Strategic Adaptation in Fragile Nonprofit Organizations: Rich, Varied, and Strategic Response to the Great Recession

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ABSTRACT

The impact of the Great Recession (January 2008 to January 2010) was studied using a sample of 26 executives of Latino nonprofit organizations in the Greater NYC area. In-depth interviews were conducted examining their perception of the strategic environment, changes in capabilities and programs, board selection practices, stakeholder participation decision making, and perceived organization effectiveness. Results showed evidence of strategic practice in the response of these relatively fragile nonprofits to the Great Recession. They modified organization capabilities in response to changes in the environment, where fundamental change was undertaken they were mindful of the implications, with an effort to balance mission and the organization's sustainability. Organizations with more diversity of perspective on the board and broader participation in decision making took more innovative approaches. While the sample was selected because Latino nonprofits have been underfunded relative to other nonprofits, they responded in ways that were no more risky and no less strategic than would be expected of other well-functioning organizations facing environmental turbulence.

Strategic Adaptation in Fragile Nonprofit Organizations: Rich, Varied, and Strategic Response to the Great Recession

Purpose of Study

The importance of strategy in the adaptation and management of nonprofit organizations is frequently noted, but less well researched. Nonprofit organizations are too often described as reactive, nonstrategic, and managerially unsophisticated when it comes to strategic management (Jäger & Beyer, 2010). If this is the case, a deep recession reducing government and donor support while increasing client needs would be a devastating blow and should show these organizations at their most reactive. Examining how service-providing organizations in the sector responded to such a situation could offer insights into the strategic and managerial processes in place. The Great Recession starting in 2008 provided just such a circumstance. This study extends the literature on nonprofits managing in crisis (Roche, 2011; Liebschutz, 1992; Pearson & Clair,1998) and the more recent research on the impact of the Great Recession on nonprofits (Roche, 2011; Salamon, Geller, & Spence,2009) by examining strategic behaviors which have the potential to create change that goes beyond the tactical. It also responds to the dearth of knowledge on the factors that affect the resiliency of small-medium size organizations with ethnic-specific constituencies.

A particular concern with the way nonprofits are managed is that while clearly driven by mission (more consciously so than for-profit organizations) their practices and priorities can be driven by funding even if it is to the detriment of its strategic objectives. This can result in chasing dollars during difficult economic periods, producing mission creep or a distracting proliferation of low priority work which reduces the performance of core activities (Alexander,

2000).A crisis of the magnitude of the Great Recession would be expected to produce donor-driven, non-strategic and potentially mission impairing responses.

Strategy and Nonprofit Organizations

Strategic management in nonprofit organizations is troubled both as a practice and a conceptual framework. The difficulty stems from importing strategy from the private sector into the nonprofit world where it proves an inexact fit (Backman, Grossman, & Rangan, 2000). Too often strategy is conflated with finance where it becomes a financial planning tool that competes with the traditional, mission-oriented approach.(Jäger & Beyes, 2010). Golden-Biddle and Rao (1997) refer to this as "conflicts of commitment" between sustaining commitment to both mission and financial sustainability. Adding to the conflict, business strategy identifies capacities that allow the firm to create distinctive value, while nonprofits cope with funders who require justification for any investment in "capacity building "for fear of negatively affecting the delivery of services.[2] Non-profits may feel they lack management capacity to properly engage in the strategy process, and non-profits may perceive themselves as having an alternative to strategy. Mission may become a primary tool for horizontal and vertical integration – the connective tissue between purpose and action in an organization (Burke & Litwin, 1992; Chandler, 1962; McDonald, 2007; Mintzberg, 1984; Sheehan, 1996; Vardi, Wiener, & Popper, 1989).

The reasons nonprofit organizations adopt strategic tools may also influence the role they play in management. Stone, Bigelow and Crittenden note, "Nonprofits adopt formal planning in response to funder pressures because they are able to decouple it from other strategic activities. They demonstrate conformity to prevailing norms about sound corporate practices through the

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[2] One might argue that the term "capacity" has somewhat different means in the for profit and non-profit settings. When one examines the differences, it reinforces the point made here.

use of formal planning but do not necessarily integrate results of formal planning into other strategic activities" (1999, Pg. 410). This creates a disconnection between what is designated strategy and the drivers behind adaptation and accountability in the actual management of the organization. An institution can make use of strategic tools as a matter of consistent practice (Mintzberg, 1994).Analoui and Samour (2012, 486) found strategy (as practice) to be important in non-governmental organizations (NGO) outside the U.S. using a model of strategy geared to smaller enterprises; they treat strategy as "an analysis of the present situation of the NGOs in terms of their needs, services, beneficiaries, their distinctive competitive advantages, the personal objectives of the stakeholders and subsequently, definition of the services and the activities in terms of mission and values for meeting specified beneficiary needs. An important competent is the analysis of the external environment including evaluating opportunities and threats in relation to the competitors, donors, the economy, socio-political influences and technology. . ." These analyses are often pulled together in the form of an S.W.O.T analysis (strengths, weaknesses, opportunities and threats).

The alternative of a mission (only) driven approach has some appeal. Non-profits often define themselves in terms of their mission describing the difference they propose to make in society. Such self-definition provides connection to funders. It also attracts, retains, and motivates employees and volunteers. This connection of mission with major stakeholder groups provides a basis for an enduring working relationship and grounding for performance criteria. It can create stable coordination of action. The negative consequence is that it can also produce a program-focused approach to management in which the organization loses sight of its capacity, potential and external threats (Letts, Ryan, & Grossman, 1999). The seeming stability becomes a problem when the environment changes and the organization needs to adapt. A mission driven

approach can make it more difficult for the organization to change (Allyn, 2011) if the relationship between mission and daily activity has not been well-articulated.

Mission is important to the identity of non-profits and can become the guiding principle for action (Sheehan, 2009). The mistake is treating it as an alternative to strategy. Creating a mission and monitoring ongoing performance are quite separate dimensions of board activity (Siciliano, 2008). Even in for-profit organizations, the connection to broader purpose is necessary for a coherent strategy (Mirvis, Googins, & Kinnicutt, 2010), strategy also articulates an approach to pursue the purpose on a sustainable basis. Like a for-profit, a non-profit needs to connect its purpose (or mission) with its actions through strategy(Kirk & Nolan, 2010). The importance of this may not be evident in a tranquil environment. It becomes dramatically clear in a turbulent one.

A nonprofit operating without an articulated strategy and the adaptive capacity it provides may find itself operating as a Schumpeterian venture. Its mission is pursued in a specific manner. When that approach is no longer best attuned to the environment, it is replaced by some other organization which is better adapted to the new circumstances. In the commercial world the theory is that successor enterprises will be more efficient and deliver greater value. Innovation was necessary for the successor to develop or for the existing organization to retain its position in the market. Innovation is precisely what nonprofits need to pursue if they are to survive in a changing environment (Oz & Toker, 2008; Schmid, 2004).

Innovation is often studied in for-profit organizations, with the subtext, "why don't they innovate more and better?"Ma and Karri (2005) organized this research and identified a range of impediments to innovation including: over-confidence in the ability to do altogether new things, arrogance in the belief that no one could exceed them, (willful) ignorance, and over-focusing on

current priorities to the exclusion of other possible ideas and action. McGrath and MacMillan (2009, Pg. 25) note, "One of the great ironies of long-run success in business is that good performance tends to dampen the desire to invest in new opportunities and new businesses at the very time when a company can most easily afford to do so. . . no one has an incentive to take a big step back . . ."Similarly, a non-profit may become locked into a course of action addressing its mission but with inadequate management resources to reflect, assess, and systematically reconfigure as external factors change.

Just because an organization does not respond strategically does not mean there is no response to existential threats. Non-profits faced with inadequate resources will seek resources and ideas for entrepreneurial ventures. The Great Recession sparked a drive to engage in social entrepreneurship (Roche, 2011;Salmon,Geller &Spence, 2009). Usually resources from new sponsors come with expectations of or even specific performance requirements and inherent risks. The activities associated with the new sources of funding can dominate the organization's agenda. If the search for funding is not deeply rooted in mission, the *de facto* nature of the organization and its mission can change. This is known as mission creep, and it would be a predictable consequence of adaptation unguided by strategy (Jonker, K. & Meehan, 2008).

In this instance, it may be fortunate that people do not always do what they say they do. Given the considerable successful adaptation which occurs in the non-profit sector and the presence of many long surviving non-profit organizations one might infer that some strategic process is at work. Examining UK charities that were repositioning themselves during a volatile period, Chew and Osbourne (2009) found that executives said the mission, needs of beneficiaries, resources, and macro environmental factors other than government or politics were their prime influences. When agencies were examined through case studies, the role of the

government and politics were far more a factor and mission (while relevant) was less central. While not acknowledging it, these agencies incorporated strategic environmental data into their decision making. Chadwick-Coule (2011) notes that when non-profits think of strategy they relate it to a linear-rational process with specific outcomes. Doing so downplays the informal board – staff interaction that may actually frame these decisions. Brown and Iverson (2004) report that organizations seeking to expand the services and populations served within their mission, not only articulated the mission-relevant connection of their actions, but had mixed groups of stakeholders participating in the decisions, even if that meant involving non-board members in board level discussions. These actions echo those the private sector is counseled to follow when confronted with the need for renewal: broad engagement of stakeholder and of staff across levels and function boundaries in candid conversations which test assumptions (O'Toole & Bennis, 2009;Simanis & Hart, 2009).

We are confronted with a narrative of strategy in the non-profit sector which is quite possibly untrue. There is evidence that the steps associated with strategic planning for change do occur, although it may not be labeled or acknowledged as filling a strategic role. In the present study, we have the opportunity to observe a group of non-profits facing existential issues during the Great Recession of 2008. Examining how they respond may add to understanding of the strategic processes of non-profit organizations.

Latino Non-profits

The sample is comprised of Latino nonprofits (LNP). This was in part fortuitous, but it also allows us to address a significant category of nonprofits. For purposes of this study, and as is common in the field, Latino nonprofits are defined as organizations that have at least three of the following four characteristics: 1) The CEO or President of the organization is a Latino/a; 2)

The majority of the organization's Board members are Latino/a; 3) A majority of the paid staff of the organization are Latinos; and 4) The majority of the nonprofit's constituency self-identifies as Latinos. These represent an increasing portion of nonprofits nationally.

Currently the total number of Latino nonprofits operating in the US is 6,070. This figure was compiled by Hispanics in Philanthropy (HIP)from three sources: the National Center for Charitable Statistics, 2008, IRS 2010 990 filings and the 2010 U.S. Census. There are 1,071,851 registered nonprofits in the U.S. If we consider the ratio of total population to total nonprofits there is one LNP for every 8,930 Latinos in the U.S. The ratio for the non-Hispanic population is one nonprofit for every 292 individuals (HIP, 2011).

As one definition of a LNP is based on the population served, the growth in the Latino population is itself a reason to focus on these organizations. The low and steady share of total foundation giving (less than 1% for more than a decade), is particularly troubling because during the same time period, the Latino populations has continued to grow, from 13% of the U.S. population in 2000 to 16% of the population in 2009. Moreover, Latinos are now the largest minority group in the U.S. and growing at a faster past than any other ethnic/racial group. Based on the 2010 U.S. Census, the Census Bureau reports the U.S. Hispanic population surged 43%, rising to 50.5 million in 2010 from 35.3 million in 2000. Latinos now constitute 16% of the nation's total population of 308.7 million (HIP, 2010).

The Census Bureau has estimated that the proportion of the non-Hispanic white population would drop to 50.8% of the total population by 2040—then drop to 46.3% by 2050. This demographic transformation—Latinos now account for about one in four people under age 18—holds the potential to shift the political and social dynamics across the country.

State of Latino Nonprofits

The steady growth of the Latino population in the United States is not reflected in the state of the Latino nonprofit sector. LNPs have been among the most fragile nonprofits because their historic funding base has been narrower and as the Foundation Center (2011) reported recently, foundation funding for Latino nonprofits has been relatively stable, averaging 1.3% of all giving every year for the last ten years. A closer look at the giving numbers show that in 2009 funders allocated .9 percent of their grant dollars to organizations and activities that could be identified as Latino, compared to 1.2% in 1999. The percentage has actually gone down.

New York City has a large diverse Latino population that is growing. Moreover, it has well established technical assistance and funding intermediaries such as the Hispanic Federation and Hispanics in Philanthropy. Thus, LNPs in NYC the organizations were available and particularly appropriate for the purpose of the study. They also represent ethnic-specific organizations which are if not the majority, close to the majority of nonprofits in New York City.

The reticence to support LNPs is in part attributable to their perceived fragility and lack of managerial sophistication, factors that would concern any funder. This makes LNPs a particularly interesting group to study.

METHODS

Sample

The nonprofit organizations participating were identified through close collaboration with three recognized nonprofit intermediaries with a specific interest in the state of LNPs in the New York Metropolitan Area: Hispanics in Philanthropy(HIP), the Hispanic Federation of New York

and the New York City United Way. They provided contact information for member organizations and introduced the research project to them.

After the written introduction from the intermediary, fifty people identified as heads of their organization were asked to participate in a one hour interview about their organization's experience during the recession. Interviews were conducted between late July and September 2010 by the researchers and a graduate assistant. Of those executives reached by phone 90% participated (n = 26); a 52% survey response.

Who Participated?

Out of the 26 interviewed, all but one interviewee were either president or executive director of their organization. The other respondent was a chief operating officer/associate executive director. All of the respondents were in positions of power with direct responsibility for major decisions within their respective organizations. The groups were evenly split between men and women.

We have a sample that is almost all ethnically Latinos but with some variation in their race identification. Twenty-four identified themselves as Latinos (1=American-born Latino, 11=Latinos, and 12= Other, i.e. 2 Dominicans, 10 Puerto Ricans). Only 19 respondents answered the race question of which 7 identified as Other (6 said they are Hispanic, and 1 is Indigenous), 6 are White, 2 are Mixed, 1 is Black and 3 are "Don't Know".

Participants had a median of 15 years management experience prior to taking their current positions. Only 20% had no prior management experience when they took their current position, but in none of these cases was the move into the leadership position recent. The mean number of direct reports was 6.3.In terms of educational attainment 88% had a bachelors' degree or higher; 58% had a master's degree or doctorate. The leadership literature confirms that among

executive leaders "previous nonprofit experience … promotes various strategies (during crises)…[including] streamlining programs, which promotes financial resiliency as well as new revenue-generating endeavors" (Roche, 2011, p.9). The literature also shows that executives' "functional backgrounds, experience-effectiveness relationships, and accumulated tried-and-true knowledge ... (are) prerequisites for strategizing and reliable performance (Roche, 2011; Ritchie & Eastwood, 2006; Cannella & Rowe, 1995). Thus, the selection of a sample of senior, experienced directors increases the chances (even with a small sample size) of finding strategic decision-making, managerial processes and appropriate actions - if they exist.

Description of Organizations

These are on average medium size nonprofits. The organizations had a mean annual revenue of $3 million or so a year and net assets and fund balances of a little over $1 million. The number of service programs offered varied widely. Twenty-nine percent reported offering four programs; 25% reported fewer programs, and 46% reported more than four programs. As Table 1 (below) shows they represent the gamut of program areas served by non-profits:

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_____Insert Table 1 about here._____

It was possible for an agency to report work in more than one area. Forty-three percent reported only one area of program activity and 38% reported being active in two areas. The only two categories that overlapped with significant frequency were Education/Job Training with Children & Youth (20%). This is consistent with a recent national study of LNPs (Rodriguez, 2011).

<u>Interviews</u>

A semi-structured interview was administered to this elite sample. Interviews were conducted by phone or in person, depending on the respondent's preference. Three interviews were conducted in Spanish to accommodate the interviewees' language preference. The interview schedule consisted of 129 open-ended and multiple choice questions. The survey was divided into 5 sections; (1) profile of the executive directors; (2) information about the organization; (3) information about how the organization made decisions with respect to the Great Recession; (4) information about how the organization monitors activities; and(5) overall impression of the organization. The interviews lasted an hour.

<u>Questions Included in the Study.</u>

How well is the organizations doing? Early in the interview, respondents were asked to recall conditions as of January 2008 and rate their organization on a scale of 1 to 5 (1 = *failed,* 2 = *in jeopardy*, 3= *coping,* 4 = in *good shape*, and 5 =*very successful*). In the last section of the survey, respondents were again asked to rate their organization's performance but from the perspective of January 2010 – at the end of the recession. This provided an overall evaluation. As some of the analysis required more stable measure, the executives were asked five questions addressing different aspects of performance which were combined into a single, highly reliable measure of perceived effectiveness (Chronbach's Alpha = .96). In addition to the overall rating of effectiveness in 2010, they were asked to rate their agreement on a five point scale with the following: organization responds successfully to its environment, there are important areas for improvement, surprised by changes in circumstance, staff lacks motivation (with last three reverse coded).

Environment Change. Executives were asked to rate a list of 8 strategically relevant environmental factors on their importance to the survival of the organization. Respondents also indicated the degree to which each of the 8 had changed since the beginning of the recession. The items may be seen in Table 03 in the results section.

Organization Capabilities. Executives were asked about the capabilities that were most important for their organization to meet its challenges. This is at the heart of what capacity means in a strategy framework; it refers to what the organization must do particularly well. The items may be seen in Table04 in the results section.

Stakeholder participation. Respondents were asked to indicate (yes or no) who from among 10 categories of people participated in decisions affecting major change. The potential participants were executive director, board, agency's own staff, current clients, consultants, similar (peer) organizations, funders, politicians, previous clients, and government agencies. They were also asked whether that participation included participating in the definition of the problem, making the decision, or implementation.

Limitations

This study suffers from the limitations common to much of the strategy literature. The people who can provide the necessary information are the organization's key executives. Committing an hour to an interview is a hard request to grant. The result is a small but exquisitely knowledgeable sample. Our understanding of the organization is necessarily filtered through their perception and insight. The sample is partially determined by the executives' willingness and availability, by virtue of the fact their organization survived, and by their valuing the research topic. As already noted, the executives sampled were experienced and thus may use more sophisticated management practices than those new to their roles. It is partially

retrospective, as they are asked about the organization's present status and events over the two preceding years.

RESULTS

How are they fairing?

Early on in the survey, respondents were asked to evaluate their organization's condition as of January 2008 on a scale of 1 to 5 Out of the 21 who rated their organization as of 2008, 43% felt they it was very successful and twelve organizations were evenly split between feeling it was either "coping" or "in good shape". Note no one selected "failed" and "in jeopardy," This may reflect optimism, or that any organizations which were in their death throws in January of 2008 may not have survived until 2010 or, if still in existence, may not have been available to spend an hour participating in a survey. Several of the executives reported acquiring other agencies or taking on programs or clients from agencies that failed to survive.

Of the 24 respondents who rated the organization as of 2010, 42% (ten organizations) reported their organization as being "in good shape", while the remaining respondents were evenly split between reporting their organizations as either "coping" or "very successful".

Insert Table 2 about here.

There was no major change in the overall ratings[3] – the "very successful" category dropped to 6 people from 8, which considering the intervening events is quite positive. Rating of an organization's effectiveness before the recession gave no indication what the rating would be

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[3] The analysis based on ratings of effectiveness for both 2008 and 2010 dropped the sample size from 26 to 20.

after (see Table 2). So, during the two year period of the recession executives' perception of their agency's performance changed, and changed in ways that were not a function of how things were going prior to the recession. Consistent with the notion of discontinuous change ratings were as likely to improve as decline. Despite the tough economic environment there was no wholesale decline in ratings. This suggests that different levels of success in adaptation occurred in the intervening time. So, what was associated with positive outcomes?

Antecedents of Successful Coping

To explore what was associated with higher perceived efficacy in 2010the more reliable, five item measure of effectiveness (in 2010) was used to examine the association with other measures.

There was no clear correlation between the organization characteristics and perceived efficacy of the organization. Years of experience, the extent of the directors' prior management experience, highest degree earned, director's gender, which members of top management are perceived as key, number of board members, whether the main organizational mission changed since the beginning of the recession, number of different programs offered, not only did not bear a significant correlation to perceived organization efficacy, they were nowhere close to doing so – suggesting it was probably not an issue of statistical power due to the sample size. The only factor approaching a significant correlation ($r = .45$, $p < .06$) is the number of direct reports, and even this may be an artifact of more successful organizations not having to layoff management staff. Organizations which reported having primary involvement with health/HIV/drugs were rated as more effective ($r = 53$, $p < .01$), likely as a by-product of a business model in which they were compensated by the state or federal government on a fee for service basis: the more clients

they serve the more they are paid. The revenue many well have been better for those in health than for organizations working in other areas.

Strategic Landscape

The executives were asked to rate the importance of eight factors in their organization's environment to its survival and the extent to which the factors changed since the beginning of the recession. What did these organizations see as critical to their survival? Of course, access to resources was most important (4.92). However, the two next most important factors were a supportive government environment (4.48) and access to relevant communities and clients (4.46). The importance of the latter factor reflects the distinctive grassroots (community-linked) characteristic of LNPs. .

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_____Insert Table 3 about here._____

The features of the environment rated as most changed were financial contributions, access to clients, and government support. Thus, those conditions most critical to the survival were most changed by the Great Recession. Latino nonprofits are often deemed fragile because of their tenuous financial resources. Indeed, this was a critical environmental factor. However low the baseline for financial resources, these data suggest that there are other resources similar in importance which are also in flux.

The participants were asked about the capabilities most important for their organization to meet its challenges. In business strategy "capacity" refers to what the organization needs to do particularly well to maintain a sustainable relationship with its environment. The ability to raise

funds, the quality of programs, and program delivery were viewed as the three most important capabilities (4.90 on a 5 point scale). The next most important were to maintain access to community and clients (4.67) and the ability to retain capable staff (4.63).

<center>_____

Insert Table 4 about here._____</center>

For the most part, important capabilities were seen as only modestly changed. The one exception was the capacity to secure funds which was seen as changing. Comments elsewhere in the interview confirmed that there was a decline in the capacity to secure funds.

To permit an overall assessment of response to the strategic landscape, the collective impact of the environmental factors and capabilities need to be examined as a unit. To do so the eight items addressing environmental forces were taken as a group and the variance in the importance ratings were calculated,[4] as was the mean for the reported change across these variables. The variance indicates the degree to which the executive distinguished among the factors. High variance indicates a great deal of differentiation. Low variance indicates the environmental factors could not be distinguished. If everything was seen to be of equivalent importance (low variance), it would be harder to determine on what specific feature of the environment to focus attention. Similarly, with capabilities the variance was calculated across the nine items rating importance and the mean calculated across the items rating the degree of change.

An organization's mean rating of change in the environmental factors and the mean rating of change in capabilities were both associated ($r = .47$, $p < .05$ and $r = .46$, $p < .05$)with being surprised by changes in circumstances; however the change variables did not correlate

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[4] Note this is the variance in the ratings of the eight items within subject. Variance was calculated from each participant's ratings so that it could be used in subsequent analyses.

with any of the other effectiveness variables. That organizations which report their environments

to be more turbulent and have changed their capabilities also find their environment harder to

predict (i.e., surprised by changes)as would be expected. What is more interesting is that change

in the environment or organization capabilities were not associated with any other facet of

effectiveness. Change in the environment was not a determinant of effectiveness.

More variance in importance among environmental factors was related to less average change in

the capabilities ($r = -.44, p < .05$). This makes sense as high variance indicates it was easier to

identify which factors to address and so there would be less reason to press for change on other

factors.

Average change in the environmental factors was correlated almost perfectly with

average change in capabilities ($r = .99, P <. 001$). This suggests that to the degree the

environment changed (suggesting the need for an organization response).there was a

corresponding change in the capabilities (usually thought of as part of an organization's strategic

response). There is logic in this: those who saw change in the environment of necessity adapted,

producing change in their organizations which is reflected in the change in capabilities. A

positive sign in organizations often are assumed to be fragile. The dissimilarity in the items in

the survey makes it unlikely that this is a methodological artifact; and the data were collected as

part of an interview, limiting the opportunity to select the same number heedlessly. Indeed, the

substance of the relationship between change and evaluation of the organization also argues

against a self-serving claim of successful adaptation. It is noteworthy that even when

confronting unexpected circumstances the LNPs showed adaptability.

Were there any other connections between the environment, capabilities and perceived

performance? To explore this, the variance measures and averages were coded into high and low

groups (split at median) and cross tabulated with the overall rating of the organization after the recession. The tables involving variance among the environmental factors and the capabilities did not present any clear pattern.

A strategy narrative would hold that recognizing that one's environment had changed should be associated with change in capabilities, through which action the organization would hope to achieve a greater level of effectiveness. As the non-profits that perceived their environment as changing also were the ones to report change in their capabilities, one might have expected the efforts would produce successful adaptation. Of course, not all change is successful, but one might hope at least some higher portion of those who changed reporting their organization as effective, yet this was not the case (r = -.23, n.s.). To understand what is happening it is necessary to examine the comments of the executive directors. (Given the identical ratings for purposes of simplicity only the mean change in capabilities will be examined).

The comments were examined by dividing the sample based on the degree of change reported in capabilities (median split). The two groups were further divided based on the single item rating of effectiveness in (2010). This resulted in the following grouping:

Those who reported low change in capabilities (which also indicated less change in the environment) tended to see their organizations as being more effective.

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Insert Table 5 about here._____

Understanding Strategic Response

To better understand this, we will examine the responses to three opened ended questions organized in the same manner as Table 5.

How are these environmental factors affecting you? The discussion of impact focused on financial resources. For those who rated the organization as very successful, lower change institutions said they "had not been able to affect outside policy . . . due to day to day activities" and lack of resources limited the ability to meet *new* needs that were evident in the community. They were aware more could be done if the resources could be found, but, for the most part, they were still able to meet *existing needs*. The one organization that reported high change and high effectiveness had found more resources in the form of fee for service payment (health care); so the changes were in response to increased demand and a payment model that supported meeting the increased demand. At the other extreme were those who said their organization was only coping. The one organization that reported low change and was only coping, had not been able to increase resources and was frustrated by the evident increased need to which it could not respond: "great need to provide services . . . but few resources. Culturally relevant programs are almost non-existent . . . capacity [in the community] has diminished." Those six organizations who reported high levels of change and were only coping also noted the lack of resources; however, their discussion focused on specific entities and efforts, suggesting their changes represented failed efforts to find resources. . "The government environment has changed . . . less direct support," "contracts abruptly terminated . . . criteria for grants change," "we're invisible . . . contracts from government go to big organizations . . . tough for us to compete." The response to this question was framed in terms of actions geared toward securing resources and the inadequacy of the resources currently available to this population. Appropriately, those who evaluated effectiveness as in good shape occupied a middle ground in which low change organizations saw their current situation as okay, but with identifiable changes that would adversely affect them.

What is different about the programs you now offer? It is not surprising that those reporting low change would not have much to say regarding how their programs have changed. Low change organizations which described themselves as very effective spoke of future changes that they expect will be needed; those who rate themselves as "in good shape" noted that other providers have disappeared; and those who said they are coping spoke of reductions to the number of clients served. Effectiveness ratings for high change organizations seem to be associated with the nature of the changes that they have undertaken. So, the single report from a very successful high change organization focused on one feature of their work that has become more critical to clients. Organizations which say they are in good shape have added areas of work – in one case enhancements that were necessary to meet client needs and in the other through a merger. Those who are coping described the changes as cut backs in the number of programs, locations or facilities. High change and doing what one did before is an odd combination – but it only applied to one organization. Still as part of a pattern, change which requires departures from the core activities are likely to be seen as less successful. This may change with time as the organization becomes more practiced at the new activities. However, it would be surprising to see them pleased with doing less. There was no evidence of what is described as mission creep in the program additions.

Please describe how your board members are selected. Each organization was asked about its board selection process and what they sought in board members. The major distinction appears to be between low and high change organizations. Ratings of effectiveness were not associated with any obvious differences in board selection practices. The low change organizations spoke of diversity of stakeholders in terms of professional roles and organization affiliations: "two physicians, one lawyer, two CPAs," "presidents of important arts

organizations". The high change organizations describe what they are seeking quite differently: "an annual assessment of skills the board needs," "seek background and expertise that will open doors for expansion," "seek expertise and to maintain cultural sensitivity." This suggests the organization that responded to the recession with high levels of change had sought board members who would take them outside of the existing framework. Their diversity was described in terms of overarching contributions and diversity in skills, experience and networks as opposed to silo-ed specialized skills sets among board members, each of whom were expected to only make a contribution in a particular area.

Openness and innovation.

Theory suggests that organizations that involve more people from diverse roles in the decision-making process would be more innovative (Oz & Toker, 2008). Indeed, when questioned 13 of 19 (74%) of those responding indicated that the changes their organizations experienced were deliberate and considered, implying there was a decision-making process in which people could participated. The difference in the make-up of the boards in low versus high change organizations is consistent with the notion that broader involvement (reflected in the high change boards) would be associated with more transformational change. But, what about participation beyond senior management and the board, to include the broad engagement of stakeholders? Table 5 below reports the number of organizations describing each of 10 stakeholder groups as participating in the decisions about the organization's change.

_____
Insert Table 6 about here._____

The first column reports how many respondents said the source was involved in key decisions in any way and the second column shows the percent of those responding that the

number represents. The next column shows the number reporting the source participated in defining the problem, the next in deciding on the course of action, and the last in implementation. Not surprisingly, executive directors were all involved in each phase. Both the board and agency staff is highly involved, but the nature of their involvement is different. It is commonly thought that the staff is mostly involved in implementation and the board in determining the course of action. For this sample, that statement would be an over simplification. Both the board and staff were involved in defining the problem. Staff are highly involved in the decision-making, more often that the board. And, while implementation is the domain of the staff, the board members were often described as helping define the problem and a few cases helping to define the course of action.

At the other extreme, it is relatively rare for politicians, previous clients or government agencies to play a role. The sources that participate with intermediate frequency (current clients, consultants, non-profit organizations similar to ones own, and funders) tend to be involved in multiple stages of the decision process when they are involved at all.

Theory would argue that openness to participation would result in more creative and transformational adaptations. Thus, one might expect those with more varied environments to benefit more from broader participation, produce more changes, and be more pleased with the results. Our capacity to demonstrate this is limited by the sample size. The multi-staged model implied would result in few or no cases in some conditions. With 10 sources described in terms of four types of participation (i.e., overall, defining problem, choosing course of action, and implementation) and 3 possible correlates, there are 120 possible correlations! This makes the prospect of spurious correlations quite high (i.e., we would expect 6 correlations to be significant at the .05 level by chance).

To try to capture to these data more concisely, the frequency with which each respondent named each of the sources was counted (0 if no participation up to 4 if named in each category as well as overall). The 10 sources were then factor analyzed (principal components analysis with VARIMAX rotation). As Table 6 (below) shows, the factor loadings provided a clear assignment of each source to a single factor.

_____
Insert Table 7 about here._____

Based on the results of this factor analysis, three indices were calculated:

- "Resource Providers" was defined as the average of the three variables loading on the first factor - Funder Involvement, Client Involvement, and Politician Involvement.

- "Context Sources" was defined as the average of the loading on the second factor – Board, Past Client, and Other NPOs.

- "Internal" was defined as the average of the two items loading on the third factor – staff and consultant involvement.

A factor analysis used to reduce data is often followed by, a statistical analysis. Unfortunately, even in reducing the number of measures associated with participation from 40 to three, as one divides the sample the groups become too small for most statistical analysis to be meaningful. However, it is quite possible to examine the meaning of the different levels of participation through responses to the open ended questions using an approach similar to that taken in the previous section. Each of the three indices was divided at the median to form high and low participation groups. Then the responses to three sets of open ended questions were examined based on the indicators.

Change to organization purpose. These are fundamental changes for the organization. Comments associated with survival (e.g., "other providers have disappeared," "[change was]

survival focused," or "discussion of merger") were associated with above median participation by resource providers, while comments describing incremental change were associated with below median participation. The same pattern was found for context sources. These findings are consistent with our expectations. For internal sources, above average participation was associated with similar comments; however, below average participation was associated with increases in activity (i.e., doing more but of the same sort of work). This above average participation by internal sources when organization survival is at stake is heartening as it increases the likelihood of necessary innovation (Elmore, 1980; Senge, 1990; Simanis & Hart. 2009)

     Changes to programs offered. Changes within programs may be viewed as less fundamental and probably require less adjustment by the organization. The organization continues to pursue its mission but through somewhat altered means (tactics). Above median participation by resource providers was associated with comments about changing alliances, populations served, and changes to available funding that requires a shift in attention. Below media participation was associated with changes that were described as alteration within a broader plan or trajectory (e.g., "We had started preparing for recession two years earlier," "pilot programs were later expanded". etc.) In the case of contextual sources, higher participation was associated with decreased program activity and lower participation with increases in program activity. Process sources' participation was highest when there was a specific turning point (often associated with funding) while low participation occurred in the face of what can be described as longer term patterns of change. Care should be taken because these patterns may reflect more the understanding of the participants than any actual differences in the circumstances in which they

find themselves. But, taken together these two questions suggest participation increases with the duration and discontinuity of change.

Environmental conditions. The next two questions were asked after the ratings of the environmental factors. The first, "What else do we need to know to understand the changes in your organization's environment?" The second asked how the most important environmental factors were affecting the organization.

Where resource providers participate more than the median respondents spoke of the importance of partners, although not necessarily partners that were resources providers. Where resource providers participated less the comments spoke to resource concerns (e.g., "seek diversity of funding . . . with new board," "never received fair share of funding," "board is trying to build contributions from individual donors"). Higher levels of participation by context sources was associated with concerns about access to specific sources of funding (e.g., acquiring individual donors, difficulty acquiring corporate donors) while lower levels of participation were associated with the perception that those controlling resources were unpredictable or arbitrary. One may wonder whether the lower levels of participation are partially responsible forth concerns about a lack of financial resources.

When asked about the most important environmental factors affecting them, the responses had a similar pattern to those just discussed across all three sources of information. Lower levels of participation were associated with an environment that was acting as expected. In the case of lower participation by resource providers the continuity in the environment was associated with frustration; for context source, it was associated with adverse outcomes; and for internal sources, it was dealing with resource issues that were part of broader trends. Higher levels of participation were associated with discontinuous, negative change. In the case of

resource providers, this was anticipated loss of funding, for context sources that traditional sources of funding had become inaccessible, and for process sources, specific events had led to a decline in resources.

A key dynamic that weaves its way through these responses is whether the executive director understands the environmental change to be one that is part of an understood pattern, even if that understanding is associated with negative outcomes.

DISCUSSION

The Great Recession did create an environment of discontinuous change to which LNPs were compelled to respond. One could not predict executives' ratings after the recession from those before. Certainly, some struggled to find creative ways to engage in the work they had done before (Roche, 2011); however there is evidence of a deeper understanding and more complex responses to the environment than would be required by an effort to stay the course. The LNPs studied here reported levels of change matching that perceived in the environment. Whether those changes were associated with successful adaptation depended on both the capacity to access resources and the needs confronting them.

This is not to say that these organizations framed their reaction as a change in strategy or viewed the process that led to change as being strategic. However, we do see the actions associated with strategy as a matter of practice and those practices then leading to concerted actions (Mintzberg, 1994). In looking at the changing environment there certainly was a concern with resources as the common narrative regarding non-strategic behavior by nonprofits would have it (Backman, et al., 2000; Stone, et al, 1999); however, the resources were not limited to funding. The propensity to change was not a simple and inevitable response to environment change, but a course of action associated with board selection processes and stakeholder

participation that made it more likely the need for change would be recognized and a strategic response more likely. Environmental change was a good predictor of changes in capabilities.

The open ended questions suggest that the analysis of the environment and response were broadly considered. There was awareness of the potential that mission might be affected. While that did open the door to change in mission, there was little that suggested "mission creeping" as an unwitting response (Alexander, 2000); if anything there were examples of the opposite – forgoing sources of funding because it could disrupt core activities or the organization's identity. Those organizations that described themselves as most successful either were able to function well within the changing environment (as was the case for healthcare organizations which were paid based on the number of clients attended to) or adapted through alternatives means of acquiring resources and reshaping the way they pursued their original mission. We did not see organizations losing focus. If anything, their focus sharpened. Change and frustration where balanced as the organization dealt simultaneously with mission and funding (Golden-Biddle & Rao, 1997). We can see this from the complexity created when the executives were unable to differentiate the importance of the environmental factors and did not focus change.

There is also evidence that nonprofits respond in similar ways to for-profit organizations when it comes to strategic innovation (Hurley & Hult, 1998; Mintzberg, 1994; Oz & Toker, 2008; Senge, 1990).Those organizations most likely to adapt had a board selection process geared to produce a group with diversity of thought, suggesting congruence with longer term philosophy and approach. Innovation is most likely where communication and learning was fed by participation that carries across traditional boundaries (O'Toole & Bennis, 2009; Senge, 1995; Simanis & Hart, 2009). Tracking the participation of different stakeholders showed considerable difference among the organizations' practices, but certainly not a segregation of staff and board

into particular parts of the decision process. As the literature suggests, organizations with broader engagement are more open to change.

Organization response is in part based on whether the environment is understood to be changing in an unexpectedly discontinuous or in an orderly manner. Participation tended to be broader where the environment was changing in discontinuous ways. Change was fostered by a more diverse board. This is consistent with what would be expected in terms of environment – organization interaction (e.g., Lawrence & Lorsch, 1967) and what would be encouraged for organizations trying to deal with unanticipated conditions. But, the traditional formulation is based on the idea that the environment itself may be characterized as continuous or discontinuous. In the present study, the nature of the environment was based on the judgments of the executive directors. This allows for the possibility that they may be wrong, and that perception of continuity may be a misunderstanding of the situation. However, it also opens the possibility that a seriously engaged management may have anticipated the possible discontinuities. While the present study does not provide a window into these processes, it points to the importance of understanding the environment, scanning, and scenario thinking that does go on in non-profit organizations.

What was not evident was any relationship between change to capabilities and success. While this is disappointing there is no guarantee that even if one is being strategic the strategy is a good one! But, even if wrong there may not have been time to realize this was the case. . There is clear evidence that solutions deemed successful in summer of 2010 were also recognized as being potentially fragile. Reductions to funding or increases in demand could upset the existing balance. Certainly, they had not had an opportunity to realize the problem and correct it. We are currently collecting a second round of data to see what another three years has shown.

Analoui and Samour (2012) note "it can be said that where the managers of the NGO put more weight on strategic awareness, then they also place more emphasis on formal strategic planning."That seems to be the case here. Where the conditions of involvement and diversity were in place questions were considered more broadly and change ran deeper. Response to change in the environment is seen in the change in capabilities (even if the effort to adapt is not always successful). Turbulent environments stimulate broader participation among stakeholders. This is at odds with the usual narrative that non-profits are too pressed to maintain capacity and the lack of capacity means they lack both the resources to engage in strategic management and the ability to systematically respond to significant change in the environment. While there was no evidence of over-abundant resources, modifying capabilities associated in response to changes in environmental conditions is an essential part of strategic management. The results suggest robustness in the strategic behavior in the sector, even among Latino organizations which might have been thought to by some more vulnerable to non-strategic responses to a crisis such as the Great Recession. Given the scope of the study, the results can only be taken as supportive of this notion, not any sort of definitive proof, but they are suggestive of a need for a new narrative. Perhaps one not so much based on idealized versions of what for-profit organizations do, but as the" lived" experience of how non-profits themselves respond to challenging circumstances

Implications for Understanding of Latino Nonprofit Organization

The study provides a window into the experience of LNPs. This is an important group of nonprofit organizations and their importance is expected to increase with time. The LNPs studied here do not appear distinctively less sophisticated or more fragile than other nonprofits trying to survive the Great Recession. They are certainly conscious of the resources on which they

depend, both financial and non-financial. However, they demonstrate confident independence in separating their planning process from funders' demands and are able to maintain integrity of purpose.

It is worth noting that the LNPs in this sample are all working with one of three intermediaries – Hispanics in Philanthropy, the Hispanic Federation or the United Way of New York. It is very likely that they received funds directly from the intermediaries, not individual private funders. However, there was no evidence that these organizations were especially deferential to or influenced by these intermediaries. The evidence indicates it is the LNP's own resourcefulness, not input from providers, is critical to changing broader strategic plans. During the interviews, the executive directors communicated professional pride in innovative alternatives they had devised.

LNPs have a history of being underfunding relative to other nonprofit organizations. Before and after the Great recession securing resources and the inadequacy of the resources found to meet the needs of the population served were major concerns (Foundation Center, 2011)in this sample of organizations. Moreover, the LNPs studied here were likely under greater pressure than the average nonprofit. It is noteworthy that even when confronting unexpected circumstances the LNPs showed organizational adaptability. LNPs are a distinct group within the nonprofit world, but the evidence here is that they are not a unique one with respect to the variables studied. The treatment they have received from funders seems to have been predicated on the belief that they are fragile and less well managed than other nonprofits, implying they are a risky choice for funding (Foundation Center, 2011). The results found in the present study would suggest that the notion LNPs are somehow more risky is a narrative that needs to be corrected.

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Table 1
Percent of organizations reporting work in each service area.
(Organizations could indicate work in more than one area).

50%	Education/Job Training
31%	Arts & Culture
24%	Community Development, Housing, and Homelessness
24%	Children & Youth
23%	Health, HIV, & Dugs
4%	Environment & Agriculture
4%	Nutrition & Hunger

Table 2.

Cross-tabulation of evaluation of the organization before recession by evaluation after the recession, 2010.

Count

| | | Eval organization after recession (2010) | | | |
		coping	in good shape	very successful	Total
Eval organization before recession (2008)	coping	2	2	2	6
	in good shape	2	2	2	6
	very successful	3	3	2	8
Total		7	7	6	20

Table 3.

Descriptive statistics for importance and change ratings of environmental factors.

Items	N	Minimum	Maximum	Mean	Standard Deviation
Sources of Financial Contributions	24	3	1	4.92	0.408
Sources of Contracts	21	1	5	3.76	1.578
People Who Purchase From us	22	1	5	2.82	1.651
Sources of Authorization	21	1	5	2.76	1.609
Access to Community Or Clients	24	1	5	4.46	0.977
Volunteers	23	1	5	3.96	1.224
Supportive Government Environment	23	2	5	4.48	0.846
Availability of Partnerships	24	1	5	4.21	1.062

Table 4
Descriptive statistics for importance ratings of organization capabilities

Descriptive Statistics

Importance of Organization Capabilities	N	Minimum	Maximum	Mean	Std. Deviation
Revenue or Fund Development	21	3	5	4.90	.436
Quality Programs	21	4	5	4.90	.301
Quality of Delivery	20	2	5	4.85	.671
Access to Community and Clients	21	1	5	4.67	.913
Influence Gov't or Agency Decision Makers	20	2	5	4.45	.887
Influence Political Decision Makers	21	1	5	4.10	1.375
Attract Staff	20	1	5	4.35	1.089
Train Staff	20	1	5	4.40	1.046
Retain Capable Staff	19	1	5	4.63	.955
Other 1 079	6	5	5	5.00	.000 .

Table 5.

Cross tabulation of change in capabilities with evaluation of organization after the recession.

Change in Capabilities (Median Split) 2008- 2010	Evaluation of organization after recession			
	coping	in good shape	very successful	Total
Low	1	5	4	10
High	6	4	1	11
Total	7	9	5	21

Table 6
Parties participating in decisions

Participant	# reporting party involved	%	Defining problem.	Course of Action	Implementation
Executive Director	19	(100%)	19	19	19
Board	16	(84%)	11	9	5
Agency's Own Staff	15	(83%)	14	12	14
Current Clients	7	(39%)	3	2	0
Consultants	5	(29%)	4	3	1
Similar (Per) NPO	4	(24%)	4	3	3
Funders	3	(16%)	2	3	2
Politicians	2	(12%)	2	0	0
Previous Clients	2	(13%)	1	0	0
Gov't Agencies	1	(6%)	1	1	1

Table 7

Factor loadings of principal components analysis with VARIMAX rotation of stakeholder participation ratings

Source Involved with Decision	Component		
	Resource Provider	Context Source	Process Source
Funder	**.896**	.107	.157
Current Clients	**.719**	.480	-.123
Politician	**.716**	.346	-.505
Board	-.048	**.835**	-.179
Past Client	.186	**.755**	.457
Other NPO	.297	**.627**	.266
Agency's Own Staff	.077	-.044	**.792**
Consultant	.059	.264	**.742**
Gov't Agency	-.413	.074	-.187

Extraction Method: Principal Component Analysis.

Rotation Method: Varimax with Kaiser Normalization.

a. Rotation converged in 6 iterations.