

## Heads Down. Eyes Up. Leadership in Volatile Times

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Like all of you, my colleagues, my team, my family, my community and myself we have been, and will continue to be affected by the current health crisis created by the spread of COVID-19, now officially recognised as a pandemic. Facing the challenges – as a leader within JBWere – has me thinking about the safety of my colleagues and their families, and the assets that have been entrusted to us for prudent and professional management by our clients

However, as I work remotely (appropriately socially distanced) my mind turns to what this *really* means for our JBWere clients: the for-purpose organisations to whom we provide tailored governance and strategy advice in addition to our investment management services. By this, I mean, what it *really* means beyond the impact of reduced portfolio values and income generated from those portfolios in the short to medium term (as important as that is to our clients).

So, in the spirit of practicing what I preach (literally!) I am today taking the time to lift my gaze from the crisis response and reflect as a Board Director of multiple for-purpose organisations on what we must do next. Perhaps it will prove useful to you as you prepare for your next Board meeting.

### **Context...is everything!**

This is a health crisis first and foremost and it seems likely that we have yet to see the worst of the impact. The varied, and escalating responses by governments, businesses and communities around the world is resulting in an economic downturn. The million-dollar question is: *how long and how severe will this economic downturn be?*

The BNZ's head of research, Stephen Toplis, has 'penciled in' a 5% fall in economic activity in New Zealand for the June quarter 'but it could easily be more than double this' depending on the duration of the current lockdown. New Zealand Treasury has advised the Prime Minister that the national impact of the pandemic will be worse than the impact of the 2008 global financial crisis (referred to as the GFC). [1]

There are some signs already that the current supply-side disruption to business will spill over into a demand side problem, especially if consumer behaviour is permanently altered – if that occurs in any serious way, the New Zealand economy could take some time to recover.

Although the New Zealand Government has announced a large and targeted support package, in an attempt to limit economic disruption, there are clearly still scenarios where there will be (amongst other impacts) significant increases in unemployment, and underemployment. Any such scenarios will have a substantial impact across the economy and flow on effects to those organisations that support those in disadvantaged and marginalised communities – they always feel the full force of an economic downturn. In New Zealand, a sharp increase in demand for services will add to an already stretched system due to many years of government underfunding, estimated \$630 million a year. [2]

Those involved in the sector understand the potential tsunami of escalating and desperate need in the context of another real, prolonged economic downturn, and the current funding gap in service provision will become even more acute in this crisis.

## **Governance is about asking the right questions**

THE AICD has recently published a [list of pertinent questions](#) [3] for those serving on For-Profit Boards to ask in the current circumstances – these are a good starting point. What follows are some additional key questions a Director on a For-Purpose Board should be asking at this time (among many others specific to your organisation):

- How is our CEO and our staff coping in this stressful situation? What processes do we have in place to know if something is wrong or policies aren't being adhered to?
- Are volunteers a big part of our operational model? If so, what is our plan to deliver services sustainably when we should be practicing 'social distancing' where possible?
- How will we deliver our services if our beneficiaries have to practice 'social distancing'? Do we understand the mental health impacts?
- What is our framework for making decision about changes to staff employment? Are we practicing our values when engaging with any 'Casual staff' we might have who don't have access to certain benefits?
- What does our Theory of Change say is essential in delivering outcomes for beneficiaries? What is non-negotiable, and alternatively what can we stop and say no to?

The answers to the above questions are important and will have repercussions on your organisation's financial health. Turning our mind to that we must ask:

- What is the impact of the health crisis on demand for our services? This will be acutely felt in medical and care providers and have repercussions for many others.
- What is the impact of social distancing on demand for our services? Will we see a large fall in demand and revenue because people are simply staying at home? Or will there be an increase in demand as people seek more assistance as the economy falters?
- What other organisations exist which share similar beliefs as ours that we could work alongside to deliver a common mission?
- What is the impact of an economic downturn on our revenue? What would we do if our revenue fell by 30%?

## ***Why would revenue fall by this much?***

Well there is a very plausible scenario where there is a reduction in all three primary sources of incomes: a reduction in consumer demand for services; a reduction in government funding as budgets move into deficit (reduced taxation revenue and/or increased government spending) and lower charitable giving.

Clients last week started asking about this last point – what will happen to charitable giving as some have already had commitments from some funders withdrawn? Well, I do not possess magical abilities to read the future, however history provides some insight. In the GFC of 2008 we saw immediate drops in giving – down 6.3% in real terms on the USA; 11% in the UK [4]; 10.8% in Australia [5]. These short-term impacts were likely driven by the real and perceived loss of wealth and income experienced by individuals and households at this time.

However, consider the long-term impacts and trends. A recent analysis found that in the US, overall giving falls relative to the levels seen in the mid-2000s (peak of the business cycle) are not explained by 'shocks to income and wealth' but are potentially better explained by 'broader shifts in attitudes towards giving or increased uncertainty'[6]. In the context of what we have already observed in the worrying long-term downward trend in New Zealand private giving this might create an existential crisis for organisations reliant on public fundraising.[7]

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Many for-purpose organisations with reserves and endowments need to reconsider the purpose of their assets and how they can best serve the mission in the context we find ourselves in. For those that have been accumulating reserves for a 'rainy day' and banking significant investment returns over many years...I would suggest the clouds have opened and we must think deeply about what our beneficiaries need and our role in the system. We must reassess the most effective use of our assets through the lens of mission performance.

## **Concluding Comments**

We are all now part of a global pandemic, the like of which may disrupt what we do, and how we do it, not just for a few months, but perhaps forever. As Board Directors, it is clearly our job to ask incisive questions and guide management on what needs to be done now. But, we must also lift our gaze and see what's coming around the bend. Only by doing this can we ensure that our organisations are not just reacting appropriately and effectively to this crisis, but also evolving to better deliver on mission.

## **Postscript: Philanthropists...the time is now!**

It would be uncharacteristically reticent of me to ask the for-purpose organisations to reassess their use of capital when we also have billions of dollars of philanthropic capital in New Zealand. Through experience, I understand that for trustees of longer-term philanthropic structures the inclination will be to preserve capital as markets fall and grow the corpus as markets recover.

*But is this really the time?*

If we do have a prolonged slowdown, then we need to adequately fund the for-purpose organisations who do the work. No one will thank us for our savvy management of philanthropic capital if it isn't deployed when it is most needed. So, my very simple ask is this: if you have the capability to deploy some or all of the capital under your stewardship, then I ask you to truly consider that option – and the opportunity cost of not doing so.

As we experience the economic brunt of this health crisis, we must apply everything we have to help those most in need. We must do everything we can, now...because in many of these entrenched issues, winning slowly is losing.

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- [1] "NZ at a glance" BNZ Research (25 March 2020) [https://www.bnz.co.nz/assets/markets/research/BNZ-NZ-at-a-Glance\\_March-25-2020.pdf](https://www.bnz.co.nz/assets/markets/research/BNZ-NZ-at-a-Glance_March-25-2020.pdf)  
<https://www.rnz.co.nz/national/programmes/checkpoint/audio/2018738697/covid-19-impact-could-be-worse-than-gfc-treasury-tells-ardern>
- [2] "Funding Gap Report 2019" Martin Jenkins, Social Services Providers Aotearoa Report (September 2019) <https://www.sspa.org.nz/funding-gap>
- [3] COVID-19 – how should your board respond? AU IOD (March 2020) [https://aicd.companydirectors.com.au/membership/the-boardroom-report/volume-18-issue-3/coronavirus-how-should-your-board-respond?utm\\_source=AdobeCampaign&utm\\_medium=email&utm\\_campaign=BoardroomReport&utm\\_content=DM2913300&TC=DM2913300](https://aicd.companydirectors.com.au/membership/the-boardroom-report/volume-18-issue-3/coronavirus-how-should-your-board-respond?utm_source=AdobeCampaign&utm_medium=email&utm_campaign=BoardroomReport&utm_content=DM2913300&TC=DM2913300)
- [4] "The impact of the recession on charitable giving in the UK" Charities Aid Foundation and National Council for Voluntary Organisations" November (2009) <https://www.cafonline.org/docs/default-source/about-us-publications/ukgivingreport2009.pdf>
- [5] "The Support Report: The changing shape of giving and the significant implications for recipients (AUS)" John McLeod, JBWere (2018) <https://www.jbwere.com.au/content/dam/jbwere/documents/JBWere-Support-Report-2018.pdf>
- [6] "The Great Recession and Charitable Giving" Jonathan Meer, David H. Miller Elisa Wulfsberg. National Bureau of Economic Research (NBER) Working Paper 22902 (December 2016) <https://www.nber.org/papers/w22902.pdf>
- [7] "The Support Report: The changing shape of giving and the significant implications for recipients (NZ)" John McLeod, JBWere (2020) <https://www.jbwere.co.nz/media/1qudxw3q/jbwere-nz-support-report-digital.pdf>

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### About the Author

Shamal joined the Philanthropic Services team in November 2012 and has led the team since November 2014. In addition to leading the team, his responsibilities include the provision of specialist strategic advice to both for-purpose organisations and private clients in areas ranging from the structuring, governance, capacity building, sustainability and organisational strategy.

Prior to joining JBWere, Shamal worked within the financial services and trustee industries gaining significant experience in advising high net worth individuals on their philanthropic structures, managing trusts and foundations (including PAFs), and constructing charitable foundation investment portfolios.

Shamal is an Adjunct Associate Professor at the Centre for Social Impact, University of NSW Business School. He co-created and co-teaches the Governance for Social Impact course at the Australian Graduate School of Management (AGSM).

Shamal's research, writing and teaching is focused on the development on frameworks that enable all participants in the social impact ecosystem (for-purpose organisations, philanthropists and corporates) to deliver better outcomes for beneficiaries.

Shamal serves on a volunteer basis as;

- a Non-Executive Director on the Board of Earthwatch Australia and Two Good Foundation;
- Chair of the Governance Group of The Constellation Project (a cross-sector collaboration aimed at eradicating homelessness);
- A member of many committees including the Advisory Committee of the Centre for Social Impact and Investment Committee of the JBWere Charitable Endowment Fund.

### About JBWere Philanthropic Services

The mission of the JBWere Philanthropic Services team is 'to inspire, educate and support of clients in delivering sustainable impact'.

We are the leading provider of services in Australia and New Zealand and serve a broad range of purpose-driven organisations, institutions, corporations, families and individuals (currently entrusted with more than \$7.5bn across Australia and New Zealand).

We partner with our clients to support them in delivering on their mission, and fulfil our own, through:

- Best Practice Governance;
- Research, Education and Insight; and
- Tailored Strategic Advice.

To discuss how we might be able to work with you, please contact John Morrow, Head of Philanthropy for JBWere NZ, on 09 365 0825 or email him at [john.morrow@jbwere.co.nz](mailto:john.morrow@jbwere.co.nz).