

After years of favourable economic conditions, growth, wealth creation and generous giving, charity organisations too are confronted with adverse impacts of the recession – just as other organisations or businesses they need to learn how to cope with resource constraints.

Unfortunately at the same time the actual demand is on the rise, caused for example by unemployment and other adverse economic, social or environmental consequences of the current crisis.

In today's recession the key question therefore is: how can charities maintain a good level of service delivery capacity, when at the same time they have to fight with increased costs and falling income?

A recent article in the Boston Herald ([bostonherald.com](http://bostonherald.com)) stated that the Harvard fund - run by Harvard Management Company, Inc. (HMC) - suffered greatly from the crisis. The Harvard University's endowment fund lost nearly \$11 billion, or 27.3 percent of its value, in the last fiscal year as the financial markets melted down. The drop is less than the 30 percent decline that university officials had predicted in December - but still bad enough to force the nation's richest school to make cutbacks. The fund, which held \$37 billion on June 30, 2008, was reduced to \$26 billion the following year." The losses have had widespread ramifications across the campus, because the endowment covers one-third of the school's annual budget. This summer, Harvard announced its first-ever layoffs and implemented major spending cuts.

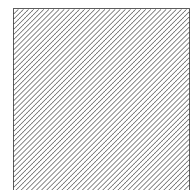
This is just one – but very prominent example – of how funding sources can be hit by the recession, and how this in return impacts the services of the organisation.

#### Crisis – the impact on charities

While to some extent it is still uncertain how hard the recession will hit charities, some consequences are already clear. For example, what is known from past recessions is that there is a time lag between the start of a recession and the decline in donations from private and corporate donors.

In either way, it means that most charities will need to cope with lower incomes. In a recent survey of the Association of Charitable Foundations, the Charity Finance Directors Group, the Institute of Fundraising and PricewaterhouseCoopers (2009) it becomes clear that there is widespread concern that most sources of income will, at best, remain static and that income from trusts, corporates and legacies in particular will decline.

But of course there are differences between different sources of income, as well as between different fund raising strategies and types of charities. Whilst charities with a diverse voluntary income base with a mix of fundraising techniques will have less of a problem to weather the storm, those relying on a single donor legacy or corporate donor are likely to be much more impacted. In fact, expected income from corporate giving was the greatest concern, with 71% of the respondents expecting either no growth or decline. What makes the situation worse is the fact that no growth actually already means a worsening of the situation, when on the other side costs are going up, e.g. for fundraising.



ARGUS der Presse AG, Rüdigerstrasse 15, Postfach CH-8027 Zürich  
Tel. 044 388 82 00 Fax 044 388 82 01 www.argus.ch

The conclusion and recommendation for private charities here is to diversify their income sources and for instance find new and innovative fund raising techniques. Membership income seems to be less vulnerable and a good customer retention program that involves the donors more in the activities of the charities could be a very interesting option in this context.

For corporate foundations, much relies on the business case of the foundation: how good is the charity program able to explain the value created not only for the beneficiaries, but the values created for the company.

Charities are also impacted on the expenditure side. Costs for salaries, IT, energy, insurance, pension, administration, travel etc. are constant concerns of almost every charity. While some of these costs tend to be a bit lower in a recession (for the time being), others are rising, such as costs for social security or pensions.

Like businesses, charities are applying cost reduction measures to ensure the most efficient use of funds and to minimise the impact of reductions in income.

Classic cost reduction measures include amongst other things cutting back the funds dispersed, readjustment of the services offered, decrease in spending on administration (e.g. relocate offices to cheaper offices, or closing of

offices), reduction of staff numbers or in salaries paid, outsourcing of certain tasks to (e.g. to centralise administration), or reduction in travel.

However there are limits to cost reduction, and beyond certain levels the operating model can be threatened in such way, that the charity will actually be unable to deliver. Key therefore will be how well management can react to this new environment and to find sustainable solutions beyond simple cost reduction. Fortunately, in another recent survey ("Philantropy in the context of the economic crisis", Zircon, Donors Forum, CAF Russia and PricewaterhouseCoopers) it was mentioned that only few surveyed organisations are actually thinking about downsizing staff, and even fewer about closing or suspending operations.

There is also - at least in the longer run – a good side of this development. If charities are prepared to respond more strategically to this challenge, it will make them stronger and more effective. Most probably the situation will force charities to become more cooperative and establish networks. One should hope that this will enable the different players to join forces, create synergies, and finally innovate their services.

What comes next – how should charities react?

Undoubtedly these times also offer opportunities. One imperative is that charities need to show strong leadership. Now is the time to critically review all aspects of the charitable organisation and undertake the right steps to make the charity more efficient and effective.

Charities must for example ask themselves:

Strategic: Is our strategy, vision and mission (purpose) still valid or must we review and redirect? Do we know what scenarios we could potentially face, and are we agile and flexible enough to react? Is our position and focus clear to everybody? Can we survive as a stand-alone charity, or should we look at merger possibilities? Are we cooperating enough, and with the right partners?

Services: Are we result-oriented enough? Do we focus on what really matters? Are we possibly doing too many activities? Which services can we reduce or put on hold, which services are vital to our mission and purpose?

Fundraising: How can we make our fundraising more effective, how can we secure our income sources? Do we need to diversify fundraising techniques and sources?

Governance & people: Are we organized in the right and most way? Can we be organized more efficiently? Are we recognizing and motivating our people enough? Do we have the right people to transform our strategy into results?

Financial processes: Knowing that “cash is king”, are we able to manage our cost base and to monitor closely our cash-flow requirements? Do we have reliable management information systems and good controls in place to ensure funds are allocated and used in the best and most effective way? Do we have adequate budget monitoring and planning processes in place? Is our investment policy and risk taking still adequate?

Communication: can we measure and communicate our impact and results, also beyond a single project level?

Hundreds of years ago Miyamoto Musashi, a Japanese Swordsman said, “In strategy it is important to see distant things as if they were close and to take a distanced view of close things.” One therefore should not forget that charitable activities are by very nature long-term oriented, and corporations as well as private foundations should look at charity as a long term investment. Even if readjustments and cutting back of certain activities are needed today for reasons of survival, it is important not to loose sight.

It is most probable that we will see new models of 21st century philanthropy that will move beyond traditional models of charity. We will see charities that are learning from a business approach to increase efficiency and effectiveness, and we will see closer engagement between donors and recipients, and charities that are providing less money, but more management advice and networking opportunities to the recipients or partners.

In whatever direction the third sector will develop: it is very probable that those organisations using the time of recession now for reviewing and improving their position will emerge stronger.