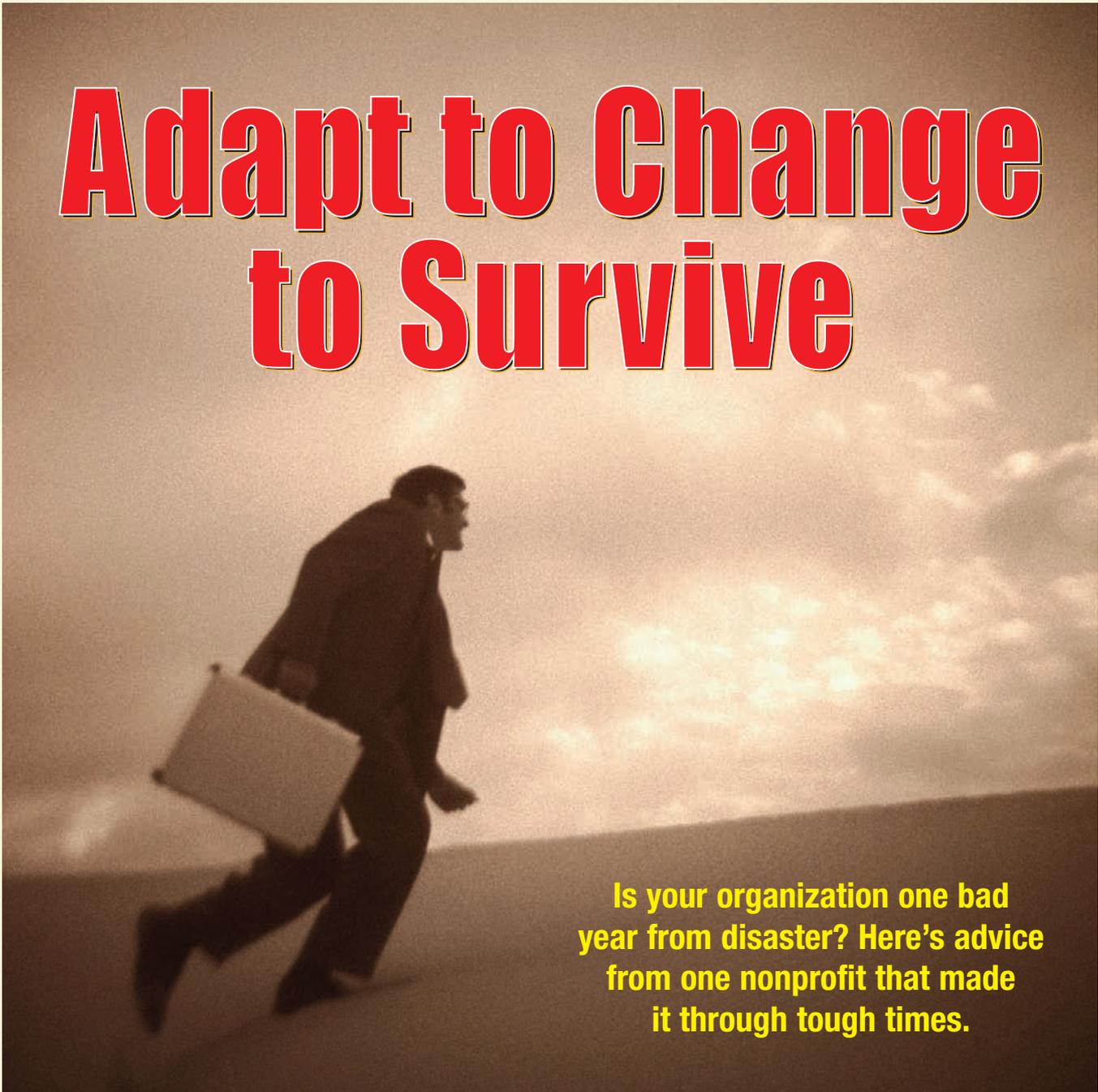


# Adapt to Change to Survive



**Is your organization one bad year from disaster? Here's advice from one nonprofit that made it through tough times.**

By Stephen M. Grimshaw & Ralph J. Egerman

**M**any nonprofit organizations are operating with deficits. Demand for services is increasing, and costs are rising more rapidly than revenues. To survive in such an environment, nonprofits must operate more like for-profit companies. That's a lesson the organization we lead, FamilyLinks, recently learned first-hand.

FamilyLinks is a nonprofit agency that assists troubled youths and at-risk families. Our services (delivered at 18 locations in Allegheny County, Pennsylvania) include substance-abuse counseling, in-home family counseling, mental-retardation services, residential facilities, emergency shelters, and school outreach programs.

FamilyLinks was formed in 2001 by merging two successful nonprofit organizations, the Parent and Child Guidance Center and The Whale's Tale. The idea behind the merger was to eliminate duplicative services and reduce overhead. The greater size of the new organization gave FamilyLinks more clout in dealing with business partners. But the merger also imposed new costs.

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As our merger was occurring, an even greater change was taking place. Funders were shifting from contract funding (paying a nonprofit to serve a group of people over a set period of time) to fee-for-service (paying the organization for services to individual clients). This new funding model means that nonprofits can no longer depend on secure, contractually mandated revenue streams. Governments with their own tight budgets find the fee-for-service approach attractive. And foundations aren't much help in supporting existing programs. Foundations don't want to support fixed programs. They want to be catalysts for innovation.

The depressed economy after 2001 magnified the problem of restructuring and coping with a new funding model. Temporary disruptions in revenue and increased costs resulted in financial trouble for FamilyLinks in 2002.

**A nonprofit organization can survive while operating with a deficit — but not for long.**

### Getting Out of Trouble

FamilyLinks followed a straightforward strategy to correct the financial problems that developed in 2002. Our plan, which other nonprofits can easily adapt, emphasizes operating more efficiently without compromising the quality of care provided to our consumers:

**1. Get help to assess the problem.** The worst thing you can do when facing a financial crisis is to pretend the problem doesn't exist. An outside audit is often the best way to get an objective, no-holds-barred picture of your organization's true financial state. In our case, auditors from the County performed a top-to-bottom investigation of finances and programs. We cooperated fully because we wanted to know exactly how deep our problems went and if we'd overlooked anything in performing our own financial assessment. The auditors found only minor management miscues with the reporting of some of our programs; they found no criminal or fraudulent activity or gross financial mismanagement. Our own independent audit by a well-respected accounting firm identified ways for FamilyLinks to operate more efficiently.

**2. "Rightsize" the staff.** After the merger that created FamilyLinks, we didn't realize at first how many excess administrative positions we had. A reduction of about 10% in administrative areas in 2003 left client service personnel comparatively untouched and brought our costs back in line without cutting services or reducing the number of people we serve. An appropriately sized administrative workforce is essential because personnel costs can comprise two-thirds of a nonprofit's budgeted expenditures. Because a social service agency depends on changing community needs, the definition of the right size of its workforce also changes. If the organization doesn't always have the workforce in line with the right size, it can't survive.

**3. Balance the budget.** It's crucial for a nonprofit under fiscal pressure to bite the bullet and achieve a balanced budget as soon as possible. Once personnel costs have been brought under control, an organization must scrutinize every area of discretionary spending: telecommunications, office supplies, equipment leases.

### Getting the Help You Need

For help in performing the steps described in this article, see the following *Nonprofit World* resources, available at [www.snpo.org/members](http://www.snpo.org/members):

#### Help in Performing an Audit

- Preparing for Today's Nonprofit Audit (Vol. 13, No. 4)
- The Audit Committee: Why You Need One, How to Form One (Vol. 6, No. 6)
- How to Have an Audit without Breaking the Bank (Vol. 20, No. 4)
- Nonprofits without Audit Committees Risk Disaster (Vol. 22, No. 2)

#### Help in Balancing Your Budget

- How to Save Money through Bottoms-Up Budgeting (Vol. 14, No. 1)
- Is That Expense Justified? (Vol. 20, No. 5)
- Protecting Your Organization's Assets: A Primer on Internal Control (Vol. 9, No. 2)
- Create a Budget that Works for You (Vol. 15, No. 4)

#### Help in Increasing Employee Commitment

- Building Morale: The Key to Successful Change (Vol. 13, No. 3)
- The Organizational Personality & Employee Performance (Vol. 21, No. 1)
- Inner Leadership: Mental Strategies for Nonprofit Staff Members (Vol. 18, No. 3)
- How to Improve Internal Communications (Vol. 12, No. 3)

#### Help in Partnering with Other Organizations & Companies

- Pool Resources for Success (Vol. 16, No. 5)
- In Bed with the Enemy: How to Partner with Your Competition (Vol. 21, No. 3)
- High-End Strategic Alliances as Fundraising Opportunities (Vol. 19, No. 5)
- Seven Rules of Successful Collaboration (Vol. 18, No. 2)

#### Help in Creating a Successful Merger or Other Restructuring Arrangement

- Keys to a Successful Nonprofit Merger (Vol. 10, No. 3)
- What Happens when Nonprofits Consolidate? (Vol. 20, No. 3)
- Alliances Are Not Mergers: What Problems Should You Expect? (Vol. 21, No. 3)
- Consolidation: A Nonprofit Success Story (Vol. 7, No. 2)

**New leadership isn't always essential for change, but a new commitment from leadership is.**

Most nonprofits can realize large savings with relatively painless cuts in these areas. We now have a balanced budget at FamilyLinks.

**4. Start change at the top.** New leadership isn't always essential for change, but a new commitment from leadership is. An organization's executives and board members must send a clear signal to every employee, vendor, and strategic partner that the organization will operate efficiently and professionally.

**5. Respect employees.** Employee morale is essential for a nonprofit to thrive. From the first, we made

employee morale a priority. When we needed new managers, we promoted from within whenever possible. We reassured employees that they would be moving forward with the agency, and we held our first-ever staff appreciation day. Morale has improved tremendously because everyone at FamilyLinks believes in the organization's strength and the importance of its mission.

**6. Enlist reliable partners.** FamilyLinks received strong support from Citizens Bank as we moved through the process of putting our financial house in order. The bank gave us the flexibility we needed to solve our problems ourselves while expressing confidence in our ability to do so. The Department of Human Services of Allegheny County's unwavering support was also a key element in our recovery.

A nonprofit organization can survive while operating with a deficit—but not for long. A return to a sound financial footing is possible for organizations that assess their condition candidly and embrace a disciplined recovery plan. Nonprofits need to become more efficient and better aligned with new funding models. By remaining open to changing the way you've historically done business, you can ensure that the people who depend on you for services will have a friend for many years to come. ■

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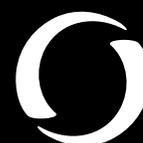


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