



What to Do if You Are in a Financial Crisis

by Kim Klein

Adapted from *Reliable Fundraising in Unreliable Times: What Good Causes Need to Know to Survive and Thrive*, by Kim Klein (Jossey-Bass, 2009).

For more information about this and other topics, or to purchase a copy of the book go to josseybass.com/go/kimkleinfundraising

IT'S USEFUL TO KEEP IN MIND that every problem an organization has will eventually show up in its fundraising and ultimately its financial health, leading most organizations to think that their problem has to do with their fundraising. However, difficulties with fundraising are often simply symptoms of a problem or part of a larger problem. To solve the problem requires correctly identifying it; otherwise, the solution will be a temporary fix.

It's important to remember that a problem is not a crisis. Even a serious problem may not be a crisis. To avoid a crisis, or to deal with one, requires knowing this difference.

How to Recognize a Crisis

In general, these are the identifiers of a crisis:

- **No easily identifiable problem.** If an otherwise healthy organization starts to have a serious cash flow problem, or a serious disagreement arises between the board chair and the executive director, or the group receives bad publicity about something, it may get into a crisis. But it probably won't, for the simple reason that the organization can focus on the single problem, figure out the possible solutions, and solve it. It may not be easy and it may not be pleasant, but it will not likely turn into a crisis.
- **No easy solution.** A crisis is often the result of leaving problems unaddressed or denied. This blinkered approach not only causes the problem to get worse, it often spawns

other problems, so the solution won't be a one-step action. In a situation in which it's difficult to identify a single problem that lends itself to a straightforward solution, an organization needs to do something quickly to get out of crisis mode, but it can't be the wrong thing because the group doesn't have the luxury of making more mistakes.

- **If the organization continues on its current path it will have to close.** Situations in which the forecast of more of the same will lead to ruin, the people running the organization have no choice but to change. But what kind of change, how fast they can change, who is going to lead the change, and above all, how the change can be made permanent are extremely serious considerations and will need careful thought and appropriate action.

Why is it important to know if you are in a crisis, as opposed to a serious cash flow problem or a serious personnel issue? For two reasons: first, a crisis requires a plan that causes a fundamental shift in the way an organization does business, and this shift makes a permanent difference. A problem, like loss of funding could get to be a crisis if it causes an organization to lose sight of its mission and principles and if the organization does not see in it an opportunity to build or rebuild its grassroots fundraising program.

Second, donors will respond generously to one or even two organizational crises, but they don't like it when an organization seems to lurch from crisis to crisis. They begin to think that either

you are not telling the truth (“crying wolf”), or that your organization is incompetent. Whatever they think, they begin to stop giving, so you don’t want to be in a crisis very often and you don’t want to exaggerate something into a crisis that is not one.

To determine whether you are in a crisis, ask yourself these questions:

- If left unchecked, will what is happening result in our having to close our doors?
- If left unchecked, will what is happening result in our having to change our mission significantly?
- Do a lot of people around the organization feel that the situation is hopeless?
- Is immediate drastic action called for?
- Is there no clear immediate solution?
- Is this crisis the climax of a series of events that have led up to it, even if it is precipitated by one major event?

If you answer yes to two or more of these questions, you are in a crisis. Mobilizing to solve a crisis is different in scale, in depth, and in outcome than mobilizing to solve a problem. It begins by creating a group to tackle the crisis.

The Crisis Task Force

Once you have established that you are indeed in a crisis, create a crisis task force.

This is a group of three to five people who will act as “mission control” for the next few months. They need to have a calm and reassuring presence, be able to keep focused on the big picture, and be able to keep decisions from being made based on anger, resentment, or other negative (if understandable) feelings. The Crisis Task Force should be made up of people who are eminently trustworthy and are able to keep information confidential. Perhaps most important, they need to believe deeply in the organization and the need for the organization to continue. Obviously, if the crisis is a scandal, no one directly related to the scandal should be on the Task Force.

If the crisis is strictly generated by funding cuts, the Task Force will be made up of people who will focus on immediate ways of raising money and who will create a longer-term fundraising plan. If the crisis has legal elements, then one member should be a lawyer with nonprofit experience. If the crisis is about financial mismanagement or poor budgeting, then having a bookkeeper or accountant as a member will be helpful.

Work of the Task Force

The Crisis Task Force is not an investigative body. It is not so concerned with whose fault the crisis is or what should have been done differently as with what needs to be done now and

what needs to be done differently in the future. This is not to say that investigating what happened or figuring out what should have been done differently is not important, but it is not the main work of this committee.

The Crisis Task Force meets frequently for one or two, and maximum three months. In addition, the members of the Task Force will be making phone calls, meeting with staff and other board members, and answering questions as they come in. People have to be willing to make the time to do this job, which is why the length of the Task Force’s life must be kept short.

Information the Task Force Gathers

Here is the information that the Crisis Task Force will need to begin developing in their first meeting. If this information isn’t available, then one of their first tasks will be to get it.

1. Are people committed to keeping the organization going? If the answer to this question is a resounding, passionate, unhesitating “Yes!” then the rest of the questions are considered.
2. What happened to bring the organization to this point?
3. What is the cash flow projection for the next six months?
4. What fundraising plans are already in place?
5. What, if any, financial reserves are there, and what are the terms of using them?
6. What is the immediate financial need?
7. What are other immediate needs? (Examples: to reassure staff that their jobs are safe or figure out layoff plans, to hire an interim director, to negotiate paying bills late, to deal with the media).
8. What do the funders and donors know about what has happened and what do they think about it? Equally important, which funders and donors should be told and how much?
9. How, how often, and to whom does the Task Force communicate what it is doing?

The job of the Crisis Task Force is to keep the group alive during the crisis as well as figure out a fundraising plan, begin implementing that plan, and put in place steps to ensure that the crisis does not recur. Remember that a crisis is not a one-time-only unfortunate event in an otherwise smoothly functioning organization; it is the result of a series of missteps and miscalculations that have led up to the crisis. There can be a precipitating event, but the event alone cannot plunge the group into a crisis. Therefore, it will undoubtedly take a multilevel process to resolve the crisis and restore confidence.

In cases where an organization does decide to fold, it is the job of the Task Force to decide how that will happen. Should an-

other organization be given the office furniture and the mailing list? What termination package can be given to staff? Are there debts to be paid? What will the organization tell the public? Deciding to close is both a hard decision and surprisingly complicated, not unlike ending a marriage. If that is the decision, the Task Force will probably want to consult a consultant with experience in this arena.

The Way Out: Think About Raising Money, Not About Cutting Costs

A cash flow projection over the next six months will show how immediately serious the situation is. At least in the beginning, approach the crisis thinking, “How can we raise the money we need?” rather than “How can we cut expenses?” If there are obvious cuts or ways to save money, by all means do them. You should be making any cost savings you can whether in crisis or not. But most small organizations spend so little money that looking for places to save money that don’t cause cuts in basic programs is often not a good use of time.

You will find that the instinct of many people is to cut expenses rather than raise money. The Task Force should resist this reflex as much as possible and instead use this crisis to create new income streams. Cutting expenses will not provide any permanent solution to your crisis, nor will it move you in a new direction as an organization.

Mission, Message, and Damage Control

An important aspect of containing the crisis is to create a message for donors and possibly the public that describes the situation but does not exaggerate its dimensions or its implications for the organization. In creating such a message, you find what is important—in fact, what is undeniably persuasive—about what you do. To do that, first return to your case statement.

During a crisis, a case statement becomes a combination of an oath of allegiance, a blueprint for action, and a source of inspiration for the work ahead. Perhaps most important, the case statement is the cornerstone for raising money effectively—crisis or no. (*For how to polish your case statement, see the training exercise on page 6.*)

Create a Message

The message you create is specific to your current situation. To begin to craft the message, once it has found inspiration in the case statement, the Crisis Task Force or the board poses the question: “What does this organization bring to the current reality that is so critical that the organization should exist right now?” To put it more baldly, many organizations are going to

go out of business in the next few years. Why shouldn’t yours be one of them?

Your message should not be evasive or vague. If there are legal issues involved, ask your lawyer what you can say and what would be legally dangerous or off-limits. But if there are no legal issues, then figure out how you can tell the whole truth, but keep returning to the mission of the group. Part of the message can be that you will be sending out more information as it becomes available. Don’t be nervous about admitting that you don’t know everything yet.

Get the Board on Board

In crises, we often focus on the opinions of people outside the group—the donors, the clients, even the general public. Yet our greatest difficulty in forming a message and relaying it is often at the board or staff level. It is critical that board and staff know that their opinions and feelings are welcome; further, they must not feel that they are being asked to lie or be evasive with others, but they must also understand the importance of good judgment and tact in handling difficult matters. Board and staff must be involved in the process of exploring options and discussing all points of view, or they can quickly feel stifled.

Deliver the Message

The message cannot be separated from the messenger. Finding well-respected and trustworthy people to help you deliver your message is just as important as the message itself. Long-time donors, funders and volunteers make great messengers. They can deliver the message and then conclude (assuming they feel this way), “I think everything will be fine,” or “I have a lot of confidence in the team of people who are working on this.” Generally, people should be told through a call or a visit. Avoid e-mail, which can be forwarded too easily and may take on a life of its own.

Fundraisers have to take into account that there is an order in which the message will be delivered. Make sure that you don’t inadvertently alienate someone simply by not informing them of the situation early on. Make a list of the people who need to hear about the crisis first. In addition to board and staff, think about anyone who thinks of themselves as close to your organization—the organizational “family.” This list will include active volunteers, long-time funders, long-time major donors, and sometimes former staff and board.

Keep People Current

If, as in many crises, the situation unfolds over time, create a phone tree to keep people up to date. You can, at this point, decide to do an email newsletter, but again, remember that

anything you write in an email can wind up anywhere. The people who are told first can be enlisted to tell others. Since they will probably want to tell someone anyway, this provides some control over message delivery.

Talking with Major Donors About the Crisis

Major donors get more fundraising time because they are giving more money. They usually feel they have made a bigger investment in the organization than a donor who gives a smaller amount, and a few extra major gifts from them will be a big help in getting an organization through a crisis. When an organization is in a crisis, major donors need reassurance that their gift is not going down the drain. Here are four things that will reassure almost all major donors; most of them need to hear about just one or two:

- **An explanation.** Major donors should usually be told about as much as any funder or board member. Don't feel you have to launch into a long explanation. Give a brief summary of what happened, then be open to fielding the donor's questions.
- **A fundraising plan.** A fundraising plan shows that you have thought through what is going to be required to move out of the crisis. Your plan should be as realistic as possible, but hopeful and optimistic. Be prepared to show your cash flow chart and a strategy-by-strategy description, including gross and net incomes for each strategy. Show them your gift range chart and talk about the number of other people you are recruiting to help with funding during the crisis.
- **Help from other donors.** Evidence that other people have bought into this plan is important. As you get gifts, ask if you can share the donor's name and the size of the gift with other prospects. Having a board that has bought into the plan is critical, too. You need to be able to say, "One hundred percent of our board members have made a gift that is significant for them to demonstrate their faith in our future."
- **An escape plan.** Some donors need to be offered a contingency—they will only give if certain things happen. Of course, such a way out should be offered only if the person clearly indicates that's what is needed. Most people do not require this fourth element. Nonetheless, some may want it. Ask the donor how much money you would have to have raised toward the goal for the donor to feel that the campaign was going to succeed.

When the Crisis Is Caused by a Scandal

Scandals are difficult to deal with because they break trust. Now the question is not whether your plan will succeed but

whether you really can fix an organization that has allowed such behavior. Going back to message, you will want to identify people who can say they think the organization can be trusted again and the problems are being dealt with responsibly. Talk with those people. What would they need to see in the organization to feel confident about saying good things about it or putting their own money into it?

In a scandal, finding out the context of the problem often goes a long way to reassuring people that the problem can be solved. Donors need to know that the circumstances that allowed the scandal no longer exist and that the organization is thoroughly evaluating itself to ensure that nothing else is amiss.

In the end, donors are your friends, and major donors are your family. They may not like what you do, but they will generally stand by you if they have enough history with you to know that this scandal is something you did—and not something you are.

Everything Comes Back to Mission

In a crisis, program or fundraising direction may have to change, but that step is possible as long as there is a group of people who care deeply about the organization and who have recommitted themselves to its mission. ■

Kim Klein is Publisher Emerita of the *Grassroots Fundraising Journal*. The Sixth Edition of her classic book, *Fundraising for Social Change*, has just been published by Jossey-Bass.



Want to read more articles on surviving through crises? Visit the *Journal* archive at grassrootsfundraising.org/archive to find articles like:

- “Five Tips for Nonprofits to Survive & Thrive – Now and into the Future” by Kim Klein (Vol. 28 No. 2)
- “Time to Merge? Financial & Fundraising Implications” by Priscilla Hung & Stephanie Roth (Vol. 28 No.1)
- “How to Prepare Your Nonprofit for an Economic Recession” by Richard Male (Vol. 27 No. 3)
- “How We Survived an Embezzlement” by Teresa Erickson (Vol. 24 No. 2)