One common response to crisis is to implement a straight percentage cut across all activities; however, this is not the most strategic decision. Yes, it avoids

conflict, but focusing on those programs where there is an intersection of organizational strength and pressing constituent need is essential. Not only does this allow the organization to most effectively have impact and accomplish its mission given the resources it has available, but it also helps make the case for increased support to funders.

The [matrix map](#) visual is a helpful way of highlighting both the impact and profitability of an organization's programs and looking holistically at how each program of an organization contributes to its impact and financial viability. While the [process of completing a detailed map](#) can take some time, a rapid version can be created in an afternoon. Remember, the map is a representation of the business model used to inform decision making, not a 100% accurate picture. In some cases, some information is better than complete information, especially when the goal is to bring others along in the discussion and make decisions. This is one of those cases.

Include Everyone in the Discussion

Speaking of bringing others along, there are no “right” answers to these challenging questions, and ideas for sustaining the organization know no positional boundaries. Engaging everyone in these candid conversations can often surface new approaches or meaningful strategies. That said, programmatic staff may be overwhelmed and overworked responding to the crisis, and leadership will need to decide whether it is appropriate to add to their workload by bringing them into the conversation. However, our default position is that nonprofits are community organizations responding to a community challenge and they benefit from the input of close community members during these difficult times. Our desire is for [everyone to have a voice](#).

Determining the organization's cash position, described above, will inform how much time leadership has to meaningfully engage a broad group of people in discussion. At a minimum, however, board and senior leadership should be involved in surfacing potential solutions. Ideally these positions will be informed by staff and constituents. Especially for social service organizations, it is important that the needs of those being served are well known and represented in the discussions.

Again, the easy solution in these times is for a small group at the top of an organization's leadership to come together and make decisions, but this group may not be as well informed about constituent needs as others. By opening the discussion, unexpected opportunities might surface. Additionally, by sharing the complexity of the decision to be made and the options to consider, leadership helps to build community and buy-in for implementation.

Communicate Consistently

Our last point may be the most important. Often in times of crisis when leadership is busy trying to serve constituents and make informed decisions to save their organization, communication can lapse. Leaders may feel they have “nothing new” to say or they might not yet have a “path forward” or solution for the organization and therefore don't communicate to key stakeholders. Unfortunately, while understandable, this is the wrong course of action.

Nonprofit organizations are expressions of our humanity – people coming together to build stronger, more enriching and more equitable communities. By expressing the hardship that our organizations are experiencing and the difficult choices that must be made, we invite others to participate in the process. We are all joined together in this time, living through a pandemic the likes of which none of us have ever seen.

This is especially true of donors. Helping donors understand firsthand what your constituents and the organization face allows them to support you in the most effective manner. We cannot only talk with stakeholders when things are going well. Helping everyone understand that the organization is maximizing impact and leading with its values – with the needs of our constituents and staff front-of-mind – strengthens the connection and relationship donors feel with the mission. This connection will be necessary for organizations to survive this shock and ultimately be able to thrive once again.

Time is of the Essence

None of the steps here are easy – especially in a time of crisis. Given this rapidly evolving pandemic, it is tempting to put off decision making to see how the situation progresses. One lesson from the Great Recession, however, was that those organizations that assessed their situation earlier were able to make strategic decisions which resulted in less severe measures later. Nonprofit leaders face competing demands and priorities as they deliver on their missions. By inviting others in, communicating clearly, looking at the organization holistically, and understanding where we're starting from financially, leadership can attempt to spread the workload, build commitment, surface strategies and implement solutions to help their organizations – and our communities – survive and, once again, eventually thrive.

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