

SCENARIO PLANNING: SINK OR SWIM?

By Dione Alexander



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Once took one of those logic tests, the kind you find in the back of the Reader's Digest, and it posed an uncomfortable question: "If your spouse and your child are both drowning who should you help first?" The solution to this problem was actually simple – you help the person with the poorest swimming skills. Left to our own devices, we often over-think ("I'll swim to the shore, find my cell phone, and call the Coast Guard") or agonize ("Bob was a great husband") our way through tough decisions when scenario planning would have led us to optimal and perhaps innovative solutions.

Many nonprofits are literally swimming against the tide during the present economic recession. Faced with declines in corporate giving, devaluation of investment portfolios, delayed government payments, and cash and credit shortages, the programmatic and financial futures of nonprofits are uncertain. Scenario planning is a model for learning about the future. It forces us to examine "how do you know when you need to learn about a long-term threat or opportunity." We all know the story of the nonprofit that expanded a program just as the funding sources dried up, or the client base shifted, or new standards were adopted. Their view of the horizon just wasn't long enough or deep enough to provide an early warning.

So what is a scenario? Peter Schwartz in "The Art of the Long View" calls scenarios stories that help us recognize and adapt to changing aspects of our present environment. We create these stories by aligning facts, what we know about our condition and situation, with forces, those issues and events that drive the enterprise. These forces can be social, political, economic, environmental, technical, educational, or even undefined. For example, we know that earned revenue is declining in three of an agency's four programs. Conventional wisdom would suggest that we cut or eliminate less profitable programs and redirect capacity to the star program. But wait, there is a quote that says the enemy of conventional wisdom is the

march of events, which is nice way of saying "change happens, deal with it".

In a closer examination of our example, events or forces need to be carefully analyzed with an eye toward the future. Will the profitable program continue to achieve the desired mission over time? Is the program scalable (i.e. can the delivery system accommodate significant growth or change)? Where is the program in its life cycle (i.e. is the program already at or past its peak results)? Would additional or different investment in lesser programs that are trending upward create far better financial outcomes than the lead program? Ultimately, scenario planning should be flexible and leave the organization with varied options for reducing threats and exploiting opportunities. Planning is not as absolute as sink or swim but more like choosing the right stroke or speed.

Scenario planning requires us not only to recognize change events but to assess their impact. Imagine that you run a government-funded education program and a consistent force is legislation that authorizes and appropriates program funding. You might consider the impact (high, medium, low) of increased or decreased funding, oversight, or reporting on the organization as well as the certainty or likelihood of (high, medium, low) of the event occurring. If an event has high impact and high certainty, then it demands immediate attention, in fact, you may already be in a crisis or reactive mode. If an event has high impact like a student/teacher ratio but low certainty, then it's an early indicator that the organization needs to monitor.

As you begin to create your financial story and make sound long term strategic decisions through scenario planning, understand that nonprofit sustainability is a balancing act. For many nonprofit professionals leadership sometimes feels like walking a tight rope without a safety net while juggling, and that's on a good day. There is a unique and ever changing balance between mission (what you do), capacity (the resource like place, people, and programs that support mission) and capital (what you own and owe and how assets are distributed). A change in any one leg of this triangle results in a change in another. Therefore, we need to resist what students of entrepreneurship call "opportunity obsession" – the desire to explore every new possibility in our path. Scenario planning becomes increasingly challenging when an organization is overtaxed and inappropriately capitalized.

A final word on scenario planning, don't assume that something can't or won't happen. Nonprofits who own a fleet (like

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PLANNING

food banks and non-emergency transport services) were certainly taken by surprise when gas prices, a driving business force, skyrocketed in 2008. Likewise workforce development agencies are currently overwhelmed with new clients due to double-digit unemployment, and community development corporations are struggling with record-breaking home foreclosures. Each scenario presents the organization with a different likelihood but a common promise that is to be self-determined and an active participant in their own success.

Dione Alexander is the Vice President of the Midwest Region of the Nonprofit Finance Fund, an MNA member since September 2007. The Nonprofit Finance Fund is a national leader in financing nonprofits, strengthening their financial health and improving their capacity to serve their communities, for more information visit www.nonprofitfinancefund.org.

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