From the CEO’s Desk – Quarter 3 (July - Sept) 2013

As a part of this Index, CEOs of Trend Reporter organizations are given the opportunity to report on emerging trends in the nonprofit sector. The purpose of this component is twofold. First, it provides a regular platform for nonprofit leaders to share first-hand observations in an expedient fashion and with a collective voice. Second, the qualitative information shared in this component provides context for the quantitative data presented in the overall Index. Selected quotes are provided and identification is noted when permission was given by the respondent.

During Quarter 3 (July – September) 2013, 56 San Diego nonprofit CEOs participated in the survey and observed the following emerging trends (in the order of prevalence):

1. Funding and Financial Challenges
2. Government and Politics
3. Organizational Development, Staffing and Leadership
4. Strategies of Resilience: Collaboration and Consolidation

As Trend Reporters describe the economic trends in Quarter 3, these four key themes that emerged appear to be consistent with themes from previous quarters. However, upon closer inspection, a sense of hope is beginning to emerge. Nonprofits continue to utilize strategies of resilience such as collaboration and consolidation, and Trend Reporters are increasingly focusing on organizational development practices. Specifically, it seems nonprofit leaders are strengthening the ways in which they evaluate their missions and communicate that value to donors. One Trend Reporter noted a “focus on storytelling and innovative reporting. Nonprofits are calculating their impact in new and creative ways to better connect with and inspire donors and supporters.”

However, all is not rosy. Trend Reporters still indicate there is tremendous uncertainty in their economic landscape. One CEO described the experience of oscillating from hope to seeming hopelessness. “Overall morale can move from feeling a sense of increased purpose, mission and need, to despair and overwhelming feeling that the needs and demands are too great to respond to.” Smaller nonprofits are continuing to struggle and, in some cases, closing their doors entirely.
**Trend #1: Funding & Financial Challenges**

At least 23 of the Trend Reporters discussed issues related to funding and financial challenges. The nonprofit sector, as with other sectors, is still climbing out of the recession. As one Trend Reporter wrote, “Things seem to be stabilizing. Nothing is easy--but I feel like things are getting better, little by little.” In many cases, particularly for human service organizations, the demand for services still seems to be exceeding the financial resources available.

Part of the challenge, as we have seen in previous reports, is that funders have changed their priorities. Pauline Martinson, Executive Director of I Love A Clean San Diego wrote, “Nonprofits have to jump through several hoops and wait several years to apply for grants for funding with corporations and private foundations. Funding is restricted for programs mostly and favors hard [program-related] expenses. It's more and more difficult to get funding to pay for staff time or operating costs.” Several Trend Reporters discussed corporate giving specifically, indicating that there is increased competition for corporate dollars and that those dollars seem to be limited or “slowing.”

Some Trend Reporters are adjusting to the changing funding landscape by 1) focusing on donor stewardship and 2) attempting to document impact. CEOs describe an “increased need to demonstrate impact of service.” This seems to be driven by nonprofits and by funder demand. Several Trend Reporters observed that funders were increasingly focused on the outcomes or impact of programs. “More institutional donors are seeking solid metrics and quantifiable results instead of anecdotal evidence.”

Donor stewardship is taking many forms. Some Trend Reporters discussed greater use of social media channels and an increase in storytelling. One Trend Reporter also indicated, “There seems to be a greater emphasis on Planned Giving and the importance of creating a viable Planned Giving program for smaller social service organizations [that] don't have this in place.”

**Trend #2: Government and Politics**

Trend Reporters were asked to comment about trends observed in Quarter 3 (July – September). However, the survey was in the field in early October, coinciding with the 16-day government shutdown that lasted from October 1st to 16th. Therefore, it is not surprising that many Trend Reporters discussed the shutdown and its ramifications on nonprofit organizations because nonprofit organizations are contracted by the government to provide many services including health care, child care, application assistance for public benefits, after-school programs, and much more. These programs are often considered safety net services, allowing low-income individuals to stay healthy, access food, and ensure their children are safe while parents are at work.
“If the shutdown had continued past the end of October, the worst case scenarios for access to services that are funded by or otherwise connected directly or indirectly to the federal government would have been unthinkable crises. No one knew exactly what would happen if the shutdown continued past certain benchmark dates, which also left us without a lot of direction for planning.”

In addition to the immediate instability of funding, the shutdown may have had a ripple effect on other donations. For example, one Trend Reporter indicated that his team believed “the government shutdown had a significant impact on a large donation we expected. We were scheduled to receive a donation from a home mortgage company --but their earnings fell during the shutdown and therefore our donation was probably half of what it should have been (based on their past earnings-based donations).”

The shutdown and general uncertainty in government seem to be contributing to an increase in nonprofit program expenses. Trend Reporters observed that with the shutdown, the public was more dependent upon nonprofits. In other words, “The sequestration is affecting the revenue side of our budgets and the shutdown is affecting the expense side of our budgets due to clients not getting the services they typically receive from the federal government.”

In the end, the shutdown may serve as a wakeup call. One Trend Reporter indicated that nonprofits may want to “move away from relying on government funding as the sole source of revenue” and diversify income streams. Heather Finlay, CEO of the San Diego YWCA believes that “those who receive any government funding continue to have to adjust to cuts in that funding as the government continues to struggle. Many of us are looking for revenue opportunities beyond fundraising and grant writing, and those who already sell a service or product to the community are much better off.” It was also mentioned that the shutdown “highlighted the need to organize around messages to elected officials.”

The implementation of the Affordable Care Act is also weighing on the minds of many Trend Reporters. Some of the larger employers within the Trend Reporter pool described what they saw as an “unsettled health insurance environment.” The ACA has multiple implications for nonprofit organizations. As with for-profit businesses, nonprofit human resource departments may need to adjust benefits for staff. This has both a financial and a logistical cost, neither of which funders are likely to want to support. Additionally, many nonprofits provide medical services to low-income and underinsured populations and therefore, the ACA has ramifications on the program delivery side as well.

**Trend #3: Organizational Development, Staffing and Leadership**

Last quarter, for the first time since the inception of this Index in late 2011, Trend Reporters began to discuss staff development and leadership transitions. It seemed as if they were emerging
from the desperation of the recession and focusing on the strategies needed to move forward. This discussion was continued in Trend Reporter comments this quarter.

Trend Reporters discussed “moving beyond raising dollars to streamlining efficiencies.” They documented an “increasing movement beyond measuring program effectiveness by output to measuring progress toward outcomes and impact” and even an “increasing use of professional development to improve identified business outcomes.” One Trend Reporter indicated that the focus this quarter was on the evaluation of the work and mission and that they were engaged in the process of setting a three- to five-year plan. Such planning had previously been difficult to accomplish given the recent economic turmoil experienced around the world.

Several Trend Reporters discussed the struggle to find funding for staff time and operating costs. They indicated that the “increase in accountability and funder oversight” is associated with an increase in administrative costs that often go unfunded. And some Trend Reporters experienced what they described as “dramatic shifts in staffing.” One Trend Reporter observed, “Many of our theatre artists and theatre leaders are leaving their positions. Some artists are looking for new opportunities; others for more consistent work, better pay, and lower living expenses. A few of our artists have decided to shift their focus from education to focus on their own artwork. Administrative staff has also left positions, many switching to comparable positions within similar organizations.”

Staffing changes, particularly changes in executive leadership, can have a significant impact on nonprofit organizations. One Trend Reporter observed that “over the past couple of years, several previously prominent organizations have folded . . . Much has to do with leadership change - and the fragility of a small to mid-sized arts non-profit in the face of the loss of a founding leader.”

**Trend #4: Strategies of Resilience: Collaboration and Consolidation**

From the inception of this Index, Trend Reporters have indicated that collaboration and consolidation were two of the primary strategies adapted by nonprofit organizations in response to a very difficult economic environment. Those two strategies continue to be the most prominently cited, with collaboration remaining the most frequently mentioned. Trend Reporters have indicated there is “increasing collaboration of nonprofits with each other and with business and government in order to meet our objectives. It is getting too difficult [and] expensive for many nonprofits to meet their goals alone.”

In previous reports, Trend Reporters have offered cautionary remarks about collaboration for the sake of collaboration or collaboration as a knee-jerk response to crisis. Previous reports have indicated that it takes time and resources for multiple agencies to collaborate successfully. This
quarter it was mentioned that “collaboration is starting to look more strategic, moving beyond the opportunistic ‘get the funding’ mode and into a ‘get the outcomes’ mode.”

Consolidation—which includes merging, downsizing, and/or going out of business entirely—continues to be a last-resort option, especially for smaller nonprofits. “Smaller non-profits are finding it difficult to adapt to the environment of funding we are currently facing. They are downsizing and adjusting to find smaller less profitable work.” Several Trend Reporters noted that smaller nonprofits, particularly arts and culture organizations, are closing their doors permanently.