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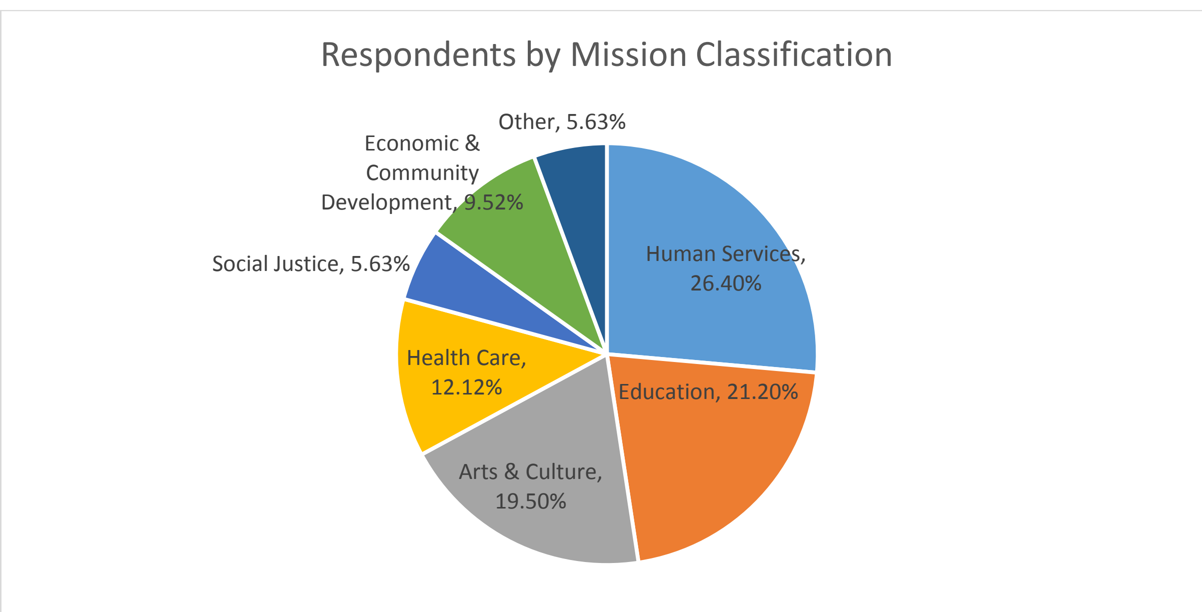
Greater Philadelphia Nonprofit Economic Recovery Survey 2014-15

According to experts, the Great Recession ended in 2009. That was good news for everyone, theoretically even nonprofits. But we know that nonprofits recover several years after the rest of the economy, waiting while the asset bases of foundations, corporations and individuals recover to, we hope eventually, pre-recession levels. Not quite at our ultimate goal, have nonprofits in our region begun to see their own recovery?

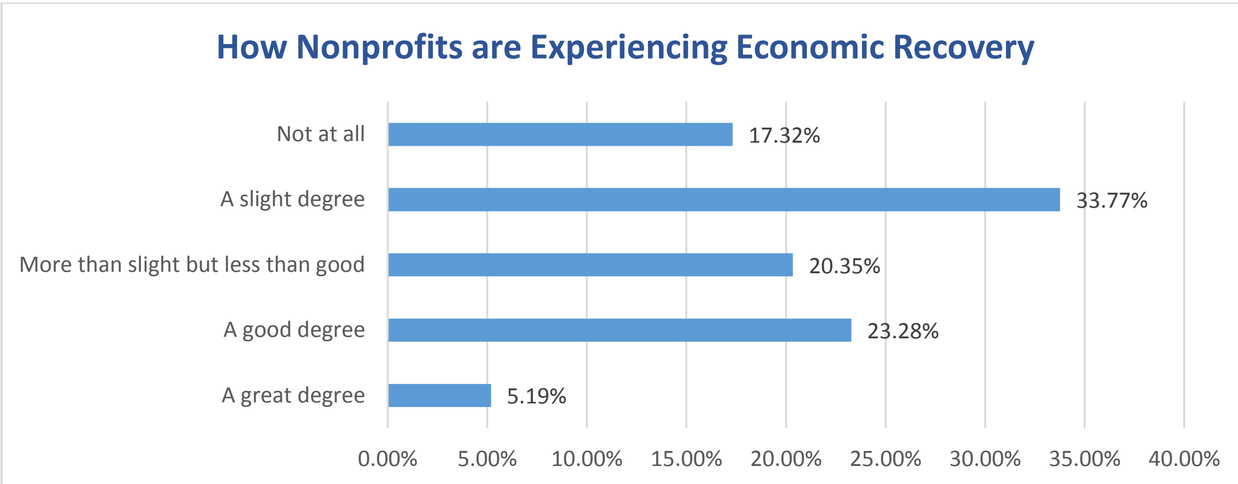
This was the question that The Nonprofit Center wished to know. Five years (and some months) after the official end of the Great Recession (June 2009), The Center distributed a short survey to find out just how nonprofits and their executive directors were faring with the economic recovery. And while recovery is happening to some degree more or less to the vast majority of nonprofits, recovery in the sector still has a way to go.

The survey to executive directors was distributed in November 2014. A total of 231 executive directors responded. Mirroring the sector as a whole, the largest group of respondents were in human services (26.4%, n=61), though this percentage is smaller than the national picture, which shows human services approximately 36% of the sector; this was followed by nonprofits in education (21.2%, n=49), a bit higher than the national picture, arts and culture (19.5%, n=45), more than twice the national picture, and health care (12.12%, n=28), close to the 13% it contributes to the sector as a whole.



Economic Recovery

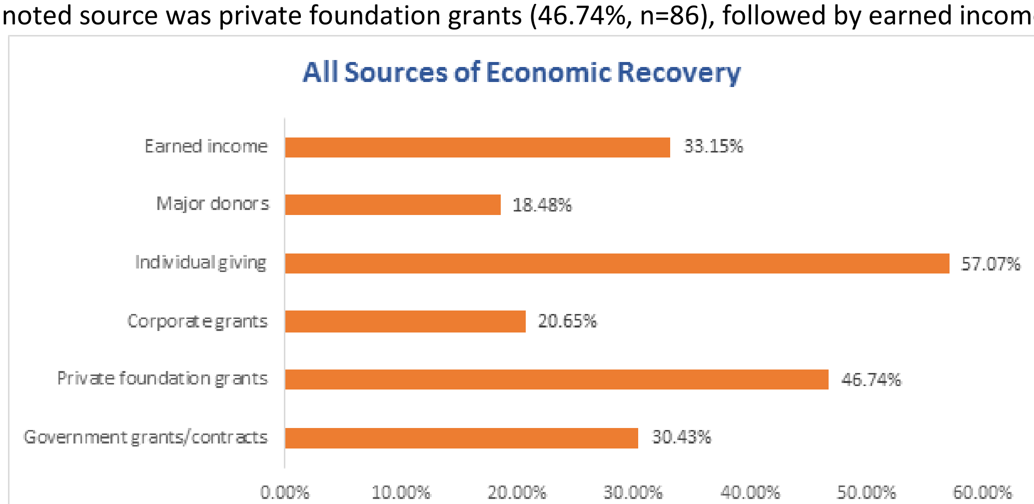
Of all respondents, just over half (51.1%, n=118) reported little or no economic recovery, with the remainder experiencing some to a great degree of recovery.



It is important to note that while these data suggest movement in the right direction, there are still more than three times as many organizations that are *not* experiencing *any* recovery number than those feeling a great degree of recovery (17.3%, n=40, versus 5.2%, n=12). Interestingly, though, since by everyone's accounting, arts and culture organizations were among the hardest hit by the Great Recession, area arts and culture nonprofits seem to be doing slightly better than the group as a whole. Only 11.9% (n=5) of arts and culture organizations say they aren't experiencing any economic recovery while 35.7% (n=15) say they are experiencing good or great recovery (compared to the 28.4% for the group as a whole). In the explanatory comments that respondents provided as accompaniment to their answers, there was a clear wariness and air of caution.

Sources of Economic Recovery

Respondents attributed their economic recovery, no matter its degree, to individual giving: 75.55% (n=139) say individual giving was the source of their improved economic state, with 18.48% of that attributed to major donors. This held true no matter the mission of the organizations. The second noted source was private foundation grants (46.74%, n=86), followed by earned income (33.15%, n=61).



But looking at each source of income separately (not compounding individual giving and major giving into one "individuals"), there was great variation by mission area.

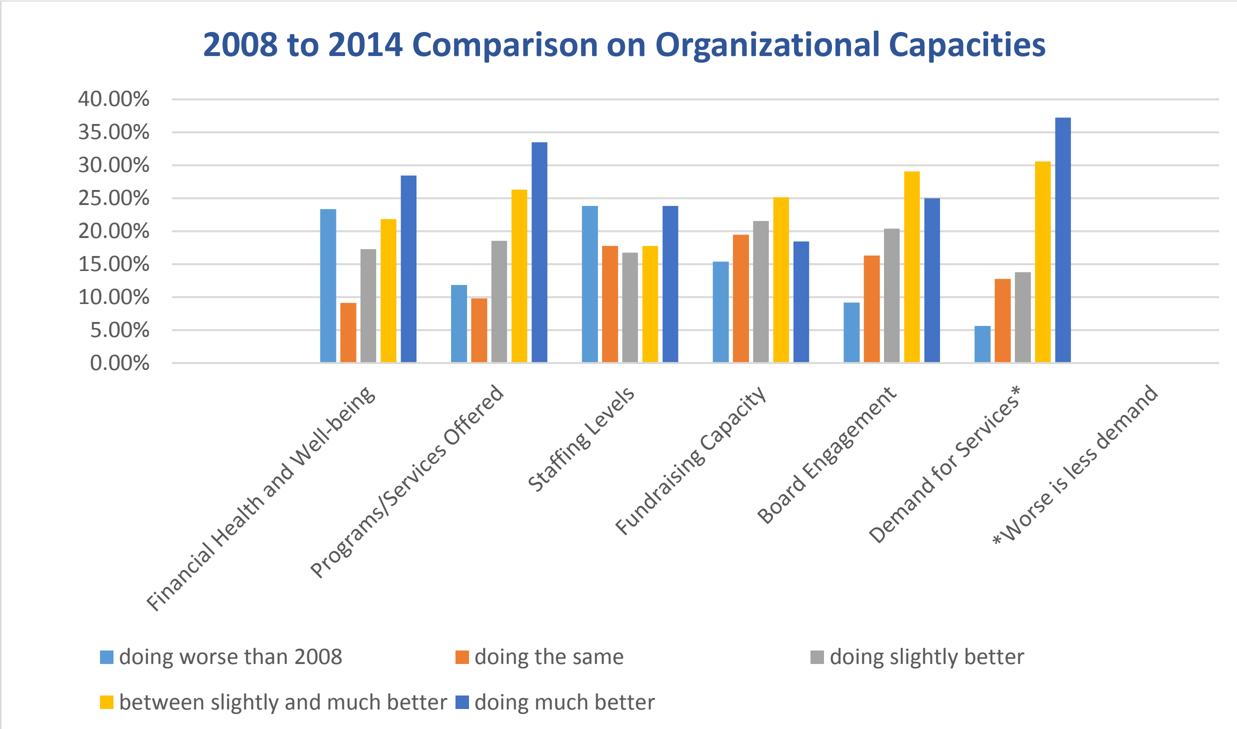
Type of Organization	Source of Income Responsible for Economic Recovery, in rank order					
	Government grants/contracts	Private Foundation Grants	Corporate Grants	Individual Giving	Major Donors	Earned Income
Arts & Culture		3		1		2
Education		3		1		1
Health Care		2	3	1		
Human Services	3	1		2		

Comparison: 2008 to 2014

Asked to compare themselves in six different areas of their organization with how they saw themselves in 2008 and how they see themselves now, the vast majority of responses were positive. [1] "Doing much better than in 2008" was the first choice of respondents in evaluating their current financial health and well-being and their programs and services offered. Assessment of staffing levels compared to 2008 found equal percentages saying staff levels were worse or the same as in 2008 (41.63%, n=82) as said staff levels were slightly to much better now than in 2008. Couple this with the fact that more than 2/3 of respondents (67.85%, n=133) say they have a slight to much greater demand for their services and the result is the perfect storm that creates the overwhelming and undesirable situation that too many nonprofits find themselves in today: having to do more for more with less. No surprise that this reality was noted by many respondents.

The two remaining categories—fundraising capacity and board engagement—did not fare as well in the 2008 to 2014 comparison. No one said fundraising capacity was *much* better than in 2008, though ¼ (25.13%, n=49) said things were more than slightly better than in 2008 but not yet much better; but 1/3 (34.87%, n=68) said thing were still worse or the same as 2008. Respondents did see more engagement on the part of their boards compared to 2008, anywhere from slightly more engaged (20.41%, n=40) to more than slightly but less than much (29.08%, n=57) to being much more engaged (25.00%, n=49). Perhaps with time another perfect storm will brew and the better engaged boards will lead to overall better fundraising capacity.

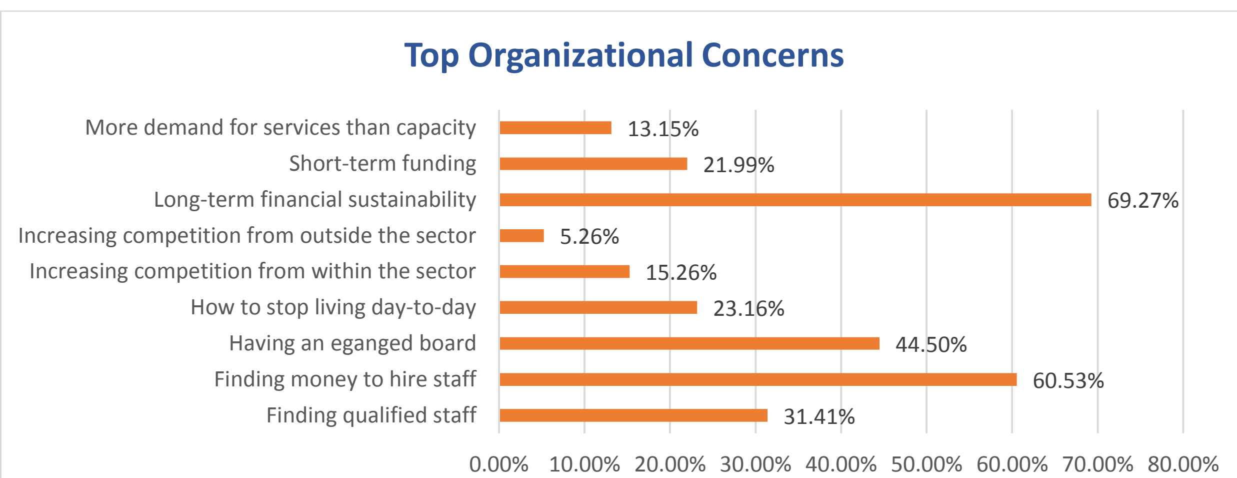
[1] It should be noted that there were 17 respondents whose organizations did not exist in 2008. At approximately 9%, that is quite less than the growth estimates of the sector nationwide, which range from 17%-24%.



Another positive that this comparison exposed is the fact that improvement is possibly within the control of nonprofits. Many people noted that the lack of improvement in their financial circumstances was due to the loss of a large or key grant, something that can be guarded against with a diversified income strategy. On the flip side, a number of people attributed their organizations' improved financial status not to an influx of money but to improved management practices.

<u>Current Concerns</u>

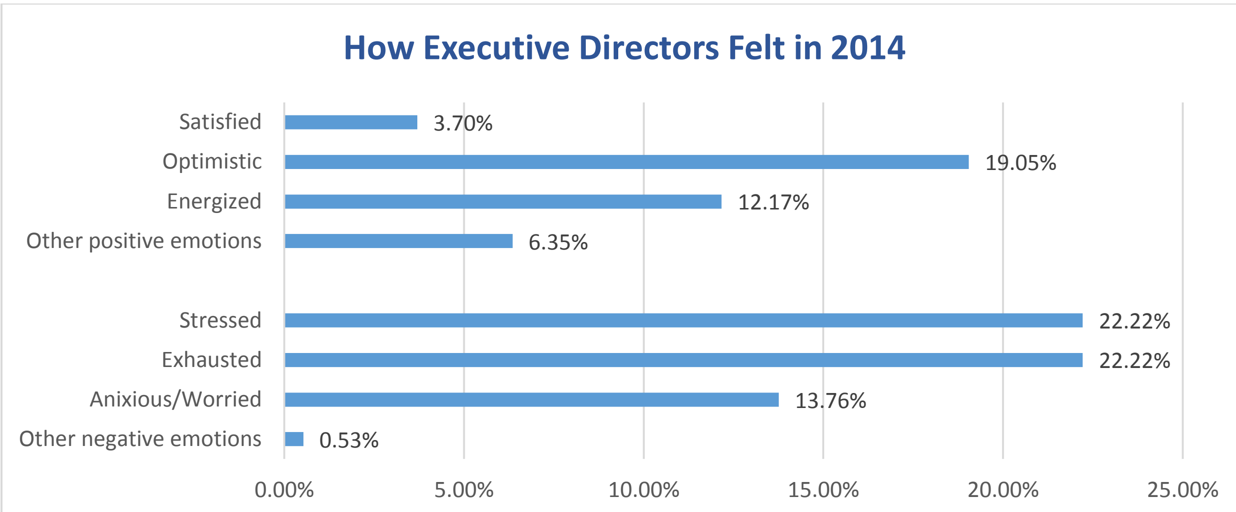
Asked to indicate their top three current concerns for their organizations, respondents were very clear: long-term financial sustainability, finding money to hire enough staff and having an engaged board, in that order. Nothing changes when collapsing selections of an item as first, second or third tiered concern; selection simply becomes more pronounced.



Of least concern, again, in order, were: increasing competition from within the sector, greater demand than capacity will ever be able to meet and increasing competition from outside the nonprofit sector.

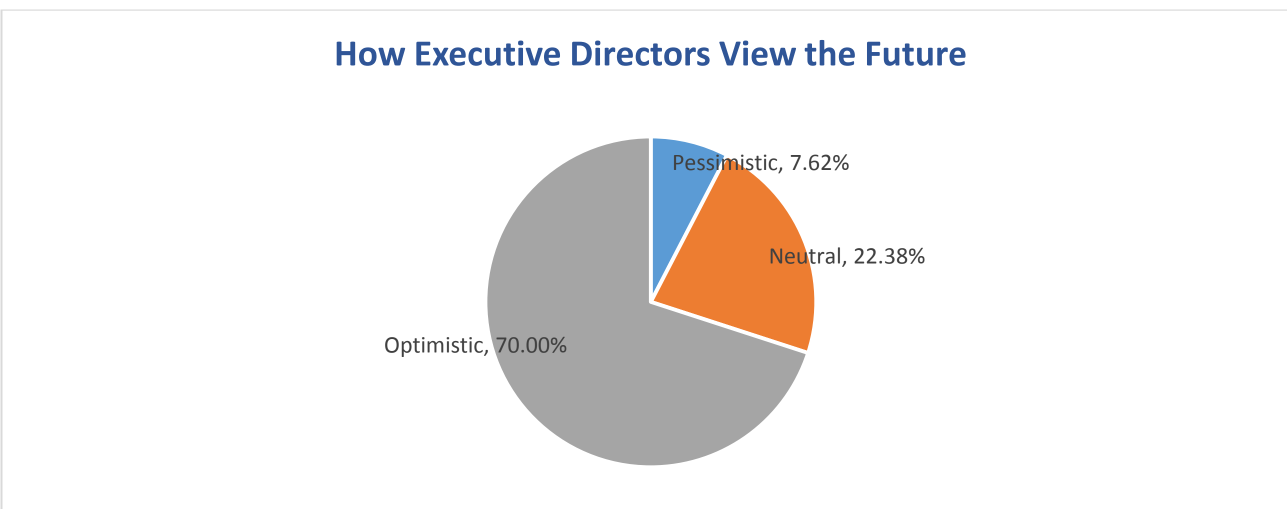
Getting Personal

Overall, the picture is not a pretty one for how nonprofit executive directors have been feeling as the leaders of their organizations. Forced to select only one response option, *exhausted* and *stressed* tied for first place (22.22%, n=42) as the emotion that best described their working lives over the past year; anxious/worried lagged behind (13.76%, n=26). Yet, there are executive directors who have been feeling optimistic (19.05%, n=36) and energized (12.17%, n=23). But overall, negative emotions (58.73%, n=111) won out over the positive (41.27%, n=78).



In explanatory comments, executive directors used words like overwhelmed, yo-yo and rollercoaster.

In stark contrast, when asked how they are feeling about the overall future of the organization, respondents were unquestionably positive.



Asked about their own tenure with the organization, just under a quarter (24.53%, n=52) of respondents said they will be leaving within the next 12-24 months. Good news for boards is that almost 2/3 (65.57%, n=139) say they plan on staying at least another two years—just enough time to do and begin implementing succession planning.

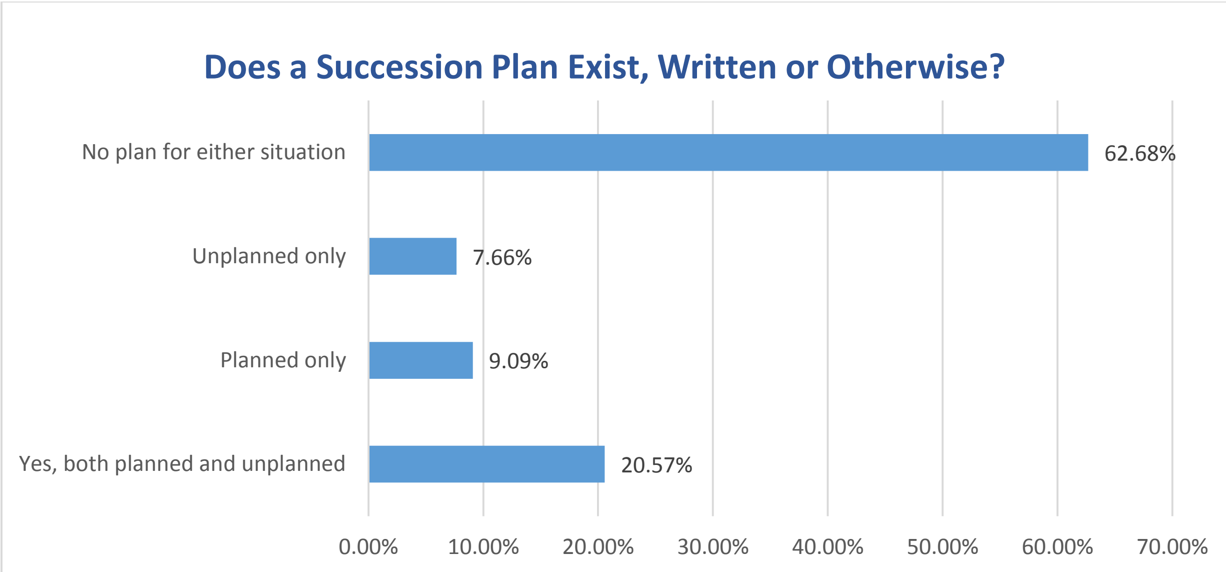
When those who know they will be leaving within two years were asked why they would be leaving, 28.85% (n=15) said they wanted to get away from the pressures of the job, 25.00% (n=13) will retire and another 25% will move on for new challenges and opportunities. Add in the people who said they will be leaving to make more money, and 42.31% (n=22) will be leaving to get away from what too many know as the negative aspects of being an executive director.[2]

Executive directors are very clear about what their priorities will be, whether they want to remain in their position for the short term (less than two years) or longer: organizational sustainability. Almost half (47.09%, n=97) said their number one priority for as long as they are in office will be strengthening *all* aspects of the organization, while almost a quarter (23.79%, n=49) said their top priority will be improving the long-term fiscal health of the organization. Coming in a distant third (9.22%, n=19) is diversifying their funding streams.

Succession Planning

It is worrisome for the sector how ill-prepared it is for the inevitable: the departure of the executive director. An executive transition is one of the most pivotal moments in a nonprofit's (or any organization's) life, and the majority of organizations in this survey are unprepared. Almost 2/3 of respondents (62.68%, n=131) have no succession plan for either a planned or unplanned departure. Just one-fifth (20.57%, n=43) have them for both, and, fortunately, 81.40% (n=35) of those are actually written down. Another quarter have nothing written, but claim to "know in their heads" what will happen for at least one form of departure.

[2] The Nonprofit Center's 2006 study of why nonprofit executive directors also found that the number one reason for leaving was to find a job with less stress and pressure, seconded by wanting to earn more money.



For those who have no plans, seeming little is being done. Only 3.17% (n=4) report that the board has discussed the need for succession planning and is moving *quickly* to create the plan, while 11.90% (n=15) have discussed and are moving *slowly* in the direction of creating a plan. Otherwise, there is little happening. Just over ten percent of the executive directors say they have asked (9.52%, n=12) or begged (2.38%, n=3) the board to address the issue, but nothing has been done. A good number of executive directors (30.15%, n=38) have been thinking regularly about the need for a plan and have started formulating something, while almost one-third of the organizations have done absolutely nothing in preparing for the inevitable (30.15%, n=38).

<u>Key Takeaways</u>

1. The job of a nonprofit executive director *can* provide intangible rewards which many enjoy, but it is unquestionably loaded with very tangible pressures and stress and is, as we have known for a good number of years, becoming less and less a desired position. One respondent perfectly summed up the sentiments expressed throughout this survey and beyond:

   > *I have found myself saying that the title of ED is the most overrated title in the world. All of the agg(revation) and very few of the rewards of direct service. I frankly don't know why anyone would want the job. …. I know that what I do is important but I don't find it personally rewarding, most days. It's fatiguing. I used to love my job when I was just the program director. All the administrative crud (for example, I've spend days completing apps for and reviewing quotes for D&O insurance) just not appeal. I love my agency and what we do, but I put in a lot of hours and I would like to have more of a personal life.*

2. Life in a nonprofit is a roller coaster, with a sense that the highs are becoming increasingly fewer and the lows increasingly longer.
3. Though the numbers in this survey do not suggest as large an imminent exodus of leaders as previous studies, the reality is that the vast majority of nonprofits are ill-prepared to face the inevitability of an executive transition. What we know anecdotally is that organizations that face this pivotal moment without a plan are the ones that generally don't handle this crucial transition well, ending up wasting time, money, goodwill, and, most importantly, forward progress.