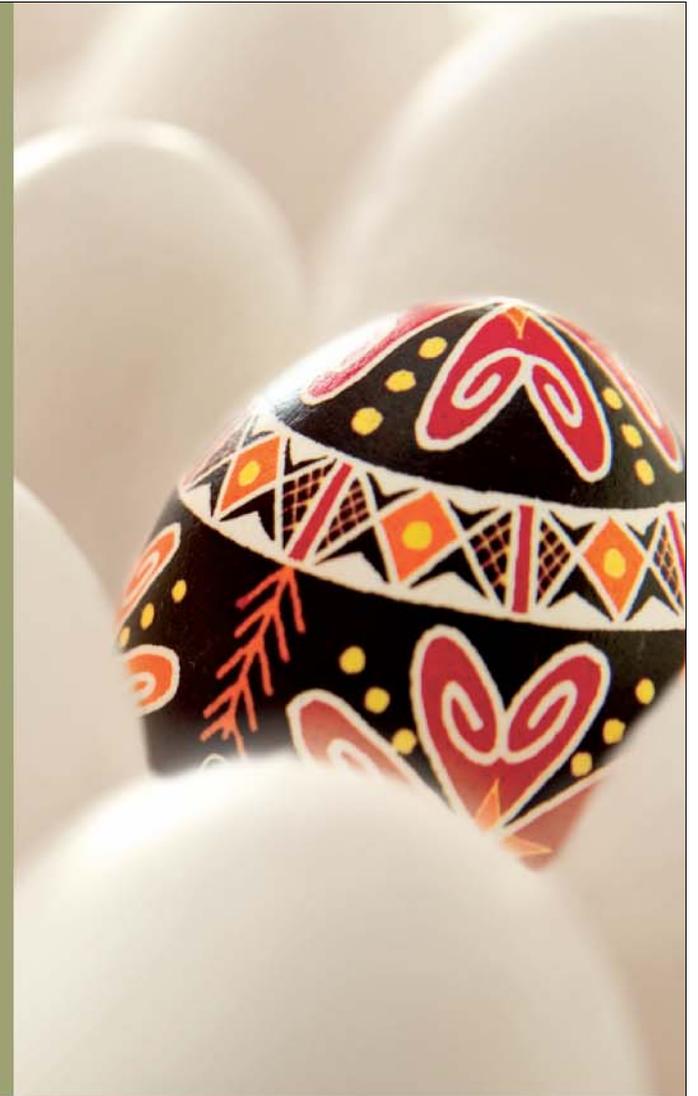


Boards of Directors in Recession Mode

Sara A. Peterson, Managing Consultant
Aging Services of Minnesota Annual Meeting & Leadership Forum
Madden's Resort, Brainerd, MN ~ September 16, 2009



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NOTICEABLY
DIFFERENT

Overview

- The duties of board governance are always the same.
- But boards of directors need to engage at a different level – even ask different questions during a recession or crisis.
- **In this session we will explore:**
 - Review examples of internal structures that may impede deep engagement and the process for moving forward and know when to revert back.
 - Explore board approaches and priorities affected by extraordinary times.
- You'll take home ideas and suggestions you and your board members can implement to improve your recession coping mode of operation.



The typical starting point...



Typical Boards

- Have an average of 16 voting members¹
- Meet 6.9 times / year for an average of 16.5 hours total¹
- Have agendas full of regular reports
- Want to know everything is going well
- Don't have a lot of time to find out if things aren't
- Are likely to be the last to know when they are

Sources:

1. BoardSource, Nonprofit Governance Index 2007 (2007)



When to enter recession / crisis mode...



There is no Magic Equation

- When the executive asks
- When a board member asks
- When the numbers demand
- When an outsider / event demands



Step 1: All Hands on Deck

- Boards must find ways to meet more often
 - To monitor indicators more closely
 - To make decisions more quickly yet take more time to think them through
 - To assess the environment more frequently
 - To ask a lot more questions
- Management must share appropriate information more often
- Management needs to invite, welcome, and expect more questions
- Board members may need to volunteer more



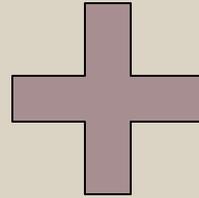
The Duties are the Same

Govern

Care, loyalty, & obedience

Left & right brain leadership

- Vision and strategy
- A needed product or service
- Policy-making & oversight
- A healthy organization—
financially, managerially, &
programmatically



Support

Time, talents, treasure to:

- Volunteer
- Fundraise / donate
- Advocate



But Recession & Crisis Bring Change

- **Everything becomes less elastic**
 - Smaller shifts (finances, structure, program) have larger impacts
 - Time to react to shifts shrinks
 - So do margins for error in those reactions
- **Warts become more visible**
 - What “worked” yesterday may not today
- **Stress increases**
 - Leading to overreaction or withdrawal

If you really want to advise me, do it on Saturday afternoon between 1 and 4 o'clock. And you've got 25 seconds to do it, between plays. Not on Monday. I know the right thing to do on Monday. - Alex Agase, University of Michigan, assistant football coach



Step 2: Triage & Tackle Vulnerabilities

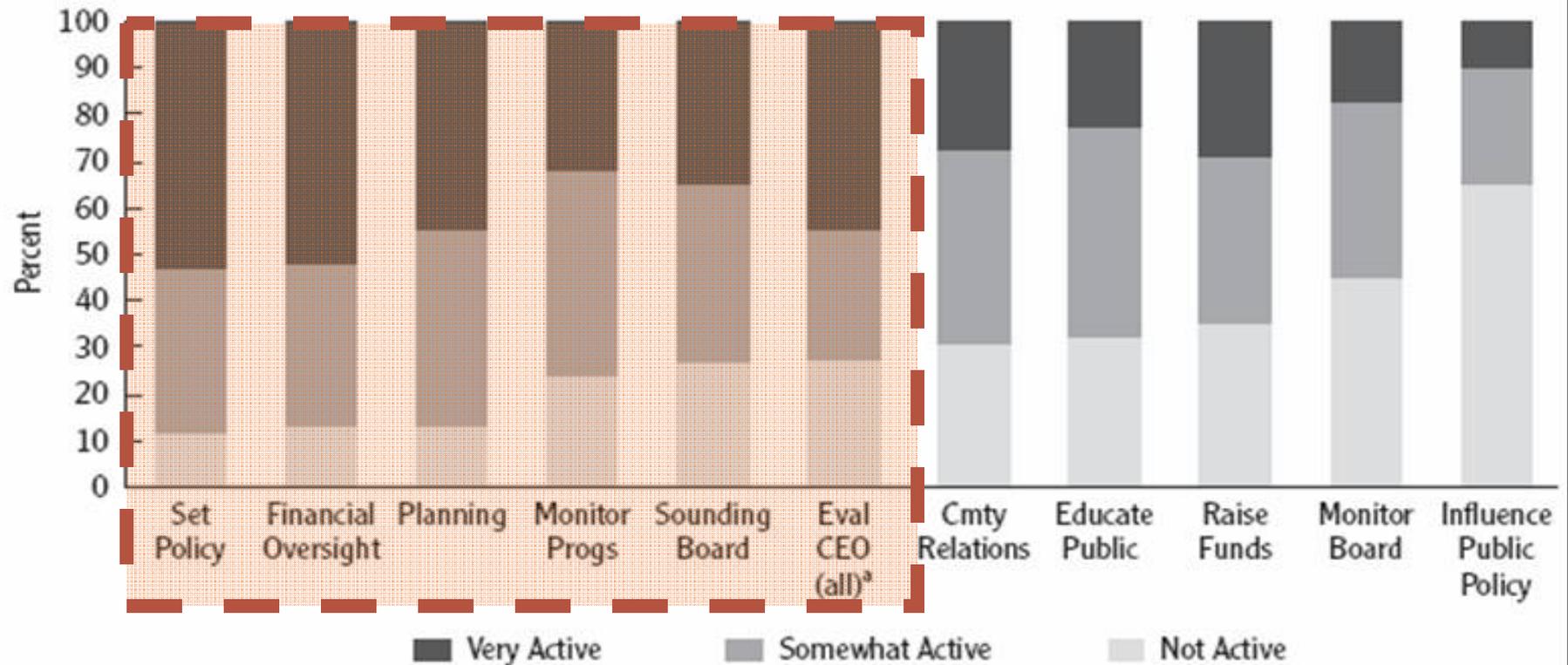
Use the following as your planning guide:

- Critical Issue and Timeframe
- Immediate Action
- Assistance Needed
- Long-term Action
- Checkpoints



Key Focus Areas

Figure 4. Board Activity Levels



Source: 2005 Urban Institute *National Survey of Nonprofit Governance*

Note: "Not active" combines "not at all active" and "not very active."

a. Among those with a paid CEO only, the percentage very active in evaluating the CEO is 54 percent.



Sounding Board & Executive Evaluation

Ask hard questions

- **Are we appropriately supporting our executive?**
 - Can we help him / her think through the details?
 - Do we need to help find a way to free up time to address the situation?
- **Are we appropriately evaluating our executive?**
 - Is he / she in denial, overreacting, responding appropriately?
 - Do we have appropriate work plans and expectations in place?

...cannot emphasize this area enough
Now apply to other focus areas.



Policy & Planning

Ask hard questions

- **Do we have the policies in place we need now?**
 - Financial (investments, use of debt, new expenditures...)
 - Staffing (use of vacation, raises, hiring...)
 - Communications (to clients, funders, the public...)
- **Are our current plans the right ones?**
 - Do we need to add or cancel events?
 - What should happen faster or slower?
 - What is extraneous to or distracting from mission?



Financial & Program Oversight

Ask hard questions

- **Do we fully understand our financial model and position?**
 - What is our economic model, and where are the subsidies?
 - What are fixed, step, and variable costs?
 - How much cash do we have on hand and coming in?
 - What is our cash flow reality?
- **Do we fully understand our program model and position?**
 - What are high and low mission programs?
 - Which programs are internally subsidized?
 - What program commitments do we have?



Step 3: Map Contingencies

They should...

- Be easy to implement quickly if there is a major shift or event
- Include at least 3 scenarios (best, mid, worst case) for each variable
- Include financial, structural, and programmatic responses such as:
 - Prioritized dollar-for-dollar adjustments (cost reductions or “add-backs”)
 - Vertical options that eliminate entire programs, projects, etc.
 - Horizontal options that adjust proportionately across the organization
 - Intentional use of resources for short-term / contained crises
 - Radical responses such as merger or closure

“The significant problems we face cannot be solved at the same level of thinking we were at when we created them.” - *Albert Einstein*



Step 4: Identify Canaries & Triggers

Canaries were once regularly used in coal mining as an early warning system. Toxic gases ... in the mine would kill the bird before affecting the miners. Because canaries tend to sing much of the time, they provided both a visual and audible cue in this respect. ~Wikipedia

- Articulate the critical variables for your organization
- Identify the canaries – indicators of change – for the organization
 - Earned revenue, fundraising goals, or attendance rates
 - Changes in specific funder guidelines or legislative mandates
- Qualify & quantify the trigger points for each canary that will cause you to change mode and/or activate a contingency plan
 - The point in the year at which financial goals need to reach x% OR
 - The level below which a particular revenue stream cannot fall



Step 5: Develop Dashboards to Monitor

...canaries, triggers, & contingencies

They should:

- Convey information in a consistent and timely way that is essential to your ability to understand & act on behalf of the organization
- Track information that is so critical to success, that performance outside an acceptable range triggers corrective action
 - Information that is important to the organization's health and sustainability
 - And rooted in the organization's economic model and organization planning
- Engage board skill and interest while demonstrating progress



When to *exit*

recession / crisis mode...



Why Do Boards Manage versus Govern?

- Board development has not kept pace with organizational development
- Members may have specialized knowledge
- Members have special interests
- Members mix operational issues with strategic governance issues
- Some members would rather act than delegate
- Boards tend to manage during an internal transition or crisis
- Or in periods of external turbulence & crisis

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Take Control of Exit

- When the executive and board agree
- When the numbers allow
- When your criteria dictate



In Sum: 10 Smart Things...

... Your Board Can Do Now

- **Don't panic.**
- Think strategically.
- **Get a realistic picture of your organization's financial situation.**
- Create a contingency plan.
- **Work more closely with your chief executive.**
- Step up your fundraising.
- Tighten your belt.
- **Pump up your engagement.**
- Evaluate your compensation structure.
- **Be a mission guardian.**

Author: Barry D. Gaberman, Board Chair, BoardSource, Washington, DC



Q & A...

Thank You for Attending!



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