

nonprofits in need

by Shannon Golden, Wesley Longhofer, and Daniel Winchester

When housing collapses or failing businesses stand to ruin a community, nonprofits come to the rescue and in myriad ways temper the devastation. But what happens when the entire economy fails, taking with it the resources nonprofits depend upon to provide those services? According to the five sociologists Contexts turned to for answers, it means times will be harder than we might have expected, but the outcome not as devastating as we thought.

Contexts: What's your take on how the economic crisis is affecting the U.S. nonprofit sector?

Walter Powell, co-director of the Stanford Center on Philanthropy and Civil Society: One of the quandaries of the nonprofit sector is that when times are hard, business is up. But this crisis seems a bit more challenging, because of its severity and because there are a set of contentious political issues with the Obama administration around charitable deductions. But what is unusual about this crisis is that some of the wealthiest nonprofits are hardest hit, whether we are talking about art museums or universities. Those nonprofits that were fortunate enough to have endowments have suddenly seen their endowments drop in dramatic ways, so you get extreme things like Brandeis University having to sell off their art museum to remain fiscally solvent. The foundation world, which had often been a pretty significant provider of funds for nonprofits, ranging from 2 percent for some organizations to 30 [percent] or 40 percent for others, is giving at least a third less in the foreseeable future, meaning that money flowing into nonprofits next year is going to be much, much narrower than it has [been] in the past.

Mark Hager, with Arizona State University's Lodestar Center for Philanthropy and Nonprofit Innovation: Generalizations are really hard for such a diverse population of organizations. Only about a quarter of U.S. nonprofits rely very heavily on private contributions. Another quarter relies very heavily on fees. Most are in the middle, cobbling together a mix of contributions, grants, fees, and investments. They operate in a broad diversity of industries, doing a broad variety of things. Consequently, different changes in the funding environment affect different nonprofits in different ways.

That said, the current decline is affecting nonprofits on all fronts. Small donors are feeling it in the pocketbook, and big donors are reconsidering their giving as they watch their portfolios shrink. Private foundation payouts are based on investment returns, which have been in full-scale retreat. Federal government grants and contracts have dried up on many fronts, and many states have been cutting budgets to the bone. Even fee-based nonprofits feel the pinch, with hospitals seeing an increase in uninsured patients, private colleges facing declining enrollments, and performing arts organizations reporting sparse audiences.

David Suarez, with the University of Southern California's School of Policy, Planning, and Development: While the long-term effects of the economic downturn on the nonprofit sector remain unclear, several emerging trends present a bleak outlook.

With state budgets suffering due to diminished tax revenues, nonprofits cannot rely on prior levels of funding from local public agencies. Though the stimulus package from the Obama administration may benefit some nonprofits,

disbursements of federal grants and contracts could be at risk as well. ...Foundations are nonprofits as well, and [many] may have to downsize, and diminished foundation budgets imply less funding for the nonprofits that benefit from foundation grants.

Kirsten Grønberg, with The Center on Philanthropy at Indiana University: Nonprofits are facing some major challenges, some of which were in evidence before the recession [including] persistent questions about propriety and accountability; greater demands for services, especially for health and human services, due to the recession and coming on top of major changes in the welfare system; and cuts in government funding, especially state/local funding, as state and local revenues are declining.

Contexts: Are faith-based nonprofits facing similar challenges?

Wolfgang Bielefeld, with the School of Public and Environmental Affairs at Indiana University: Faith-based organizations have not been spared from the effects of the economic downturn. Recent reports also [say] churches are battling economic woes, with donations from their members and other income sources declining. This is resulting in cut-backs of church services to members and other community residents. Given that these services are often to those in serious and direct need, this is further fraying the already stretched social safety net.

For congregation giving, I would expect that the income level of the congregation would be a factor. Giving by more middle or lower income congregations is likely to decline more and faster than that of upper-income congregations.

Contexts: How are nonprofits coping with these funding shortages? And what are the likely short- and long-term effects on the ground?

Powell: Organizations trying to ride out the storm by any means possible are being told that adopting these particular accounting mechanisms or hiring these particular consultants will get you through. But what I would like to see more of is listening to voices calling for accountability and thinking much harder about measures that really reflect core practices. Too often organizations are being told to cut programs to increase revenue. But as one art director said to me, if we cut something like avant garde dance, there will never be anybody to learn about it and it will never come back. Those are the kinds of cuts that aren't really fungible—if you cut them, they are gone forever.

Suarez: Beyond diverse and immediate financial repercussions, nonprofits also have serious operational challenges that are exacerbated by the economic crisis. For instance, many donors are reluctant to pay for anything other than programs or direct service provision. Even during the best of times, donor-designated funds can diminish nonprofit capacity to be creative with resources, and nonprofits are likely to have much less discretionary funding available in the near future.

With limited funding for overhead costs, nonprofits also are likely to have to cut administrative staff. Developing performance metrics, evaluating programs, and reporting results all become more challenging with fewer staff, and fundraising itself is a management task that frequently requires dedicated personnel. Unfortunately, client needs simultaneously are expanding in many areas, creating a negative ripple effect for those who benefit from the sector. With greater client demands, fewer resources, and an expanding burden on management, the tasks for the nonprofit sector are formidable.

Grønbjerg: The challenge will be for them to find the right mix of strategies to weather this particular storm. While it is possible to trim operations and expenditures, nonprofit revenues are not easy to control or predict and many already operate with very low (in many cases, too low) overhead. And it takes resources to generate resources (something donors and funders, who only want to support programs, don't understand). Many will also have to explore collaborations and mergers, but that is difficult and costly in terms of time, energy, and money—and we risk creat-

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ing a less engaged community if people no longer can connect as fully to the organization as before. They can also seek to diversify funding sources, but that will increase management complexity since each type of funding requires a different set of skills or approaches, and will impose new demands on the board at a time when it is already difficult to find good board members.

Contexts: So, what do you think is the future of nonprofits, considering the effects of the current climate?

Grønbjerg: While they do face many challenges, there are also some opportunities for nonprofits. Our research shows that nonprofits are trusted more than business, state and local government, and especially the federal government. We have also found that nonprofits appear to be more recession-proof than the for-profit sector, in part because they are almost exclusively involved in the service economy (including health care services), which has been growing more so than other industries (except for health). They will also benefit from several other developments: the massive government “stim-

ulus” spending is likely to trickle down, there may be fewer competitors and more interested collaborators, they are also likely to have access to an expanded volunteer pool, and they are likely to realize they need to build more effective fund development strategies.

Hager: Many commentators have taken these facts and projected widescale closures of nonprofit organizations. I do not think that that squares with the evidence. True, some nonprofits will close, and we can point to prominent current examples. But some nonprofits close

even in the best of times. I think what we will see at the end of this recession is broad retrenchment by many nonprofits, ranging from the trimming of staff and programs to temporary suspension of activities.

However, I think we will also see the resilience that characterizes mission-driven organizations. When a business runs too long in the red, its owners or shareholders close shop and move on. Nonprofits, however, represent dreams, needs, and the spirit of community. Those things are hard to kill, whether the coffers are full or empty. The economy will turn. Rather than nonprofit graves, we will see a very large majority of our community organizations emerge to fight another day.