In Bad Economic Times, Focus on Impact

By Bob Searle
and Alex Neuhoff

The Bridgespan Group

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Now is not the time for nonprofit organizations to spend precious dollars on anything that doesn't produce an immediate benefit. Or is it?

Faced with the need to cut back, investing in projects designed to increase productivity and efficiency (such as moving forward with the planned addition of a chief operating officer) can mean cutting elsewhere. And that means possibly affecting the number of people a nonprofit group serves over the short term. The problem is, when an organization is stretched too thin to operate efficiently, or when cost-saving investments are delayed for too long, ultimately it is the beneficiaries who suffer as quality declines.

Improving internal operations can increase productivity and reduce costs—all without sacrificing quality. Nonprofit groups can get more bang for the buck. And that's what nonprofit managers and grant makers need to remember, even though the economy is in turmoil.

Year Up, an organization that helps young adults who live in big cities gain access to education and experience, offers a good example. As part of its intensive training program, Year Up pays its students a biweekly stipend for the hours they have worked at their internships. Historically, Year Up gathered time sheets manually and processed the checks internally—a time-intensive process.

Seeing more growth and expenses on the horizon, however, the organization invested in a centralized mechanism for collecting student data at all of its sites. An automated process translates the data into a format accessible to a company that handles the payroll, providing an efficient solution to a potentially expensive challenge.

Year Up was fortunate that it was able to increase its budget. That scenario is just not as likely to be the case for many nonprofit groups in today's economy. But organizations can also cut back without cutting bone.
Jumpstart, an organization that gives preschool students the skills they need to do well in school, did just that. At Jumpstart, salaries of staff members are the organization's largest expense. In 2002, the group's managers noticed that its Boston operations had twice as many staff members as its units that operate in the suburbs, yet the other sites were successfully serving similar numbers of youngsters. Armed with that information, Jumpstart leaders decided to reduce the number of employees in Boston by almost half. That change did nothing to reduce the quality of the preparation that the nonprofit provided to youngsters in Boston.

As nonprofits face growing economic challenges, cutting expenses while preserving quality is key—as are other investments that improve an organization's management and operations.

That's why nonprofit leaders should strive to understand the needs of their internal operations as clearly as possible and communicate those needs as explicitly as possible to grant makers. And that's why grant makers need to think more broadly about the projects they are supporting. That may mean providing more unrestricted money that can be used to support a technology upgrade, or a much needed management position, rather than earmarking an entire grant to support an organization's programs.

Cutting budgets is an excruciating process. Ensuring improvements, even if an organization's leaders are able to budget additional money for operational expenses, is also difficult. The key is to ensure that the resources are used wisely. Year Up and Jumpstart leaders observed four management basics:

First, they made an effort to understand what they did well, and how they did it. Once they knew that, they made sure every part of the operation followed the approaches that had been proven to work. That made them better able to assess operational needs against their organizational goals.

Second, they were realistic and explicit about what was needed to ensure the organization operated well. They articulated how the roles and activities of staff members would contribute to fulfilling the organization's goals. Jumpstart, for example, noted that when it comes to salaries, "paying more costs less." Although that may sound counterintuitive, the logic holds: Better pay reduces turnover, increases the average experience level of the staff, and builds institutional knowledge.

Third, they managed costs aggressively. One of the greatest costs at Year Up is training stipends for participating students and the companies that provide them with internships. Year Up analyzes and experiments with stipend levels at each of its four sites to determine the minimum level necessary to reach as many students and companies as possible.

Finally, they measure progress. To know if an investment is paying off, and to make sure a cutback doesn't hurt performance, an organization must be measuring its results. There is great value in creating a performance-measurement system that provides timely feedback about costs and results.

Year Up uses a set of PowerPoint performance dashboards in five critical areas: recruiting and retaining talented staff members, attracting top students to join the program, teaching marketable skills, training students to achieve successes, and creating management systems that are sustainable. The management team sets performance benchmarks and then rates progress accordingly.

The American financial system has been shaken to its core, with global repercussions and no end in sight. Any decisions about spending money in one area over another are going to be incredibly difficult and are going to hurt somewhere. But if ever there was a time for nonprofit leaders and grant makers to embrace the notion that reducing costs without loss of quality is possible in the nonprofit world—and that an organization can get more bang for the buck—this is it.