

Retrenchment Strategies

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Definition

Retrenchment, also sometimes referred to as cutback management, downsizing, or down scoping, is a term describing firms' strategies on cost and asset reductions as a response to financial downturns or a turbulent external environment (Robbins and Pearce, 1992).

Context

Retrenchment strategies are often taken by firms when they encounter or project a difficult or shrinking economic environment, such as economic recession or major decline of sales due to the changing strategies of competitors or technological transformations. In the nonprofit management context, retrenchment strategies are also likely to be driven by government budget cuts as nonprofits may rely heavily on government funding or their beneficiaries rely heavily on government assistance. Compared to their for-profit counterparts, retrenchment presents unique challenges for nonprofit organizations as government budget cuts or economic downturns often present a revenue shock and stimulate more service demands simultaneously (Cheng and Yang, 2019). They need to make a strategic decision regarding their survival and mission attainment.

Retrenchment strategies for nonprofit organizations can include tactics related to financial management, human resources, outreach, programs and services, and management and leadership (Searing et al., 2001). While they are commonly referred to as cutback management or short-term adaptation strategies for a shrinking resource environment, they can present unique opportunities for nonprofit organizations to envision new service roles and start the strategic reorientation or turnaround process. Retrenchment strategies need to be an integral part of an organization's strategic management process.

Nonprofit Applications

In the nonprofit management context, based on the main revenue sources of specific nonprofits, retrenchment may look different compared to for-profit firms. When a nonprofit relies on commercial income, retrenchment strategies look similar to for-profit firms. In these cases, their main customers are also their main fund contributors. However, when a nonprofit relies on government contracts or donations, there is an indirect relationship between funders and beneficiaries. When an economic crisis hits or the government cuts its budget, oftentimes, the demand from the beneficiaries increases while the resources from the funders decrease (Cheng and Yang, 2019). Therefore, nonprofits need to strategically adjust to not only ensure their survival but also address those needs that surface from the changing economic or political environments. In other words, retrenchment strategies should go beyond financial management and tie closely to changing strategic priorities of nonprofit organizations.

Bielefeld (1992) took the first systematic look at retrenchment strategies employed by nonprofit organizations and how they may help address funding uncertainty (Bielefeld, 1992). He specifically listed multiple tactics nonprofits have commonly used to reduce the internal cost to offset the loss of funding, namely increasing workload of existing staff, more use of volunteers and part-time staff, not filling staff vacancies, reducing administrative support staff, eliminating services or programs, reducing service levels, salary freezes or reduction, reducing workweek for paid staff, reducing staff training, and reducing staff benefits. While these classic tactics of retrenchment may help nonprofit organizations in the short term, extreme cautions need to be applied as they may create unexpected or longer-term problems for the organizations, such as staff burnout and mission drift. Because nonprofit organizations often have a small overhead ratio, as per the requirements of funders and donors, employing these tactics without a careful assessment may aggravate the nonprofit starvation cycle – “a debilitating trend of under-investment in organizational infrastructure that is fed by potentially misleading financial reporting and donor expectations of increasingly low overhead expenses.” (Lecy and Searing, 2015, p539) Retrenchment strategies that are conceptualized narrowly or prematurely by nonprofit managers are likely to direct their organizations to this worrisome trend.

Based on the above discussions, retrenchment strategies for nonprofit organizations must be combined with new revenue strategies and strategic reorientation. In the context of parks and recreation services, scholars have found that park-supporting nonprofits increase their fundraising efforts and diversify revenue portfolios when they face incremental government budget cuts on those services. These strategies help them maintain the level of services in an uncertain funding environment, without necessarily jeopardizing their internal organizational infrastructure. While borrowing and using reserves can also be financial management alternatives for nonprofits in such contexts, they are less often utilized by nonprofit organizations. Organizational disinvestments, or reducing administrative expenses, are activated when these nonprofits face a dramatic government budget cut (Cheng and Yang, 2019). Because

of the recent development of new information technologies and the constraints presented by the COVID-19 pandemic, digitization and increasing utilization of social media and online platforms present new opportunities for nonprofit organizations. They prove to be effective strategies nonprofits could use to scale up their existing service provision or reach new clients without a huge upfront investment (Cheng et al., 2021). While in the strict sense, they are not classic retrenchment strategies, nonprofit managers need to actively align the organizations' missions with these alternative strategies and creatively transform environmental constraints and threats to opportunities.

A Framework of Assessing Retrenchment Strategies

When nonprofit managers develop and implement retrenchment strategies, the following practices should be taken to make sure that retrenchment is necessary, effective, and equitable.

- Consulting and engaging key stakeholders. When nonprofit managers notice that retrenchment might be needed, they should first consult with key stakeholders of the organization, especially those who will be affected by the retrenchment. Unlike for-profit firms with clear ownership, nonprofit organizations are usually accountable for multiple groups of stakeholders (Frumkin, 2002). Therefore, consulting and engaging key stakeholders is especially important for nonprofits when it comes to critical strategic decisions such as retrenchment. Such stakeholders of nonprofits might include but are not limited to funders, board members, executive leaders, staff members, clients /beneficiaries/members of the organization, and local community leaders.
- Necessity analysis. Before making detailed retrenchment plans, nonprofit managers should carefully analyze the difficulties they are facing and the alternatives to retrenchment to make sure that retrenchment is truly necessary. For example, a previously underexplored funding source might be sufficient to make up for the decreased income. Or a reduction in hours worked by existing staff or salaries cut might be viable alternatives to layoff. Oftentimes, innovative alternatives might come up from wide consultancy with stakeholders.
- Clear goals of retrenchment. The retrenchment plans should be very clear on the nature and goals of retrenchment, whether they will be a turnaround from previous bad decisions, a temporary arrangement to help the organizations survive a difficult time, or a long-term strategy to re-structure and re-orient the organizations. Clear goals will guide the design and implementation of retrenchment plans, ensuring that the retrenchment is effective. As discussed above, unspecified goals or illy aligned retrenchment strategies might lead the nonprofit to a worsening situation.
- Strategic retrenchment. When designing retrenchment strategies, nonprofit managers should carefully evaluate the mission, resources, and competencies of the organization and strategically select what programs and how much of those programs to cut. An across-the-board approach to retrenchment might seem straightforward and easy to implement. But it can also lead to the loss of comparative advantages of the organization and further disadvantage the organization during a difficult time.

- Equity analysis. Retrenchment inevitably brings harm (e.g., loss of jobs) to some people. Nonprofit managers should be transparent about the selection criteria regarding who and what will be retrenched. Additional attention should be paid to whether some groups are unfairly affected by the retrenchment, especially the disadvantaged groups along the lines of gender, race, ethnicity, age, religion, disability, and so forth. Because of the critical roles nonprofits play in serving and empowering underprivileged people, nonprofit managers must take equity and the distributional impacts of retrenchment strategies seriously when designing such tactics.

The Future: Combining Retrenchment Strategies with Strategic Reorientation and Restructuring

Periods of retrenchment, if wisely leveraged, are opportunities for strategic reflection, restructuring, and mapping pathways to recovery or transformation. It means reevaluating the skill sets, competencies, and perspectives required at all levels of the organization (from line staff to management to board members) to fit a culture of adaptability and innovation. It means removing deadwood from boards of directors and ensuring that those who remain have accountability for both their fiduciary responsibilities and their obligations regarding institutional support. It means creating a new balance of power between boards and executives and limiting the ability of boards to go rogue or dysfunctional. It means openness to strategic alliances or consolidations that add value to the customers and the community, even if it entails absorption. It means curtailing strategic planning processes that are neither strategic nor planful but operating with active entrepreneurialism.

If there is an overarching principle that should frame executive policy and action, particularly in hard times, it is not solely to preserve operational and programmatic continuity and quality but also to reposition, redesign, and reallocate resources in ways that serve the common good and the organization's strategic purpose.

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