A Three Year Study of the Nonprofit Sector’s Response to the Economic Challenges in Six Cities Across the Nation

Julianne Gassman, University of Northern Iowa
Norman A. Dolch, University of North Texas
Ann Marie Kinnell, University of Southern Mississippi
Stephanie Krick, University of Central Florida
Regan Harwell Schaffer, Pepperdine University
SueAnn Strom, Park University
Amy Costliow, University of Northern Iowa

gassman@uni.edu

June 2012
EXECUTIVE SUMMARY

The Great Recession of 2007 has been impacting individuals, organizations, businesses, the government and nonprofit sectors for almost five years. While some argue that the nation is starting to recover, other businesses and organizations are still feeling vulnerable. Barro (2011) has indicated that there is an ongoing global financial crisis and “...a chance of a double-dip recession” (p. 45).

This research outlines a survey first distributed to CEOs of nonprofit organizations in various geographical areas of the United States in 2009. To date, data has been collected in 2009, 2010 and 2011. The results reveal trends regarding demand for services, ability to meet demand, financial impact and actions being taken and considered as a result of the challenging times. The information collected from this study may be used to develop strategies for coping with challenging economic times and future recessions. If there is a chance of a double-dip recession then executive directors need to seriously consider not only the financial impacts of the recent recession but also the actions being taken for survival purposes, as well as future operational procedures.

The study is designed utilizing an online survey instrument administered in six cities spanning the United States during the fall of 2009: (a) Cedar Falls, Iowa; (b) Dallas, Texas; (c) Los Angeles, California; (d) Orlando, Florida; (e) Hattiesburg, Mississippi and (f) Kansas City, Kansas. The survey was originally developed at the University of North Texas (Dolch, 2009), and modified slightly...
by adding some questions and versions two and three of the *UNT Survey of Economic Impact on Nonprofit Organizations* was administered in 2010 and 2011. In 2009 the response rate was 18%, in 2010 the response rate was 21%, and in 2011 the response rate was 28%. The overall response rate for all three years combined is 25%.

The demand for services has increased every year between 2009 and 2011 while the organizations’ ability to meet the increase in demand has consistently decreased every year. Corporate donations, government grants, and investment income have decreased, but individual contributions increased during all three years. The decrease in government grants is reported as having the most significant impact on the nonprofit organizations in the study. The first year organizations were surveyed, 2009, was when the largest percentage of organizations reported instituting hiring freezes; however every year following fewer organizations reported taking this action. Every year there was an increase in the percentage of organizations that reported taking action to implement salary freezes. Almost 52% reported taking this action in 2011. The year 2011 brought increases in number of organizations reporting action taken in reducing service delivery as well as reducing programming. In all three years there was in increase in the percent of organizations reporting decreasing employee benefits.

The actions in response to the Great Recession may be survival responses. Is it possible that these responses reflect positively on the sector, indicating that organizations know their operations well enough to make
decisions that will allow organizations to continue serving its mission despite hard economic times? Actions such as hiring and salary freezes can be effective problem solving. Certainly laying-off employees is not a desired action, however continuing to fulfill the mission and meet an increasing demand for services should be at the forefront of decisions. Tightening the organization’s belt for a few years for the sake of the mission is a necessary action for the betterment of communities and those served by the nonprofit sector.

When tough economic times hit, the nonprofit sector will face challenges, difficult decisions, and smaller budgets. The economy is cyclical and the sector needs to learn the lessons from lean times. Regardless if we are in a double-dip recession the nonprofit sector continues to struggle. The work of the nonprofit sector is essential to the prosperity and vitality of our communities and core to making healthy changes to better society as a whole. As Tuck, Howard and Foster (2010) stated, “Constituents, staff, and funders will judge nonprofit leaders according to how well they run this recession marathon. These leaders’ actions will make all the difference in whether - and in what shape - their organizations cross the starting line into the post-recession future” (p. 3). Nonprofit leaders need not only maintain daily operations, but also focus on activities that are occurring on the margins so to capitalize on management opportunities that will positively impact the organization’s ability to serve its mission.
A Three Year Study of the Nonprofit Sector’s Response to the Economic Challenges in Six Cities Across the Nation

The Great Recession of 2007 has been impacting individuals, organizations, businesses, the government and nonprofit sectors for almost five years. While some argue that the nation is starting to recover, other businesses and organizations are still feeling vulnerable. Barro (2011) has indicated that there is an ongoing global financial crisis and “…a chance of a double-dip recession” (p. 45). As leaders of the nonprofit sector plan for the future, understanding the financial impact of the recession and the actions taken as a result of the challenging economic times can assist executive directors and other leaders in determining strategically the operational needs of their organization and how to best serve their communities.

This research outlines a survey first distributed to CEOs of nonprofit organizations in various geographical areas of the United Stated in 2009. It is the expectation of the researchers to continue this study through 2013. To date, data has been collected in 2009, 2010 and 2011. The results are starting to reveal trends regarding demand for services, ability to meet demand, financial impact and actions being taken and considered as a result of the challenging times. The information collected from this ongoing study may be used to develop strategies for coping with challenging economic times and future recessions. If there is a chance of a double-dip recession then executive directors of nonprofit organizations need to seriously consider not only the financial impacts of the recent recession but also the actions being taken for survival purposes, as well as future operational procedures.

Literature Review

The survey to be reported is part of a large effort by many researchers to examine and document the relationship between the economy and the operations of nonprofit organizations. For example, a survey from Sage Nonprofit Solutions (2009), reports the biggest challenge, as a result of the recent recession to nonprofit organizations, is “a decline in total revenue” (p. 3). This finding is reinforced in the work of McLean & Coffman (2009) as well as the work of Blackwood, Wing, and Pollack (2008). Each of these reports, based at least partially on survey data, indicate that the loss of individual and corporate donors influence the revenue of nonprofit organizations and the overall financial status of these organizations. In turn, the loss of financial resources impacts the operations of the organizations. Loss of donations alone is not the sole issue for many nonprofit organizations. Nonprofit organizations with investments in the stock market started to see their investments decrease in value, affecting the financial status of organizations as well (Sage Nonprofit Solutions, 2009).
Guidestar is a research organization that has been gathering data about nonprofit finances from surveys and other sources such as IRS Form 990 since 2002. The Nonprofit Research Collaborative (2011), as reported through Guidestar.org, specifically studies changes in financial activity among nonprofit organization across the United States. Figure 1 reports the results of a number of these studies. According to the results of these studies, the charitable contributions to nonprofits dipped the lowest in the middle of 2009 and have been increasing since. However in 2011, 59% of organizations reported contributions to be down or stable.

![Figure 1. Change in Charitable Gift Receipts, 2002-2011](source: Nonprofit Research Collaborative (2011)).

Guidestar collected data on the percent of contributions that decreased over time since the recession preceding the Great Depression of 2007, which was the nine-month recession starting in March 2001 (National Bureau of Economic Research, 2009). From this data it is evident that during 2002, the first full year following the last economic downturn, 48% of nonprofits reported a decrease in contributions. For the next five years following 2002, the percent of nonprofits that reported a decrease in contributions was less every year. Likewise, when analyzing the percent of nonprofits that reported an increase in contributions in 2002, again, the first year after the last reported economic downturn, 28% of nonprofits indicated contributions increased. When reviewing the percent of nonprofits that reported an increase over the next five years, the percent continued to increase during that time. This same trend seems to be occurring again.

In a survey by Salamon, Geller, and Spence (2009), 73% of nonprofit organizations reported either the ability to maintain or increase services since the beginning of the recession; however, they noted that the coupling of an increase in need for services with a decrease in revenue has created a burden for many nonprofit organizations. Additionally, Guidestar has consistently asked
nonprofits to report each year whether the demand for services have increased, decreased, or stayed the same from the previous year. Figure 2 illustrates the results of the change in demand for services over time. As illustrated in figure 2, demand for services does not seem to change drastically over time. It appears that demand for services increases every year by about 70% regarding economic conditions. This finding may be because private welfare programs are relied on to protect vulnerable populations (Jenson & Fraser, 2011). As the demand for services increase, due to the impact of the recession on families and individuals, nonprofit organizations are expected to serve people in need. Interestingly, in 2009 an increase in demand for services was reported by the fewest nonprofit organizations in the nine years from 2003-2011, which was the heart of the Great Recession.

![Change in Demand for Services, 2003-2011](image)

*Figure 2. Change in Demand for Services, 2003-2011
Source: McLean and Coffman (December, 2009).*

While we have reviewed a few selected studies using survey data about the effects of the recent economic downturn on nonprofit organizations, their results and those of others, such as the Alliance of Arizona Nonprofits (2011), Krauskopf, Blum, Litwin, Hughes, and Browne (2009) of Baruch College (CUNY), School of Public Affairs, indicate a wide range of responses to the economic downturn. There are indications that the future of the sector is not bleak. Tuck, Howard and Foster (2010), write in response to a survey of 100 nonprofit executives across the United States, “Yet many of our respondents are also adopting healthy habits that not only will help them survive the present recession, but also may help them thrive when better times return” (p. 1). For some nonprofit organizations surviving the Great Recession of 2007 has come with hard work and some nonprofits have even thrived. The factors for survival, non-survival, and thriving need to be documented so that nonprofits can learn...
from them and use them to consciously design their organizations better when economic downturns loom in their communities.

The need to understand nonprofit organizations and their ability to survive and possibility thrive influenced the desire to conduct this study and add to the growing body of knowledge in this area. The research questions guiding our study when it was initiated in the fall of 2009 were very similar to those of the studies reviewed: 1) What is the overall impact of the Great Recession? 2) Has the recession affected the demand for services? 3) Have the amounts and types of funding changed since the start of the recession? 4) Have nonprofit organizations taken action as result of the recession?

Methodology

The study was designed utilizing an online survey instrument administered in these six cities spanning the United States during the fall of 2009: (a) Cedar Falls, Iowa; (b) Dallas, Texas; (c) Los Angeles, California; (d) Orlando, Florida; (e) Hattiesburg, Mississippi and (f) Youngstown, Ohio. Originally developed at the University of North Texas (Dolch, 2009), the survey was modified by adding questions; version two of the UNT Survey of Economic Impact on Nonprofit Organizations was administered in 2010 to these cities: (a) Cedar Falls, Iowa; (b) Dallas, Texas; (c) Orlando, Florida; and (d) Hattiesburg, Mississippi, and e) Kansas City, Missouri. Los Angeles, California and Youngstown, Ohio did not participate in the 2010 survey. In 2011 the survey was modified again and administered to nonprofits in these six cities: (a) Cedar Falls, Iowa; (b) Dallas, Texas; (c) Orlando, Florida; and (d) Hattiesburg, Mississippi; e) Kansas City, Missouri and f) Los Angeles, California. Each city represents not only the city but also organizations from the surrounding area of each city.

These cities were chosen because a Nonprofit Leadership Alliance collegiate program was located within each city. The Nonprofit Leadership Alliance is a workforce development organization that partners with colleges and universities to certify students in nonprofit management. United Way organizations in the respective cities listed above were contacted through faculty of the Nonprofit Leadership Alliance with the exception of Orlando, Florida. All but the faculty/researcher in Orlando contacted their local United Way asking them to distribute the survey, designed in Survey Monkey, to their local funded organizations. Each United Way Executive Director in the cities listed above then sent an email to their funded agencies asking them to participate in this study. In Orlando, Florida the researcher sent out the survey through her own nonprofit listserv. In 2009 the survey was sent to 803 nonprofit organizations, in 2010 it was sent to 580 nonprofit organizations and in 2011 it was sent to 438 nonprofit organizations. The sampling techniques for obtaining the organizations’ results were convenience sampling.

In 2009 the response rate was 18%, in 2010 the response rate was 21%, and in 2011 the response rate was 28%. The overall response rate for all three years combined was 25%. Every respondent each year did not answer every
question; therefore the N reflected in the reported figures and tables of this study represent the number of respondents for that particular question. The percent reflects the percent of the total number of respondents for each question by year.

Results

Figure 3 indicates the percent of nonprofit organizations by city that participated in the study each year. In 2009 half of the organizations were located in Dallas and the surrounding area. In 2010 half the organizations were located in Kansas City and the surrounding area. In 2011 Dallas and Kansas City together made up 52% of the responding organizations.

Figure 4 categorizes the mission focus of the responding organizations. Respondents were able to choose more than one mission; therefore the totals do not equal 100%. In 2009, 2010, and 2011 the majority of participating nonprofit organizations had missions related to health and human service, with youth development organizations being the second most common type. Mental health crisis intervention organizations and nonprofit educational organizations were the third and fourth types included in the study during all three years.

![Graph showing percent of nonprofit organizations by city and surrounding areas](image)

**Figure 3.** Percent of participating nonprofit organizations by city and their surrounding areas. 2009 N=142, 2010 N=129, 2011 N=139.

Figure 5 illustrates the annual budgets of the participating nonprofit organizations. Twenty-eight percent of the organizations had budgets of between $1 and $3 million in 2009; however in 2010 the largest category (29%) was organizations with budgets of over $5 million. In 2011, over 60% had budgets over $1 million.

Figure 5. Percent of responding organizations by current annual budget. 2009 N=143, 2010 N=121, 2011 N=140.

Figures 6 and 7 illustrate the percent of responding nonprofit organizations to the questions, “has the demand for services changed during the past year”, and if yes, “has your organization been able to meet the change in demand”? Again, N = the number of respondents for that particular question. In 2009, 67% (96) of the responding organizations indicated that
demand for services increased and of the 96 that reported an increase in demand for services, 56% (54) were able to meet the increased demand. In 2010, 71% (87) reported an increase in demand for services and of those 55% (48) were able to meet the increased demand. In 2011, 84% (103) reported an increase in demand for services and of those the number of organizations able to meet that demand dropped to 49% (50). The number of organizations reporting an increase in demand continued to increase all three years, while the number of organizations responding ‘yes’ in ability to meet the increased demand, decreased every year. This, of course, is concerning.

Figure 6. Percent of respondents reporting a change in demand for services. 2009 N=143, 2010 N=122, 2011 N=123.
The following section outlines the financial sources impacted by the Great Recession. The survey asked the respondents to indicate the rate of change on the organization’s financial status in the areas outlined in Figure 8. Respondents indicated in each area either a significant increase, an increase, about the same, a decrease, a significant decrease, didn’t know, or it wasn’t applicable. Figure 8 illustrates the responses to the question combining the two categories significant increase and increase and combing decrease and significant decrease. The number of those that responded to each category varied. The percent illustrated in Figure 8 is the percent of the total that responded to that particular category.

Figure 7. Percent of respondents able to meet the change in demand for services. 2009 N=143, 2010 N=122, 2011 N=123.
In both 2009 and 2010 the largest percent changes were decreases in individual contributions and support from foundations. The sharpest decline occurred in 2009, when 60% of organizations reported a decrease in individual contributions compared to 54% in 2010 and 45% in 2011. Organizations reported additional decreases in 2010 as compared to 2009 in both the areas of support from foundations and government grants. It is also reported that many nonprofit organizations increased their fees for service in 2010 as compared to 2009. By 2011 over 40% of the organizations experienced a decrease in individual contributions, support from foundations, corporate giving, government grants and investment income.

Figure 9 illustrates the impact of each financial change as reported in Figure 8. For example, Figure 9 indicates that 40% and 33% of organizations reported the decrease in individual contributions in 2009 and 2010 respectively had a great and/or significant impact on the organization. In 2010, more organizations reported a significant and/or great impact on the decreased funding from foundations. The decrease in government grants was still impacting nonprofit organizations pretty significantly in 2010, and more organizations reported a great and/or significant impact on the change in investment income in 2010 than 2009. By 2011 the most significant impact reported by nonprofit organizations came from the decrease in government grants. Decreases in individual contribution and support from foundation were also greatly impacting nonprofit organizations in 2011. When comparing Figures 8 and 9, is it illustrated that the financial areas that changed the most in 2009, 2010, and 2011 particularly those that decreased, also impacted organizations the most.
The decreased in funding sources were greatly impacting the operations of nonprofit organizations; however it is important to understand the actions nonprofit organization engaged in during their financial struggles. Figures 10-13 outline the type of actions taken by the responding organizations as a result of the Great Recession. There were 18 actions to choose from in the survey. Respondents indicated by activity if any action was being considered, had already been taken, or if there has been no action related to that particular activity. These figures are broken down into actions related to personnel, benefits, and service delivery. The last section is miscellaneous actions taken by organizations. The number of respondents for each action varied. The percent reported in each category is the percent of the total number of respondents for that particular category.

Figure 10 illustrates an increase in laying off staff from 2009 to 2010 of responding organizations from 25% to 36% and a slight increase from about 17% to 18% for organizations cutting salary and wages. In 2011 fewer organizations reported both laying off staff and cutting salary and wages. From 2009 to 2010 there was a slight increase from about 48% to 50% for organizations implementing a salary freeze. This increased again in 2011. Every year fewer organizations reported a hiring freeze and little change over the three years in organizations reporting reducing the hours worked by staff.
Figure 10. Percent of respondents indicating personnel actions taken or considered. 2009 N=135-136, 2010 N=117-120. 2011 N=121-123.

Figure 11 illustrates the responses to the three areas of service delivery. In 2011 almost 25% of responding organizations reported reducing service delivery up from 2009 and 2010. There was also an increase every year in the percent of organizations reporting reducing programming from about 20% to about 25% to almost 30% in 2011. The percent of organizations reducing hours of operation increased slightly in 2010 from about 10% to about 11% of organizations and dropped in 2011.

Figure 11. Percent of respondents indicating service delivery actions taken or considered. 2009 N=134-137, 2010 N=116-120, 2011 N=120-122.
Figure 12 illustrates the percent of organizations taking or considering action as it relates to benefits. All four categories related to benefits saw an increase in the percent of nonprofit organizations taking that particular action from 2009 to 2010. The action with the largest increase reported was increasing health insurance premiums from approximately 11% of organizations in 2009 to about 33% of the organizations in 2010. In addition, 45% of the organizations in 2009 and slightly more in 2010 reported reducing staff training. In 2011 there was another increase in the percent of organizations reporting decreasing benefits; however, the other three actions were reported as taken action by fewer organizations in 2011.

Figure 12. Percent of respondents indicating actions related to benefits taken or considered. 2009 N=135-136, 2010 N=119-121, 2011 N=121-123.

Other actions being taken more frequently in 2010 than 2009 in response to the economic conditions as reported in Figure 13 include reducing rent, cutting association memberships, changing service providers for services like internet connectivity and telephone, reducing non-service expenses and reducing travel. In 2011 there was another increase in the number of responding organization that reported changing service providers and reducing non-service expense.
**Significant Findings and Discussion**

There are a number of patterns in the findings of this on-going study. The fall-out of the Great Recession is still having an impact on nonprofit organizations across the country. The significant findings are outlined below:

- **Demand for services increased every year from 2009-2011, while ability to meet the increase in demand has consistently decreased every year.**

- **Corporate donations, government grants and investment income have continued to decrease from 2009-2011; however individual contributions have continued to increase all three years.**

- **The decrease in government grants is reported as having the most significant impact on responding nonprofit organizations.**

- **The first year organizations were surveyed, 2009, was when the largest percentage of organizations reported instituting hiring freezes (41.9%); however every year following fewer organizations reported taking this action.**

- **Every year there was an increase in the percent of organizations that reported taking action to implement salary freezes. Almost 52% reported taking this action in 2011.**

- **2011 brought increases in number of organizations reporting action taken in reducing service delivery (from 21.3% in 2009 to 24.6% in 2011) as well as reducing programming (from 19.7% in 2009 to 28.7% in 2011).**
In 2009, regarding actions related to benefits, 13.3% of organizations reported decreasing benefits, increasing to 22.3% in 2010 and a final increase was seen in 2011 to 24.4%.

Shown consistently from 2009 to 2011 the demand for nonprofit services has increased. The rather concerning news is the percent of nonprofit organization reporting an ability to meet the increased demand in services. From 2009 to 2011 each year fewer organizations reported the ability to meet the increased demand. The nonprofit sector is strained, with demand increasing yet about half are unable to serve their populations adequately. This has implications on vulnerable populations. When the poor, unemployed, and other groups cannot reach out to those providing needed services, what is their next step? Maybe some populations can turn to the government; however governments are reporting an equal challenge supporting their various programs. As various populations become disenfranchised, communities as a whole suffer. One reason organizations are reporting a lack of ability to meet demand is decreased funding sources.

Funding sources were affected in 2009, 2010 and continue to be affected in 2011. In 2009 funds from investment income declined and in 2010 funds from government grants declined. In 2011, the percent of organizations reporting a decline in support from corporations, government grants and investment income spiked to new highs. What can nonprofits do? If a double-dip recession is looming, executive directors and other nonprofit leaders need to consider planning accordingly, and develop strategies that will make it possible to continue meeting their mission. On a positive note, donations from individuals have steadily increased over the past three years. As such, executive directors need to reach out to donors they have lost over the past few years, as well as cultivate new donor relationships, especially given that one of the few funding sources that has continually increased over the last three years is individual donations.

An important aspect of this longitudinal survey is its analysis of specific actions that nonprofit organizations took in response to the economic downturn. Of the 18 actions listed, the action most often taken by respondents in 2009 was freezing salaries and reducing travel. In 2010 and 2011 the most frequently reported actions were freezing salaries, reducing travel, and reducing non-service expenses. As organizations continue to weather the economic downturn organizations were increasingly reporting the need to freeze salaries, reaching to 51.6% in 2011. While it is encouraging that 2011 brought fewer layoffs it appears actions related to benefits were still being taken to mitigate the economic downturn. Organizations have continually decreased employee benefits all three years. This action taken illustrates the stress placed on nonprofit employees during times of economic crisis.

Actions related to reducing service delivery and programming were also instituted during this time. In 2009, 2010 and 2011 nonprofit organizations increasingly reduced service delivery and programming. The reduction of service delivery and programming may be related to the increases in actions taken regarding personnel. It seems logical that as nonprofit organizations
continually lay off employees and institute salary and hiring freezes there are fewer employees to create programming and deliver services. In 2011 more nonprofit organizations reported both a reduction in service delivery and programming than in years past; while simultaneously reporting an increase in demand for services. In summary, over the past three years, demand has increased, salary freezes continue to be implemented, programming decreased, employees were getting fewer benefits and this is all resulting in nonprofit organizations not being able to meet the increase in demand for services.

Is it possible that the actions taken by nonprofit organizations such as salary freezes, hiring freezes and laying off staff reflect positively on the sector, indicating that organizations know their operations well enough to make decisions and take actions that will allow the nonprofit organizations to continue serving its mission despite hard economic times. Certainly laying-off employees is not a desired action, however continuing to fulfill the mission and meet as much of the demand for services as possible should be the first and foremost the driver of decisions. Almost fifty percent of nonprofit organizations reported being able to meet the increase in demand for services; indicating that some nonprofit organizations are doing more with less. While this is the phrase used often to describe the operations of nonprofit organizations, what is the impact of this reality? Are nonprofit organizations going into survival mode, and doing what they can until more resources are available to hire more staff, and engage once again in activities such as staff and volunteer training? Or, are nonprofit organizations making systematic decisions that allow for more efficiency in the delivery of services? There is a third consideration, in the next few years will the sector see a greater percent of staff turnover due to difficult working conditions and relying on staff to continually do more without appropriate staff and wage increases?

While 50% of the organizations participating in the surveys report being able to meet the increase in demand for services, the other half report that they were unable to meet the increased demand for services. Clearly, while a lot of needs are being met, it is also accurate to say that a lot are not. How does this influence the quality of life in communities? This study will be done again in future years to track the ability of nonprofit organizations in these communities to meet the increasing demand in services in the future. Tightening the organization’s belt for a few years for the sake of the survival is a necessary action for the betterment of communities and those served by the nonprofit sector.

**Concluding Thoughts**

When tough economic times hit, the nonprofit sector will face challenges, difficult decisions, and smaller budgets. The economy is cyclical and the sector needs to learn the lessons from lean times. Regardless if we are in a double-dip recession the nonprofit sector continues to struggle and the work of the nonprofit sector is essential to the prosperity and vitality of our
communities and core to making healthy changes to better society as a whole. As Tuck, Howard and Foster (2010) stated, “Constituents, staff, and funders will judge nonprofit leaders according to how well they run this recession marathon. These leaders’ actions will make all the difference in whether - and in what shape - their organizations cross the starting line into the post-recession future” (p. 3). Nonprofit leaders need not only maintain daily operations, but also focus on activities that are occurring on the margins so to capitalize on management opportunities that will positively impact the organization’s ability to serve its mission.
References


