



Briefing Paper No. 2

The Challenge of Economic Recession for Nonprofit Strategy*

This paper is based on a presentation given to a workshop jointly hosted by DVA Navion and the Asia-Pacific Centre for Philanthropy and Social Investment at Swinburne University of Technology (a founding partner of CSI) on 28 April 2009 in Melbourne.

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The Centre for Social Impact (CSI) is a bold partnership between the business schools of the University of New South Wales, the University of Melbourne and the Swinburne University of Technology. It brings together the committed hearts and business heads of the philanthropic, not-for-profit, private and government sectors in pursuit of social innovation. It provides socially responsible business management education and research in the common cause of building a stronger civil society for Australia.

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* This paper complements *The Impact of Economic Recession on Nonprofit Organisations*, June 2009.

Facing Financial Crisis

Around the world newspapers are picking up a familiar story. Headlines ring out the doleful message. Like the global financial crisis, it started in the USA. According to *CNN* in late 2008 “Wall Street woes hit charities, nonprofits” (*CNN.com* 28 October 2008) and *Time* was reporting that “charities are bracing for a long, hard winter” (10 October 2008). By early this year the *International Herald Tribune* was reprising the view that “charities brace for economic slowdown” (31 January 2009). *The New York Times* agreed that the “financial safety net of nonprofit organizations is fraying” (25 March 2009).

As the crisis spread globally so did the media coverage. “Major Canadian charity reports giving down” said *The Canadian Press* (25 October 2008). *BBC News* reported at the end of last year that in the UK the “credit crunch hits charity giving” (28 October 2008). Four months later, anticipating that the UK’s annual conference of the National Council for Voluntary Organisations would be preoccupied with falling income and assets, the *Guardian* predicted that “the worst is yet to come” (18 February 2009). Philanthropy is perceived as under threat. *The Economist* has opined that “rich donors are hit by the credit crunch. Bad news for the poor.” (9 May 2009)

The impact of economic recession on Australian nonprofits has been highlighted in similar terms. *The Australian* has reported extensively on the “donation drought” (18 May 2009), noting that the “downturn (is) a double whammy for charities” (9 March 2009), that “charities (are) hit hard as crisis bites” (27 March 2009) and that “charities fear cuts in staff, services as donations drop” (29 December 2008). *The Brisbane Times* has suggested that “charities lower sights as givers tighten belts” (15 March 2009) and the *Herald Sun* that “charities (are) in need of a hand” (19 March 2009). According to the *Sydney Morning Herald* “charities (have been) hit by slowing economy” (10 March 2009) and a “drop in donations” (29 April 2009). *WA Today* has forewarned that “charities brace for fall in funding” (5 April 2009).

It’s clearly a bracing climate for nonprofits. The downturn is hitting charities in a multitude of interconnected ways. Take, as one simple example, the annual charity ball. Ticket prices to one of Sydney’s top events, the annual Gold Dinner for the Sydney Children’s Hospital, Randwick have had to be slashed this year from \$2,500 to \$1,000 a seat. Almost certainly the 2009 event will not raise the \$4m donated at the peak of the share market boom in 2007. Similarly the Posh Ball held on behalf of the Cancer Council NSW is expected to raise 30 percent less than last year due to a decline in the number of corporate tables.

The glitter of the charity extravaganza often hides the day-in-day-out, all-year-round fundraising activities that sustain community endeavour. It is now clear that on most fronts, to varying degrees, funding is under threat. Donations, gifts, bequests and investments - whether from individuals, businesses or philanthropic foundations - are falling.

Australian community-based social welfare organisations, like their counterparts overseas, are doing it tough. Already the Starlight Children’s Foundation has found it necessary to reduce some of its services to seriously ill children as funding has fallen: a \$2m drop in revenue has forced the

Foundation to cut expenses by a quarter and to lay off 20 of its 150 positions. As a result, operating hours in paediatric hospitals have been reduced and its wish-giving programs scaled-back.

Vision Australia has similarly forecast a reduction in income of 17 percent. While fundraising is holding up, returns on investment are down and the value of bequests is falling. The annual budget is being recast from around \$89m to around \$75m. Gerard Menses, its CEO, has done a remarkable job in planning to maintain services to Australians who are blind or have low vision but at a cost of 130 jobs across the 1,100 staff. Meanwhile Australian Red Cross has announced that it is to axe up to 20 jobs.

At the Wesley Mission corporate donations are down 25 percent, and income from the charity's trust funds has fallen 50 percent, since last year. Anglicare's newsletter to supporters in February this year gathered donations of only \$55,000 compared to \$100,000 twelve months ago. Epilepsy Action Australia, too, is facing a critical shortage of funds. Large donations from companies, private trusts and bequests have dropped by 65 percent since mid-2008. The mentoring program Sister2Sister reports similar financial pressures. Animal protection organisation, Monika's Doggie Rescue, is on the verge of collapse. Major Brad Halse reports that so far this year business donations to the Salvation Army are down 15 percent. Sue Murray, CEO of the National Breast Cancer Foundation, has also found that some large companies are putting their support on hold, at least temporarily. According to Bruce Bonyhady, President of Philanthropy Australia, many foundations will not be able to maintain their real incomes this year because of the financial crisis.

Falling funds are just one part of the problem. Increasing demand for assistance is the other. Major Gary Master, a territorial appeal officer at the Salvation Army, has emphasised that donations are under threat at the very moment when the call for emergency services is rising. As a consequence the ability to meet needs is becoming progressively harder. According to Andrew Thomas, Perpetual Foundation's general manager of philanthropy, many "organisations are finding themselves in a donation-demand squeeze which sees one-off donations declining as people's capacity to give declines, but an increase in the demand for charitable services as the number of people in need increases".

In short, the Global Financial Crisis has had a significant detrimental impact on the financial viability of Australia's nonprofit enterprise. Perhaps Jeremy Bradshaw, editor of *Fundraising and Philanthropy Magazine* has got it right when he suggests that the GFC could just as well stand for the Great Fundraising Crossroads.

In Australia the path ahead has not been trod for some time. In general, the recent economic environment has been benign. The good news is that, as a result, many nonprofits are in a relatively healthy position to weather the coming storm. The bad news is that economic downturn, and the unexpected opportunities that it might provide, has not been central to the recent experience of Australian charitable institutions. Recession will call for a renewed articulation of strategic purpose and direction. It will involve tough decisions. It will require new forms of leadership.

Planning for the worst

The challenge for social welfare nonprofits is how to plan for an uncertain future in which the depth, scale and length of the economic downturn is unclear. How, caught in the vice of reduced funding and increased demand for services, can community organisations maximise their beneficial mission?

This is not merely, or even mostly, an academic question. My views are informed not just by my reading and teaching but by personal experience as chair of the Australian Rural Leadership Foundation, board member of the National Centre for Indigenous Excellence and the Sir John Monash Foundation, advisory committee member of the Australian Charities Fund and head of the Ethics Committee of the Fundraising Institute of Australia. I certainly don't know all the answers but I am focussing my own attention on five crucial criteria.

(i) Communication

The likelihood is that it will be easier to maintain existing donors, givers, sponsors and investors than to attract new ones. Certainly data from the Index of National Fundraising Performance supports such an assertion. In the US new donors fell 4.4 percent in 2006-07 and a further 6.9 percent in 2007-08. In contrast existing donors continued to rise by 1.8 percent in 2006-07 and fell by only 1.4 percent in 2007-08.

Retention of donors is the key to sustainability. It requires effective ongoing communication with third-party supporters. In the words of Peter Hero on his recent trip to Australia, there is a need to "keep donors near, dear and clear". Make sure that they understand the issues and share with them the exigencies of deteriorating economic circumstances. Be open and honest. "The more they know" says Peter, "the more they'll donate".

In late 2008 a study of high net worth donors in the United States was conducted by the Center for Philanthropy at Indiana University. It found that the number one reason donors stopped giving to a particular charity was that they were "no longer feeling connected to the organisation". As Mal Warwick emphasised in the *Stanford Social Innovation Review*: "All donors need to feel appreciated. They need to feel informed. Their confidence in the charity needs to be consistently reinforced" (Spring 2009).

(ii) Partnerships

It is vital that donors feel that they have a real stake in the programs delivered. Genuine partners will feel that they have a long-term commitment to the community goals rather than just providing discretionary support during good times. Effective collaboration requires an ongoing process designed with strategic intent.

Donors, individual or corporate, need to feel part of the team. Welcome their attendance at functions. Persuade them to visit your website on a regular basis. Don't just inform: seek the ideas and encourage the feedback of those who believe in your organisational mission.

Supporters who feel that they are ambassadors for the enterprise will continue to help through bad times.

(iii) Capacity

It's not surprising that there's plenty of anecdotal evidence right now of nonprofit social welfare organisations and charities tightening their belts. Capital projects are being put on hold, investment in improved IT is being deferred and expenditure of money and time on training is being reduced. Staff are being laid off.

While it is always a wise decision to take pre-emptive action it is only sometimes a good move to reduce administrative costs. The important thing is to keep thinking and planning for the future and to anticipate the expansion in activities that can accompany economic recovery. New opportunities will emerge. There is a need to invest in organisational capacity precisely when times are tough – just as long as one can identify a return in terms of improved performance.

(iv) Strategy

Long-term vision is required. It is important that the pressures of economic uncertainty do not lead to an exclusive focus on the immediate challenges.

Strategic planning becomes ever more important. What is the level of invested savings and to what extent should the organisation be willing to draw down this capital in order to provide services – for how long and in what circumstances? How can recurrent funds be enhanced? Strategy implies lateral thinking. To what extent, to take one obvious instance, can new relationships be established with corporate grant-makers so that they can provide meaningful support through in-kind or pro-bono assistance?

In the organisational cacophony that is the Australian 'third sector' what opportunities exist for collaboration or even merger? There are many points on the scale between these two extremes, such as sharing back-office administration, producing a joint newsletter or partnering with other nonprofits in a mutually beneficial way.

Crisis brings opportunities. Seize them. Stakeholder commitment to the status quo may be sufficiently shaken by financial challenge to allow new organisational structures or workplace systems to be introduced. The costs of federalism are as evident in the nonprofit as in the public arena. State 'branches' often remain more powerful than the national office, and on occasions inter-state rivalry undermines a coherent Australia-wide approach to social or environmental problems – now, as the economic crisis bites, there might be a relatively receptive mood for greater centralisation of organisational control. Mergers between nonprofit organisations with similar goals might be more possible than in a more benign world.

The temptation of life in survival mode is to avoid risk. That's a fatal attraction. In the third sector, just as much as in the corporate world, there is a need to be willing to prudently manage

risk. Of course, it is necessary to contemplate worst-case scenarios – and nonprofit boards must be ever vigilant to the requirement of maintaining solvency – but there is an equal need to identify the opportunities that an intensifying crisis can present.

(v) Leadership

In short, this is a time for leadership in nonprofit social welfare organisations. It requires people who can advocate effectively on behalf of those they serve but who can also, more broadly, construct a persuasive narrative of organisational role and purpose. It requires leaders who can stand not only in the shoes of those to whom they provide support but also (and perhaps harder) can empathise with the diverse perspectives of those donors and investors to whom they look for financial assistance. It requires genuine and honest collaboration which, almost inevitably, takes time.

Leaders need to be able to convey their vision to a wide range of stakeholders. They need to tell a story that can persuade both at the level of the heart (emotional intelligence) and of the head (business acumen). They need to be authentic, speaking truth from a personal perspective.

Most of all leaders need that wonderful quality that the nineteenth-century Victorians recognised as doggedness. It's a leadership that implies not only the strength of character to take tough, even unpopular decisions but to be resilient. In a time of sustained economic downturn, social welfare nonprofits require leaders – CEOs and Chairs – who can keep on keeping on. It will be challenging but, just possibly, it might also be rewarding.



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