Managing in uncertain times

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Managing in uncertain times: Are you adapting to new challenges and opportunities?

Key messages

This paper was first written some years ago when non-profit organisations were having to adapt to changes such as economic and political uncertainty arising from the last big economic down turn. Uncertainty is ever present and its management sometimes becomes routine. At other times uncertainty creates a real crisis that requires immediate attention. Threats can be existential and circumstances are unprecedented and the scale and impact of risks and challenges make them different to routine challenges. The speed at which events unfold, change and impact does not allow time to interpret them using the usual approaches.

Nonetheless many of the usual approaches for managing uncertainty can be useful in times of crisis except that there has to recognition that responses and actions cannot be based only on predefined response plans that were drawn up before the crisis.

- Strategy in uncertain times needs to take account of different factors.
- The status quo is almost never the right option.
- Strategies have to become more dynamic and focused on the short term.
- Continued uncertainty and volatility of income dramatically increases the exposure to liquidity risk.
- Cash and reserves management should link with the risk management and forecasting process.
- Understand what reserves represent and look at the ease with which they can be made available in times of need and if when and how they should be used.
- Monitoring and measurement of progress against the strategy is more frequent.
- Strategies and tactics have to be developed on the premise that several different outcomes are possible.
- Scenario planning is valuable in helping cope with the uncertain environment and can help identify the drivers of change, sometimes actions have to be taken before proper scenarios are developed.
- Uncertainty will impact on different scenarios and this requires out of the box thinking from different perspectives. Horizon scanning is important.
- Scenarios are often wrongly treated as forecasts and the range of scenarios is too simplistic.
- The focus on new scenarios should not mask important long term trends or undervalue relevant existing strategies.
- When there is massive uncertainty scenarios may be little more than guesses based on limited knowledge and approaches need to be able to adapt quickly as total uncertainty is usually transitory.
- Organisations should develop action plans for different scenarios by setting and monitoring trigger points along with trend analyses.
- Think about the risks that could impact the organisation’s value chain Look beyond the obvious - consider both direct and indirect drivers and short and long term implications.
- It is important to consider whether the fundamental operating model can be improved
- Be aware of the importance of remote events that together can have a significant impact.
- Probability has less value for risks that occur outside the norm and the past is not the best indicator of the future
- If a risk that is both relevant and has extremely high impact, it should be addressed, regardless of ‘remote’ likelihood.
- Lower significance risks can escalate to a very high impact risk because of risk interactions.
- It is important to understand the core processes and sub processes and their role in achieving strategy.
- Governance structures, board and management competencies and frameworks for decision making may need to be revisited.
Non profit organisations are regularly facing uncertainty. This comes in many shapes and forms and goes beyond the latest challenge be it unprecedented market volatility or COVID-19. The ‘old’ challenges are still present - new laws and regulations, new expectations from different stakeholders, new demands for services, a changing funding landscape, cost escalation and much more, but in times of crisis there are even greater existential threats.

Crisis and emergency usually comes with uncertainty and there is often too much conjecture and crystal ball gazing on all the downside risks but the reality is that we do not often do not know what the reality will be. Non profit organisations the world over have recognised that even without crisis it is rarely business as usual and there are invariably new challenges that require specific attention. The only certainty is that there will be even more change in the future and that this will continue to impact in a number of ways many of which will be new and unprecedented. This means that whilst the immediate need may be issues such as protecting people and survival of the organisation there is need to consider both the near term as organisations develop coping and stabilisation strategies and also longer term strategies to optimise their position post recovery.

The task of setting priorities remains as difficult as ever; matching the demands to satisfy short-term needs against pressure for the resources required to achieve long-term solutions. The operating environment is becoming even more demanding and plans for future strategic development will have to take into account a number of new factors. It is a world in which priorities need to be constantly reassessed and organisations need to be nimble and flexible. Knowledge has to be not only timely, accurate and relevant but attuned to analysis from different perspectives.

Many organisations learned how to adapt and manage turbulent times during the downturn in 2008 to 2009. There was recognition that emotional stress had to be factored in and this is even more important now. In my discussions with the organisations I work with it is apparent that there is a need to revisit and rethink many of the accepted assumptions in:

1. liquidity, cash and reserves management
2. strategy and scenario planning
3. governance and decision making
4. risk management
5. structures, operations and business models
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Liquidity, cash and reserves management

For many organisations facing uncertainty and crisis the management of cash is key and immediate action may be needed. As income levels are threatened, cash flow for most entities inevitably requires more attention. Many non profits and social purpose organisations find that in times of crisis there are even more demands on their services and finding the resources to provide these can be really challenging.

This means that organisations will need to focus beyond top and bottom line growth. In the short term the focus will inevitably shift to matters such as the ability to pay staff and suppliers. The prompt collection of receivable will need extra focus with increasing attention needed on financing and treasury issues.

Forecasting cash burn rate using revised income and expenditure projections is important as is understanding minimum cash requirements and available head room under different scenarios. Doing this carefully in times of uncertainty will allow early consideration of cash and working capital needs. Organisations with borrowing will need to reconsider their financing arrangements and renegotiate existing arrangements where possible. This could include existing loan covenants, interest rates, repayment terms etc.

To do all this properly requires a full understanding the drivers of working capital and how this can be managed and the factors that can impact on it. Current assets exceeding current liabilities is the normal working capital aim but in times of crisis working capital and cash management needs to be more nuanced and closely linked to realistic cash forecasts that take account of the full demand and supply chains. There are a number of questions that need to be considered - What is the position of service users / clients and debtors? Are they going to continue buying our products / services? Will they be able to pay for them? What happens if we can’t meet the conditions of our funding arrangements? What is the positions of suppliers? Can payment terms with suppliers be extended? What will be the impact on relationships?

Those that are in the fortunate position to have reserves will need to reassess their policy for managing their reserves and ensure it meets changing operational needs. Unfortunately many reserves policies are often created to justify the existing level of reserves rather than what is realistic and operationally necessary.

Cash management and reserves policies should link with the risk management and forecasting process. This may require a rethink on why the organisation holds reserves and what the appropriate level is and when and how it should use its reserves.

This requires a full understanding of the issues that are forcing the organisation to dip into its reserves is required, and operating realities must be considered. Analysis of the options open to the organisation when dealing with the actual problem in hand should follow. Key to this is an understanding of income and expenditure flows and the nature of the reserves, what they represent and looking at the ease with which they can be made available in times of need.
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Many organisations recognise that in times of real need they are going to have to dip into reserves to manage cash requirements. The issue is how are cash requirements going to be managed. Are funds going to be obtained by borrowing, selling investments or drawing down on cash balances, cutting / deferring expenditure? None of these are mutually exclusive.

The continued uncertainty and volatility of income, instability in markets along with new cost considerations has dramatically increased the exposure to liquidity risk; underlining how vital it is to have robust assumptions behind forecasts. When it is unclear how long a cash crisis may last it is important to consider needs for both now and later. Some reserves are inevitable held on the stock markets and as investment income and market values fall the challenges are even greater. It may be better to borrow against the investments rather than crystallize them in a downturn but this needs careful consideration of loan covenants and other factors that could cause problems in the future.

When times get hard non profits that have reserves will need to consider if, when and how they use them. If free reserves are seen to be the umbrella for a rainy day then the decision is do we stay indoors when it’s raining or do we use the umbrella. It’s also important to think how long it’s going to rain for and how many umbrellas are available.
Strategy and scenario planning

During periods of uncertainty more rigorous out of box thinking is needed. Care needs to be taken to review some of the projects and programmes that may have already been planned and approved – they will likely need a rethink. The examination and approval process for expenditure needs to be rigorous with a focus on both short and longer term timeframes. The extent of uncertainty differs, at one end many of the perceived unknowns are in fact “knowable” and at the other there can be massive almost total uncertainty. In between lies the more common state of uncertainty where there are a number of possible alternatives that can be planned for. Strategy must be able to deal with uncertainty and at a time when predicting the probable is difficult, to say the least, strategies and tactics have to be developed on the premise that several different outcomes are possible.

If there is total uncertainty, which can happen when many issues interact, it becomes virtually impossible to predict or even identify all the possible outcomes. In such cases strategy and planning should recognise that this stage of total uncertainty is often transitory and while firefighting and dealing with the present it is also important to try to identify triggers and trends and be ready to act decisively at the right time to prepare for the future.

It is important to recognise that rigour in decision making is not the same as ponderous and organisations need to be nimble and agile in their decision making.

As strategies become more dynamic, focused on the short term, and contain more analysis organisations have to be ready to react to outcomes that are different to earlier predictions. This means frequent monitoring and measurement of progress against the response – many organisations have had to move to doing this on different time scales. In times of existential threats there is need to review and perhaps adapt plans at very short notice – sometimes daily. However, whilst the short term is important it is also important to consider the longer term and to think hard about indirect as well as direct implications of unfolding events. There is need to take into account events that are unfolding in real time and also to think beyond the typical planning horizon.

During the uncertainty that accompanied the last economic downturn, scenario planning was seen as one of the most valuable elements in helping organisations cope with the uncertain environment and horizon scanning and factoring in a range of possible outcomes can help. The exercise may requires the need to put values and analysis on different scenarios and this does require some out of the box thinking.

Sometimes it may be necessary to use short cuts as spending time and effort on analysing numbers and values may be a luxury that cannot be afforded when dealing with a crisis that needs an immediate response. It is important to recognise that scenarios often expose the flaws in a single forecast and if done well will allow organisations to factor in the outcomes of uncertainty.
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Common problems are that scenarios are wrongly treated as forecasts and the range of scenarios is too simplistic – for example optimistic and pessimistic. I continue to be surprised that some organisations are modelling plans on simple optimistic and pessimistic scenarios when they believe that neither of these are likely. However this doesn’t mean that scenarios should be discarded only because they are deemed to be not likely. Such scenarios need to be considered while acknowledging their low probability and bearing in mind that a low-probability event can still be significant if its impact is large enough.

The aim of a successful scenario planning process is not an accurate prediction of the future but to deliver a means by which an organisation can learn, adapt and take effective and timely action by preparing it for what might happen in the future.

Another reason why scenario planning is not done in an effective way is the lack of out of the box thinking. We tend to unconsciously bias our thinking to what we know and wrongly think that the future will resemble the past or we extrapolate on the basis of what is happening now. Good scenario planning requires many perspectives and this involves engaging with a diverse team across functions in the organisation. It should also include external perspectives to identify threats and opportunities that may have been overlooked. The focus on new scenarios and the immediate issues should not mask important long term trends or undervalue relevant existing strategies.

To properly identify integrated scenarios that consider different eventualities needs the involvement of people across the organisation and breaking down silos. There is a need to monitor and track the key indicators that give early warning of the imminence of a particular scenario. These indicators should be seen as signs of potentially significant change and need to be selected and monitored with great care. Each organisation may well have very different choices of indicators - for example average gift size may be critical to one and foreign exchange rates may be critical to another.

Governance may need to be revisited to be able to react swiftly and this may require changes to delegations and to reporting and decision making procedures. In times of crisis it is often not possible to let all the facts emerge and be analysed and sometimes actions need to be taken urgently but there is a need to continually update and be ready to change course as new facts emerge.

Organisations have developed action plans for different scenarios by setting and monitoring trigger points along with trend analyses. These make it possible for the organisation to decide when plan A or plan B needs to be implemented. For example, 'if income looks like it is going to drop by X we will do Y…'
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Risk management needs a rethink

Unprecedented events require a new awareness of the importance of remote events that can have a significant impact; this casts some question marks over the way organisations have traditionally identified and scored risks and adopted procedures to manage them. Traditional risk management methodology focuses on considering both impact and likelihood or probability of a risk and giving them equal importance. The thinking has moved on and there is greater recognition that probability has less value for risks that occur outside the norm. This means that approaches will have to be incorporated to deal with a new climate and new challenges. It is vital to recognise that sometimes improbable events do occur with devastating effect, while at other times probable events fail to materialise.

Risk management needs an overhaul in turbulent times especially when:

- events are rare or unprecedented
- where the rules are unknown or rapidly changing or
- where causes are driven by external factors beyond the organisation’s control.
- there is risk contagion and one risk can cascade into another and another

In such instances, the concept of vulnerability and risk interaction should assume prominence in both the risk assessment and risk management processes. If an organisation is vulnerable to a risk that is both relevant and has extremely high impact, it should be addressed, regardless of ‘remote’ likelihood. However, ‘addressed,’ in this context, is not necessarily the same as ‘mitigated.’ A balance needs to be attained and vulnerability should be weighed alongside probability. Non profits are invariably resource constrained and risks and rewards will need to be considered. Boards will need to establish their risk appetite and the risks that they are ready to accept.

- A focus on high impact risk is important, but one should not forget how a lower significance risk can escalate to a very high impact risk because of risk interdependencies. An isolated concentration on value at risk can sometimes result in not spotting ‘risk contagion’ – in other words where one low impact risk leads to another and another so that the cumulative impact is catastrophic. Many studies have shown that most business failures are the result of a series of small, linked events rather than a single large event. If organisations only look at the big risks they can often end up lethally ill-prepared to face the interaction of separate adverse events.

Risks invariably interact and it is therefore important to think about them in clusters rather than individual risks. This is particularly important in times of uncertainty. Some risks are obvious as possibly having a direct and often immediate impact whilst others have and indirect impact and it is important not to dismiss these.
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It is also important to think about the risks that could impact the value chain be it risks and uncertainty facing funders and supporters or suppliers and implementing partners and others that the organisation is reliant on for resource mobilisation or service delivery. This means it is important to not just think about the direct risks to the organisation but also the risks facing others in the value chain and how they might respond.

*Fear or even doubt of the uncertain can lead to missed opportunities and organisations need to consider the risks they need to take to create value, as well as the risks they need to take to protect assets.*

Understanding risk appetite and the risk resilience of the organisation in terms of reserves, competencies, and other resources is important. The aim is not to avoid risk but to manage it knowing the risks that can and should be taken and the ones that need to be avoided.

Traditional risk registers and heat maps have less relevance in times of great uncertainty and it is important for decision makers to carefully consider implications and actions and what estimates and assumptions are being used, their limitations and how they might need to change. There needs to be discussion about triggers and early warnings, how actions need to be prioritised, what risks can be mitigated and how will others be managed.

Many think that, in times of grave uncertainty where the risks are too difficult to identify, risk management has little value. They refer to the unknown unknowns but in reality there are many known unknowns and effective risk management helps organisations manage the known unknowns whilst recognising that there are unknown unknowns. It also puts organisations into a better position to manage the unknown when it becomes known and should also help earlier identification of direct and indirect risks.
Are the ways of doing things fit for purpose?

Many organisations have restructured during the last decade as they acknowledged that there was often scope to review the way things are done with the aim of increasing productivity and/or reducing costs.

*The thinking now may be that any possible restructuring or cost management initiatives had been delivered and that there is little surplus fat, but it is surprising how easily unnecessary complexities begin to flourish in organisational processes and structures, ways of working and governance.*

Sometimes, peripheral and non-core activities have quietly taken seed and diverted resources from core activities. Organisations have found that activity value analysis is a good way of deciding which activities add value and which do not. As activities develop, errors and waste often creep in so that reworking and correction time is accepted as part of the normal routine. To understand how to save costs on activities it is important to understand the core processes and sub processes and their role in achieving the expected deliverables and the overall organisation strategy. This requires a good understanding of activities and related cost and income streams. Improving efficiency and productivity will be critical and will require real focus. There is always benefit in taking a good hard look at how efficiently activities are carried out and services are delivered. Ways of working have necessarily changed and will continue to evolve. The question is are leaders acting as catalysts for change when it is needed? Are they ready to take difficult decisions?

Following the last downturn management that previously found it very difficult to implement unpopular operational changes and cost cuts found that they have more leverage with colleagues, the board and staff. The downturn meant that individuals were more receptive to the need for change and the need for some tough choices. They saw that this put the organisation in a better position to take advantage of opportunities when they came. This means that crisis often leads the cultural acceptance of the need for change.

- Governance structures need to be well balanced and allow proper and swift decision making. Boards must have the right information that gives them knowledge to be able to add value.

*Different skill sets may be required and ensuring that there are the right competencies within boards and management is really important.*

Organisations often do all these things but seem to be averse to looking at the fundamental business model and considering how fit for purpose it is. As income streams change and cost structures evolve it is important to consider whether the fundamental operating model can be improved. Strategic alliances, collaborative working and mergers need to be on the agenda. There are no stereotype answers but try and avoid dismissing things based on previous and sometimes biased analyses. New times require new responses.
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Working it through

Organisations need to avoid knee jerk reactions whilst recognising that change is inevitable. It is important to act decisively balancing the need to consider hypotheses and options with the urgency that may be required

There is a need to ensure that the response is flexible enough and can be adapted as the environment changes whilst also recognising that responses may need to be urgent and immediate. There are a number of steps before launching into responses. Simplistically this can be broken into three key areas:

1. Early and quick thinking stage – This requires identifying the right people to think about the key uncertainties that can impact the organisation. We have seen organisations set up effective “nerve centres” that consider what is needed to keep on track. Remember to consider direct and indirect drivers and short and long term implications. Avoid group think and be ready to look beyond the obvious identifying both risks and opportunities.

2. Consider the strategic choices – This requires revisiting earlier strategic plans and tactics. Consider the different scenarios and the strategic choices and options for action. Are the right structures, resources and procedures in place to first make the right choices and then to capitalise on them. There need to be triggers for actions as scenarios become reality and ways of identifying warning signs and alerts. This stage requires analyses and interpretation of the choices that are available and the resources needed to make them.

3. Taking action – As the organisation implements its plan and tactics there will be need to have in place a strong change enablement framework that considers both the organisational and people transitions that may be necessary. There is a need to remain nimble and flexible and recognise that the first two stages may not have come up with the right answers and that the options and actions may need to change accordingly. As organisations have their resilience tested they will focus on what is nice to have and what they must have. Areas seen as discretionary spend such as training, marketing and service development are often the first to be cut but it is important not to forget the importance of ensuring that the organisation is well positioned for the period of recovery and to recognise that there will be yet another new normal.

As difficult as it may seem during a crisis – situations improve and the organisations that will be best placed are those that make the right decisions through the periods of uncertainty. The key is to think carefully about the future and be ready to face challenges and respond to the opportunities as they arise.
Start the conversation

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