Nonprofit Colorado

Learn From History to Weather Economic Storms

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The economy is on the mind of many. Trillions of dollars have evaporated and the implications on all forms of charitable contributions are undeniable. At every turn is evidence that the force of the impact will accelerate through declining state tax revenues, significantly reduced corporate and individual giving, and dramatic impacts on foundation assets.

The enormity of the financial situation requires a deliberate and sustained plan to secure the health of nonprofits. We are heading into territory that none of us has experienced, and the feeling from the field is somber. Many nonprofits have struggled through other economic downturns, so the implications are not a mystery. **It is time for local nonprofits to have deliberate conversations about how to weather the downturn through collaboration, entrepreneurialism, conservation or advocacy**.

Considering the adage, "You can make your future, or it will be made for you," nonprofit organizations should gather staff and board together to consider the implications of the economy and its impact upon mission, demand for services and access to financial, volunteer and in-kind resources.

The goal of this article is to provide a brief overview of what we can learn from the impact of previous recessions on philanthropy and to offer a strategy to plan for the future.

History of Philanthropy During Economic Downturns

Researchers at the Center on Philanthropy at Indiana University, using more than 40 years of data (from 1967 to 2007), have documented how history shows us that recessions and economic slowdowns lead to decreased dollars allotted to charitable giving (*Giving USA Spotlight*, www.ruotoloassoc.com/Spotlight3-2008Final.pdf). A recession results in decreased philanthropic resources, with a simultaneous increase in demand for basic needs to meet household requirements, such as food costs, rent or mortgage payments, fuel, etc. Seniors, single working parents and people suffering from chronic illnesses are especially hard hit. Corporations, foundations and individuals are impacted in various ways and degrees by home values, the stock market, the credit crisis and personal wealth. And while 40 years of evidence shows us a definitive pattern and should guide us in our future actions, the current global economic crisis is unparalleled since the Depression and will require that different tools and practices be put in place.

> **"If you seek information from your staff, board, volunteers, participants and stakeholders, you are more likely to build a strategy that will assist your organization through the challenging times ahead."**

Giving in the United States continues to increase, with a record $295 billion given in 2006 (*Sacramento Business Journal*, www.bizjournals.com/sacramento/stories/2008/01/14/story9.html). However, recession years reduced contributions by two to five percent (adjusted for inflation), with an average decrease of 2.7 percent. The largest drop recorded for the 40 years of data was recorded in 1974, with a decrease of 5.4 percent.

In terms of who gives, individuals make up more than 80 percent of contributions. Recessions and economic slowdowns result in a decline of 3.9 percent of these contributions on average (after inflation). Donors are watching their net wealth to determine how much and how often they will give in 2009. Already, we have heard of fundraisers, capital campaigns and annual events that are coming in under their targeted goals, as both businesses and individuals tighten their belts before writing their checks.

Individual giving may be down for two reasons: **uncertainty about the future** and **declining personal wealth**. According to John J. Havens, a researcher at Boston College's Center on Wealth and Philanthropy, "During 2000, America began to see a decline in net wealth, but the decline did not directly correlate with changes in philanthropic giving. From 1999 to 2002, household donations decreased by only 10 percent, while net worth dropped by 20 percent" (*The Chronicle of Philanthropy*, philanthropy.com/premium/articles/v21/i01/01000701.htm). Some speculate that easy access to credit buoyed consumer spending and philanthropy – perhaps artificially so. Foundation and business philanthropy both declined an average of 0.1 percent and 1.6 percent, respectively, in years with eight months or more of recession. Foundation assets are off an average of 30 percent, which will impact future giving. Even if a foundation chooses to provide funding out of its corpus, history has shown that in previous recessions, most have chosen not to accelerate giving. And since foundations represent approximately seven percent of all philanthropy, accelerated giving will not make up for a decrease in individual philanthropy.

Just as donors are impacted to varying degrees in a recession, **different types of organizations weather recessions in different ways**. Some take hard hits, while others may benefit from recessions. Educational organizations take the hardest hits, according to data published by the Giving USA Foundation. During recessions of eight months or more, giving to educational organizations fell by 1.9 percent. The environment and the arts also suffered declines during recession periods. On the other end of the spectrum, human services organizations showed an increase of 5 percent in giving during recession periods.

Overall, according to the historical analysis, giving continued to grow in the United States whether there was a recession or not. What is important is that during a recession, organizations must react to a unique giving environment. Today's economy – with growing unemployment, low consumer confidence, lack of clarity on solutions and the unknown impact of the economy on business, the workforce, investors and people – looks very different from the previous 40 years of data used by Indiana University. The economic crisis necessitates a call to action, a rethinking of fundraising objectives and a focused plan for response.

What Are Your Options?

You can gain insights by gathering people together who experienced earlier recessions and asking them about the impact of the past and lessons learned. For example, Colorado nonprofits paid a price for the oil and gas slowdown in the '70s, the recession in the early '80s, the penny stock market crash, the savings and loan crisis and 9/11. Each of these events caused direct impact to nonprofits. Service workers lost jobs and pulled children out of childcare, causing the census to drop and revenues to plunge. Another event that affected nonprofits here in Colorado was that the once generous oil and gas companies shut down operations, curtailing all grantmaking.

Be direct and honest with your staff and volunteers. Nonprofit consultant Richard Male says, "Describe the financial situation to everyone as a group, rather than letting them hear about it piecemeal through the grapevine. You want everyone to hear the same information at the same time." You may not be able to make promises about the future, but including everyone in the conversation provides a discovery process on how to save money or creating a better plan. At a time when everyone is unsure of what these times may bring, be aware of the uncertainty staff may be feeling. Keep morale up through open dialog, appreciation and respect.

Consider having your board do a major stakeholder analysis of your organization by drawing an organizational map with a circle in the middle and lines, like spokes of a wheel, coming out from the center. Each individual line represents a different key constituency group. A board member then becomes a "line manager" and assesses the impact of the economy on his/her respective line. Lines can represent predictable stakeholder groups, such as:

- Elected officials (grant dollars, regulations)
- Government (grant/contract dollars)
- Participants/constituents (demand for services, willingness/ability to pay for services or access)
- Individual giving (checking in with members/patrons/supporters to gain insight about 2009 philanthropic patterns)
- Foundations (checking in with representatives to determine future prospects)
- Private sector (having conversations with business, economic development representatives and others on not only philanthropy/giving, but how the local economy may play out relative to unemployment, growth, jobs, etc.)

Each organization has its own set of key stakeholder groups, and it is important to check in with and develop a strategy for each. **And don't forget your primary vendors** – check with them on their projections for costs.

You are a part of an important sector – a sector that brings vibrancy, jobs and specific enhancements to the communities they serve. **As you approach options for the future, remember you are not alone**. You may wish to consider strategic collaboration that includes one or more of the following:

- Develop an overt public policy and public awareness campaign to seek support for nonprofits. For example, if an economic stimulus package is offered by Congress, encourage people to contribute to preserve the quality and character of community life as they consider their personal options.
- Go beyond cordial working relationships to develop "strategic" partnerships, which could include shared staff, space and initiatives, as well as enhanced clarity of opportunity.
- Gather together "siloed" nonprofits – organizations that share commonalities – to develop specific responses, i.e. potential differences between the arts, basic human needs, environment, youth, childcare or health, so the impacts could be identified per silo and better managed.
- Create regional strategy groups to address the implications and options throughout your state.
- Gather treasurers, board chairs, CFOs of larger organizations and executive directors to build a comprehensive strategy for organizational financial management.

If you seek information from your staff, board, volunteers, participants and stakeholders, you are more likely to build a strategy that will assist your organization through the challenging times ahead. Remember, you either make your future, or it will be made for you.