From the CEO’s Desk – Quarter 4 (Oct – Dec) 2011

The State of Nonprofit Quarterly Index invites a panel of more than 100 CEOs of San Diego’s nonprofits to identify and describe economic trends as they relate to the nonprofit sector. This component of the index offers qualitative data which provides a valuable context for interpreting the quantitative data described elsewhere in the report.

In quarter four of 2011 (October – December), CEOs described six major trends. These trends are listed below as bullets and then described in detail further down. Several other minor trends are also included.

The major trends for quarter four of 2011 were as follows:

1) Increased Financial Challenges
2) Increased Demand / Opportunity for Services
3) Focus on Collaboration and Consolidation
4) General Sense Economy is Improving (18%)
5) Call for Innovation and/or Move to a More Business-like Model
6) Political Concerns

Trend #1: Increased Financial Challenges

For the second quarter in a row, financial challenges topped the list of economic trends as indicated by more than 62% of nonprofit CEOs surveyed. This is no surprise as the overall economy still struggles to emerge from the grips of the recession which began in 2008.

In general, CEOs’ survey responses around funding mentioned two key ideas: 1) overall there has been and continues to be less money to go around and 2) funders are changing priorities.

Less money to go around

Of the 45 CEOs who mentioned funding challenges, 37 (51% of total survey respondents) cited decreases in private, corporate, and/or government funding as a challenge to success. For many,
this has led to decreases in programs, staffing, and more. Many CEO’s indicated concern regarding local, state, and federal budget cuts.

“As federal and state funding dries up many nonprofits are going to be faced with hard choices, either go out of business or look for ways to merge with other nonprofits to cover overhead and keep some sense of their mission intact.” Ken Saunders, Wakeland Housing and Development Corporation

“Less funding is available from the government, some corporations, and some individuals. New nonprofits are created every year. Fee for service strategies are going to be necessary to keep human services organizations operational.” Heather Finlay, YWCA

Changes in funders’ priorities
At least 8 CEOs (11% of total respondents) indicated that changes in donor priorities were affecting their work. For example, some indicated that due to the economic recession, funders are choosing to focus on health and human service programs that meet basic survival needs. This might leave organizations which focus on arts or animals, for instance, with even greater funding deficits.

“Limited foundation funding, smaller individual gifts [have a] preference on nonprofits providing direct support/basic needs.” Nonprofit CEO

Several CEOs mentioned the emerging trends of private donors. Specifically, they mentioned that new donors are asking for more accountability and that younger generations of donors have different and increased expectations.

“Younger donors who want more involvement if and when they give.” Nonprofit CEO

One respondent indicated concern that this trend may have long term ramifications:

“My concern is that once a donor ceases giving, or reduces giving, it may be more difficult than ever to get them back to the same levels. This may hurt charities, not-for-profits for years to come.” Nonprofit CEO

Trend #2: Increase Demand / Opportunity for Services

Nearly 21% of respondents indicated that they were seeing an increase demand for service. There was a tendency for these comments to come across in one of two ways. First, some CEO’s saw an increase in the demand for services presumably due to more individuals needing held. In this way, the recession is clearly not over for San Diego’s nonprofits:

“Newly poor people [are] still showing up.” Nonprofit CEO
“The nonprofits are the places where people turn to in times of need. Each day more and more people are struggling to provide for the basics of shelter, food, employment and health care as the economy continues to suffer. They turn to the charities in their neighborhood. These same charities are receiving less donations and find it harder each day to respond to the needs of their growing clientele.” Nonprofit CEO

Second, some CEOs indicated that new funding and collaboration opportunities were being created (either by the funder or by the nonprofits themselves) to allow the agencies to serve clients in innovative ways. The “demand” in this case could be interpreted as an opportunity.

“[There is a] need to make modifications to ensure relevance to need and economic reality. [There is an] [o]portunity to expand into related areas; program and service development that is interesting and innovative.” Nonprofit CEO

“I see more social service nonprofits looking to expand the types of services they provide in order to draw more financial support into their organization.” Teresa Smith, Dreams for Change

**Trend #3: Focus on Collaboration and Consolidation**

Approximately one fifth (19%) of CEOs surveyed indicated that collaboration is seen as a key to long-term sustainability. This includes collaboration with other similar nonprofits, with corporations, and with government entities.

“Organizations are moving to reduce redundancy in service and work more with other public and private sector partners.” Nonprofit CEO

“I see the leaders of nonprofit arts organizations meeting more often to try and make sense of the climate and come up with solutions to combat it.” Nonprofit CEO

Some CEOs are excited about this effort:

“I've been impressed with the number of organizations seeking collaborative funding. In the last quarter we’ve entered into formal partnership with two other like organizations with the goal of stretching resources and providing services to more individuals.” Nonprofit CEO

Other CEOs are cautious, indicating that collaboration within the sector has room for improvement:

“The increased collaboration is good, but [organizations] don't always know how to do it well (ie, proper acknowledging and recognition of partners, dividing up work well, etc.). Additionally, when competition emerges, [organizations] are not always good about communicating with longtime partners in advance when they are funded to take on a similar role.” Nonprofit CEO
Trend #4: General Sense Economy is Improving

Unlike last quarter’s index report, this quarter some CEOs see what they appear to be an uptick in the economy. Of the 73 surveyed, 13 (18%) indicated they had a sense that the economy was improving.

“There appears to be a whiff of optimism in the air. We have two new programs and are hiring new staff. Concerns that I had for some of next year's public funding have been resolved positively.” Nonprofit CEO

“A general sense that economy and job prospects ‘improving’.” Nonprofit CEO

This clearly does not mean that all is stable in the nonprofit sector. More than 62% of CEOs indicated that financial challenges were still at the top of their list. Optimism appears cautious and tempered:

“Major Giving prospects seem to be re-entering the market. Corporate giving still seems weak. 2012 corporate charitable giving budgets seem lower.” Nonprofit CEO

“Continues to strengthen but a long way from pre-2008 status.” Nonprofit CEO

Trend #5: Call for Innovation and/or Move to More Business-like Model

Another emerging trend is a call to innovation. For 10% of respondents, it was clear that “business as usual” just isn’t enough anymore. In the current economy, more is needed. Some CEOs noted a shift in operations to a model similar to for-profits. For some, this meant increasing fee-for-service. For others, it was clear that nonprofits need to advance in technological know-how in order to compete.

“With continued advances in technology and information sharing in the corporate community. I am seeing the nonprofit and government sector falling further and further behind. Seeing that many nonprofit leaders have been in the space for many years, I don’t see the “big thinking” and innovation that we would expect from our community. Many efforts are being worked on to build nonprofit infrastructure, however, there is no investment of dollars to make it happen at an effective level.” Nonprofit CEO

“Non-profits are increasingly looking at the for-profit world on ways to achieve sustainability. We are putting together a business plan, with the advice of local business executives, that will hopefully keep us relevant in the years to come.” Nonprofit CEO
“The integration of social media tools and electronic communications has created access to donor groups aimed at supporting like-minded causes for non-profits. The business and corporate community has also come to utilize non-profits as part of on-going corporate social responsibility (CSR) programs. Though CSR programs, non-profits can gain access to potential grants, enhance their volunteer base and create partnerships with corporations interested in supporting like-minded causes.” Rudolph A. Johnson, III, Neighborhood House Association

Trend #6: Political Concerns

Politics are growing concern among San Diego’s CEOs. This comes as no surprise given the drastic federal and state budget cuts coupled with the uncertainty that typically exists in the months before a presidential election. While only 8% of respondents directly mentioned politics, advocacy, and/or healthcare reform, many others (62%) mentioned the decreases in funding which, for many nonprofits, are directly related to the political process.

“The time continues to be marked by uncertainty and a lack of political leadership to support the nonprofit sector. We are continually expected to do more with less.” John de Miranda, Stepping Stone

“I see what few discretionary dollars people have being eaten up by local and national political campaigns.” Cindy Stankowski, San Diego Archeological Center

Healthcare comprises a significant portion of the nonprofit sector. For many in this sub-sector, the debate around healthcare has created an environment of uncertainty.

“Still waiting on federal health care reform . . . [it] will be a national fight.” Nonprofit CEO

“Healthcare continues to be in flux.” Nonprofit CEO

Concerned about issues which may include funding and client advocacy, lobbying might be one way nonprofits can attempt to shape their future.

“Increasing efforts to collaborate across sectors on policy issues.” Nonprofit CEO

Trend #7: Other Emergent Trends

Competition

Increased competition was cited by 3 respondents (4% of total survey respondents) as a current trend. This is interesting when compared to the 19% of respondents who indicated that collaboration was a current trend. CEOs indicted that competition took on many forms including competition for funding with other similar nonprofits, competition with for-profit companies attempting to gain market share.
“More competition for funding, funders changing priorities to accommodate need for basics - food, shelter, services vs. capital.” Nonprofit CEO

“Public sector agencies increasingly having to compete with nonprofits for funding.” Nonprofit CEO

**Leadership**

Leadership concerns were cited by 3 CEOs (4% of total respondents) as being a major trend. This includes board leadership (2 respondents) and CEO transitions (1 respondent).

“Moves towards 'give or get' boards.” Nonprofit CEO

“Challenges with Boards - disconnect, lack of cohesion, vision, etc.” Nonprofit CEO

“A notable trend I have seen and have had conversations with other leaders about is this whole idea of succession planning and the need to better position our nonprofit organizations for the future. This trend will only continue as some of the significant nonprofit leaders retire at an alarming rate. We as a movement have to face this head on and realize that it will negatively impact our efforts to serve if we don't put plans in place. I think with more open communication within the sector and within specific organizations, we may come out of things a bit better than what might be a 'big elephant in the room.'” Nonprofit CEO

**Staffing**

Given the concerns about funding which emerged this quarter, it is not surprising that staffing was also on the list of themes. Three of the survey respondents directly discussed staffing (4% of total respondents).

“. . . there seems to be a reduction in benefits to staff of San Diego agencies. We are one of the few left who still continue to pay 100% of health benefits and also continue our 401K match. While we are not able to pay as high of salaries as larger institutions, we remain committed to our employees to be able to retain them and recruit great candidates.” Nonprofit CEO

“Turnover due to poor wages.” Nonprofit CEO

“Further, with the cuts, maintaining agency solvency is becoming more and more of a challenge. Hence we have offered no base-pay increases, no retirement match this year, and cut staffing hours in one program by 25%. I believe many other nonprofits are taking similar steps, some even reducing wages, cutting hours, or eliminating programs. It's pretty grim.” Nonprofit CEO

**New Technologies**

Technological advances including the integration of social media and online fundraising (GroupOn specifically) were cited by three CEOs (4%) as an emerging trend.
“With continued advances in technology and information sharing in the corporate community, I am seeing the nonprofit and government sector falling further and further behind. Seeing that many nonprofit leaders have been in the space for many years, I don't see the "big thinking" and innovation that we would expect from our community. Many efforts are being worked on to build nonprofit infrastructure, however, there is no investment of dollars to make it happen at an effective level.” Nonprofit CEO

“Fewer audiences, more group-on (sic) type strategies to get audiences and students.” Nonprofit CEO

Corporate Involvement

While more than 60 respondents indicated that they saw a decrease in giving overall, three (or 4% of total respondents) indicated that they saw corporations increasing their involvement. For one CEO in particular, this involvement came as support in crafting a business plan. For others (as noted in the section below) it came in the form of increased volunteerism.

“Greater involvement from business sector.” Nonprofit CEO

Increase in Volunteerism

Two respondents indicated that they saw a change in volunteerism. One of the two shared that while corporate philanthropy was in decline (from their perspective), there was an increased reliance on volunteers. The other respondent indicated that they were working with other agencies to overcome barriers in order to strengthen the role of volunteers.