To The Rescue

Can ailing organizations turn around?
Experts suggest how to get started.

By January, it has become clear that the Performing Arts Center is headed for trouble. A combination of poor ticket sales and a drop in contributed income is leading to a significant deficit. The resulting cash shortfall will mean insufficient funds to cover staff salaries in March. The local bank announces that it will not extend any more credit and tells the Executive Director that without an outside independent audit of the numbers and a stabilization plan, it will not renew the current loan when it expires in June. Trustees are abandoning ship and the Chair is talking about resigning. The Executive Director is desperate and doesn't know where to turn.

The incoming Board President of a local presenting series receives unexpected news. The Executive Director and the Director of Finance have both found new jobs and are planning to leave within 30 days. The next most senior staff member, the Director of Marketing, is unwilling to assume an Acting Director role, is expecting a baby, and will be taking maternity leave. The Chairman is trying to figure out who should be involved in the first discussions about replacing these executives and how to meet the overall emergency.

The new President of a local community foundation notifies all arts organizations in town that it is shifting its priorities and its long-standing and significant support of the cultural sector will cease as of the next fiscal year. Trustees and staff of local arts organizations have known for years that reliance on this particular stream of funding was probably unhealthy. Nevertheless, they never anticipated that change would come so suddenly. For the local presenting organizations, contracts have already been signed with visiting performing groups. With only 4 months' notice to rectify the situation, the leadership is not sure which way to turn.

The firing of the long-time executive director in a local arts organization turns acrimonious and ugly. After his demands for significant severance are not met, he hires an attorney and sues, claiming age discrimination and that the Board did not follow the procedures in the organization's Personnel Manual. The local newspaper sees a good story and follows developments, offering daily headlines, supplied by the staff member's lawyer. Unhappy donors— loyal to the Executive Director— threaten to withdraw their support. The Board is caught completely off guard and begins to lose confidence in the decision.

By Thomas Wolf and Jane Culbert

Stories of organizational crisis may differ in their details, but in our work as consultants dealing with organizations in trouble, we find that most crises are characterized by a sense of urgency. In some, the suddenness of the crisis is its most striking feature. In others, the potentially drastic consequences of the crisis are the most significant factor.

Some crises reveal staff mismanagement or trustee inattention, or both. But in many, a qualified leadership team is caught totally by surprise. A crisis can be caused by external factors — a declining economy, shifting funding priorities among key donors, new competition, or changes in legislation. Or a crisis may be caused by a totally unanticipated event such as the unexpected death of a major donor, the sudden departure of the CEO, bad publicity, or fraud or other illegal behavior perpetrated by an employee. No organization is immune.

STAGES OF RESPONSE

There is a pattern in the way people react to organizational crisis. The first three stages of response are emotional and very human:

Shock. In almost every case, the first reaction internally is one of disbelief, a sense of "How could this have happened?" This stage is not entirely unhealthy since it can serve to jolt people into realization that the status quo ante has changed.

Denial. The second stage is often denial: "It can't be as bad as people are saying." People do not like crisis and there is a strong tendency to avoid or minimize the importance of the facts. Shrugging off a crisis or looking for some kind of miracle is not unusual.

Anger and finger-pointing. The next stage is anger and a desire to figure out who is to blame. While diagnosing a crisis and assigning responsibility is an important part of problem-solving, irrationally pointing fingers is usually a destructive strategy.

The next stages of response to crisis represent the positive steps that any organization must take to solve it:

Assembling the Team. In time, the entire

organization will have to get behind a solution. But initially, in order to move quickly and decisively, a small group must assume responsibility. Ideally, the board chair (either existing or new) will lead this group. Often an outside consultant will advise and become an ex officio member of the group.

Information gathering. It is essential to get all the facts. Often this requires a careful reanalysis of the organization's finances, its recent history, its future commitments, its governance and staffing. Sometimes the work includes benchmarking key characteristics of the organization's performance against peer organizations in the field. Sometimes this work is carried out by an outside, objective professional.

Strategizing and laying out a plan. Armed with facts, the leadership group has to consider all the alternatives, strategize the best options, and develop a sensible plan. The plan itself may need to address concerns of a variety of groups, including key trustees, staff, funders, lenders, audiences, the media, elected officials, and the general public. Any controversial action must be anticipated. If it can be avoided through a creative strategy, this is often best. For example, if as part of the rebuilding process the executive director must go, strategizing a resignation (often with the help of a generous severance package) may be a sounder strategy than a firing.

Taking action. Putting the plan in place requires careful oversight, meeting benchmarks (to instill confidence), and intense monitoring.

While these stages tend to be sequential, they often overlap or get out of sequence. For example, the organization may choose to pay back taxes to the federal treasury or pay a creditor to avoid a threatened lawsuit even before a full plan is put in place

or even before all the facts have been revealed. Ideally, however, the organization can assure those who are demanding immediate satisfaction that the leadership is in place to solve the problem and argue for patience.

WHAT TO DO

Imagine your organization was faced with a crisis. Would you be prepared? How would you get through it and come out strong on the other side? How would you stay calm in the face of adversity and pressure? For those on the firing line who have to live with events and consequences day-by-day and hour-by-hour, achieving a sense of clarity or calm often seems impossible, especially at the outset. For people on the outside, or for those who have dealt with crises before in other situations, the answers boil down to some streamlined essentials: determining the who, what, how, and when of a process of crisis management and problem-solving:

Who? Determine who is critical to the process of crisis solving and committed to seeing it through to resolution.
What? Figure out what those people need to know in order to fully diagnose the problem and begin to resolve or fix it.
How? Decide how they will go about the process and manage a positive message both internally and externally.
When? Set the critical deadlines and the benchmarks that have to be achieved.

If this sounds like an organizational strategic planning process, it is one, albeit often telescoped in time and focused in outcome. Conversely, every organization going through a conventional strategic planning process can benefit from anticipating possible crises in advance, considering potential threats to the organiza-

tion and problem-solving in advance the responses the organization should make.

TO CLOSE OR TO STAY OPEN

Not every crisis can be solved with a fairy-tale ending where all the problems are solved and the organization ends up healthier than ever. Not every crisis results in a turn-around strategy or even a decision to continue operation. Some organizations do not survive. Indeed, in some cases of an organization in trouble, the leadership group has made a decision to close down that is deliberate, intentional, and sensible. Closing responsibly (also called organized abandonment) can be just as challenging as organizational turn-around and while it is sometimes extraordinarily difficult, it may be the wisest course. (The ins and outs of organized abandonment are discussed in the first chapter of Thomas Wolf's *Managing a Nonprofit Organization in the 21st Century,* Simon & Schuster New York, 1999.)

In many crises, the decision about whether an organization should continue or shut down is not at all clear and may lead to internal disagreements. A board member or funder or auditor may say, "This is simply no longer a going concern," and others may conclude that it can never be one again. Sara Garonzik's well-documented success in turning around the Philadelphia Theatre Company in the late 1980s came only after a fight. (See "Sara Garonzik Diving In" by N. Graham Nesmith, *American Theatre,* March 2001.) In this instance, her board faced a crisis and decided to shut down the theatre, effective immediately. She fought to save the theatre, and single-handedly reorganized it, and made it quite successful.

TASK ONE: DEALING WITH THE EMERGENCY

Typically, a turn-around venture involves three major tasks, the first of which is coping with the immediate crisis. This includes determining who

should be part of the leadership team, deciding whether to enlist some outside help (such as a consultant), diagnosing the immediate problems, determining a schedule, and coming up with short-term (temporary or stop-gap) remedies.

Dealing with crisis is often like fighting a battle. Good organization is essential and having a strategy is more effective than just shooting randomly at the enemy. In the heat of battle, loose cannons are a great danger just as they are in an organizational crisis where people have a tendency to suggest solutions before they fully understand the problem. Cooler heads can be a rare but important commodity.

In a typical organizational crisis, board members may feel betrayed by senior staff and respond angrily by wanting to fire one or more of them. "How did they let this happen?" is a typical reaction. Or "The director hurts us every day he is here." But more careful analysis may reveal that blame is misplaced, or needs to be shared. It may be that the senior management team needs to be kept intact at least until the initial diagnosis of the problem is complete and the first set of problems are solved, since they may be the only ones with full knowledge of the problems.

Often, the crisis is financial: "Can we meet payroll on Friday?" "Can we get enough cash to make sure the performers show up?" Raising immediate cash can be a challenge. One long-time staff person who came through an organizational crisis described it as follows: "It seems counter-intuitive, but the most difficult time to raise money is when you really need it in a crisis. Board members, commercial lenders, and loyal donors turned their backs on us in our darkest hour. Our bank asked us for a full stabilization plan prepared by an outside consultant when we had only 24 hours to raise the money. Now that we have come through our crisis, everyone appears generous again." As in conventional fund raising, the best people to under-

take the task of putting together a financial package are those who are putting some of their own money up or whose deep pockets and financial acumen inspires confidence.

TASK TWO: DEEPER ANALYSIS

Once the most immediate emergencies are dealt with, there is often a sense of relief, exhaustion, or some combination of the two. When we consultants tell the leadership of an organization that this is precisely the moment when a deeper analysis is required, they sometimes become discouraged or want to quit. But to avoid a reprise of precisely the problems that occurred, it is important to conduct an organizational assessment, a scan of industry trends, and an analysis of the operational environment. We encourage the leadership of an organization to ask themselves:

Are there flaws in the organization's governance structure, staffing, program, financial management, marketing, and/or image in the community that caused the problems? If so, what can be done to fix these flaws?

Are there trends in the industry that made the problems more likely to occur? What can be done to adjust to these trends? For example, many fine arts presenters have had an increase in cash flow problems early in their seasons. In many cases, this is because there are fewer people willing to purchase tickets in advance for an entire season through subscription so ticket revenues come in later than was once the case. Both in the short term and the long term, organizations must make changes to adapt.

Finally, are there conditions in the operational environment that make the problems more severe? Have local funders changed their priorities? If so, what alternatives steps can be taken?

It is unlikely that solutions can be found to major crises that do not involve some shifts in organization programs, staffing, and operations.

This is hard on some people in the organization who like things the way they were. Solving crises may mean changing organizations. It also may mean changing people. Often it involves both.

TASK THREE: THE SUSTAINABILITY PLAN

The final major task is to develop a multi-year sustainability plan. In the past, funders and consultants used to describe this as a "stabilization" plan, the implication being that once the plan was put in place, the organization would be fine for the foreseeable future. But over many decades, the whole idea of stabilization has gotten organizations into trouble and made them overly confident. Organizations are dynamic systems operating in complex environments and there is no way to assure stability over many years. They must be vigilant at all times to change.

Therefore, we talk today of multi-year sustainability plans for organizations – blueprints for the future that incorporate changes that will lead to institutional capacity building and systems of monitoring. Such plans include goals for programs, operations, finances, and fund raising, among other areas. They include detailed budgets, often in multiple versions so that an organization knows how to behave when its revenues come in short. They also include timetables, targets to be achieved, and mechanisms for evaluation and self-assessment.

GETTING HELP

One of the most typical dilemmas for people facing crises in organizations is the feeling that they cannot get help. There are three typical reasons for this:

Fear of retribution: Staff members especially may feel that they will be blamed for a crisis and so they try to solve it themselves or cover it up in order to buy time. This is generally

the worst possible strategy since the crisis often will get worse and the retribution more justified.

Lack of time: In the heat of a crisis, an immediate problem looms (e.g., if we cannot raise the cash to pay the union stagehands, the show will not go up). People in the organization feel that there is no time to seek help. Here the problem lies in not looking deeply enough. Surely the stagehands will have to get paid, but if the organization got itself into this crisis, there are other underlying problems that have to be solved and it will probably take some help to figure out what they are and how to fix them.

Lack of money: Many consultants tell us that they often hear comments like: "Boy could we use your help. But we cannot afford it. Our organization owes several hundred thousand dollars as it is." There is, of course, no simple answer to this conundrum unless it is to find pro bono assistance, which is often available. If it is not, the financial squeeze may not be solved unless outside professional help is secured since it is often the case that funders and lenders will want to see evidence of this professional assistance before their coffers will be opened. Sometimes it is simply necessary to make the hard choices, dig deeper, and find money.

If there is any final wisdom we can impart after helping many organizations through crises, it is this: Look at a crisis as an opportunity. Many organizations have come out of a crisis stronger and better able to carry out their activities and programs. There very well may be a shining light at the end of the tunnel.

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