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Listening Post Project

A joint project of the Center for Civil Society Studies at the Johns Hopkins Institute for Policy Studies in cooperation with the Alliance for Children and Families, American Association of Homes and Services for the Aging, American Association of Museums, National Congress for Community Economic Development, Theatre Communications Group, Alliance for Nonprofit Management, and National Council of Nonprofit Associations

COMMUNIQUÉ NO. 2

Stressed but Coping: Nonprofit Organizations and the Current Fiscal Crisis

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A key group of U.S. nonprofit organizations experienced significant fiscal stress during 2003, but managed to cope with it successfully. As a result, the vast majority of these organizations boosted their revenues in the face of often-difficult economic pressures and expanded their activities in the process.

These results emerge from a new survey just completed by the Johns Hopkins Center for Civil Society Studies as part of our *Listening Post Project*.[1] Focusing on a nationwide sample of nonprofit organizations that belong to national umbrella groups in five fields—children and family services, elderly services and housing, community and economic development, museums,[2] and theaters—this survey is the most comprehensive effort to date to document the actual effects of recent economic weakness and government budget cuts on a significant group of the nation's charitable organizations and those they serve, and to assess how the organizations have responded.[3] What this survey shows is that American nonprofits have become, in many cases, highly entrepreneurial organizations, responding actively and creatively to new fiscal pressures. At the same time, however, the survey also makes clear that these pressures are exacting a toll. As one survey respondent, Bob Jones, president of Children's Aid and Family Service of Paramus, NJ, put it: "This is not a dip, it is a sea change, and we can't simply sit idly and hope it will go away."

More specifically, the Hopkins survey revealed:

Significant Fiscal Distress

Nearly 90 percent of surveyed organizations reported some level of fiscal stress over the past year, with over half (51 percent) reporting severe or very severe stress. Interestingly, stress levels were especially deep among the nation's cultural organizations, especially theaters, which tend to rely most heavily on private donations and commercial fees.

Table 1: Level of Fiscal Stress Reported by Surveyed Organizations

Level of Fiscal Stress	All	Elderly Housing and Services	Children and Family Services	Community and Economic Development	Museums	Theaters
Very severe	31%	31%	30%	20%	28%	37%
Severe	20%	20%	14%	20%	21%	26%
Moderate	35%	40%	42%	16%	42%	27%
None	14%	9%	14%	44%	9%	10%
TOTAL	100%	100%	100%	100%	100%	100%

Source: Johns Hopkins Listening Post Project
N=236

Revenues vs. Costs

The fiscal stress reported by surveyed agencies appears to be driven at least as much by rising costs as by declining revenues. Indeed, despite the economic weakness and government budget cuts, considerably more of the surveyed agencies reported net increases in their revenues than declines (64 percent vs. 34 percent). Increases were especially marked among elderly service agencies, theaters, and community development organizations.

Table 2: Revenue Change Reported by Organizations in 2003

Change in Revenue	All	Elderly Housing and Services	Children and Family Services	Community and Economic Development	Museums	Theaters
Increased by 10% or more	22%	14%	26%	24%	18%	26%
Increased by less than 10%	42%	66%	32%	44%	30%	47%
No change	3%	9%	4%	4%	4%	0%
Decreased by less than 10%	20%	11%	26%	8%	19%	23%
Decreased by 10% or more	14%	0%	12%	20%	30%	5%

Source: Johns Hopkins Listening Post Project
N=236

But as many organizations reported increased costs as reported increased revenues, and the cost increases tended to be larger (5.3 percent vs. 4.6 percent on average). This may explain why stress levels were as widespread among agencies with revenue gains as among those without such gains. Cost increases were particularly sharp among elderly service agencies, theaters, and child and family service agencies, the latter of which were also less likely to experience revenue growth.

Table 3: Changes in Costs Reported by Organizations Over the Past Year

Change in Cost	All	Elderly Housing and Services	Children and Family Services	Community and Economic Development	Museums	Theaters
Increased by 10% or more	25%	11%	25%	48%	18%	29%
Increased by less than 10%	41%	77%	43%	12%	28%	42%
No change	3%	3%	2%	8%	4%	0%
Decreased by less than 10%	22%	9%	21%	16%	28%	26%
Decreased by 10% or more	10%	0%	9%	16%	23%	3%

Source: Johns Hopkins Listening Post Project
N=236

Not surprisingly, given the labor-intensive character of many nonprofit services, wages and employee benefits were among the principal sources of cost growth, but liability insurance costs led the way. Over 40 percent of all respondents reported liability costs increasing at rates of 10 percent or more while 37 percent reported health insurance premium jumps of 10 percent or greater.

Table 4: Primary Drivers of Cost Increases

Expense Category	Up 10% or more	Up less than 10%	No Change	Down less than 10%	Down 10% or more
Liability/risk coverage	43%	35%	20%	1%	1%
Benefits	37%	35%	18%	6%	3%
Wages/salaries	16%	46%	19%	13%	6%
Facility overhead	17%	34%	36%	11%	3%
Technology	19%	29%	41%	8%	2%
Contract services	10%	36%	38%	12%	4%
Materials	10%	33%	36%	15%	6%
Other equipment	5%	20%	58%	10%	6%
Travel	7%	18%	48%	21%	6%

Source: Johns Hopkins Listening Post Project
N=236

Vigorous Response

In the face of these fiscal pressures, nonprofit organizations managed to expand their activities in response to growing demand. Nearly two-thirds of the organizations reported such increases, with nearly 40 percent reporting increases of 10 percent or more. Increased activity was reported by more than 60 percent of agencies in all five fields covered, moreover. Furthermore, this was achieved with little reported adverse impact on disadvantaged clients and customers.

Table 5: Changes in Activity Levels Reported by Organizations over the Past Year

Change in Activity Level	All	Elderly Housing and Services	Children and Family Services	Community and Economic Development	Museums	Theaters
Increased by 10% or more	38%	17%	41%	52%	47%	32%
Increased by less than 10%	27%	54%	20%	12%	21%	29%
No change	18%	17%	18%	24%	19%	16%
Decreased by less than 10%	13%	9%	16%	4%	12%	16%
Decreased by 10% or more	4%	3%	5%	8%	0%	6%

Source: Johns Hopkins Listening Post Project
N=236

More generally, the vast majority (77 percent) of these organizations reported that they were at least "somewhat" successful in coping with the fiscal stress they were facing, and this figure exceeded 80 percent for all but the theaters, which seem to have had a tougher time, though even two-thirds of them reported coping somewhat successfully.

Table 6: Success of Organizations in Coping with Fiscal Stress Over the Past Year

Success Level	All	Elderly Housing and Services	Children and Family Services	Community and Economic Development	Museums	Theaters
Very successful	17%	9%	21%	32%	18%	13%
Somewhat successful	60%	74%	61%	48%	63%	52%
Somewhat unsuccessful	16%	9%	11%	4%	16%	29%
Very unsuccessful	3%	3%	0%	8%	2%	3%
Too soon to tell	5%	6%	7%	8%	2%	3%
TOTAL	100%	100%	100%	100%	100%	100%

Source: Johns Hopkins Listening Post Project
N=236

How was this accomplished? What accounts for the ability of these nonprofit organizations to cope with the fiscal stress they were experiencing? From the evidence at hand, it appears that not just a single strategy was involved. Rather, organizations combined new initiatives with defensive fiscal belt-tightening and aggressive advocacy.

Funding initiatives. Among the new initiatives, new funding efforts were especially prominent. Organizations were quite active in devising new appeals to private donors and foundations, mobilizing their boards or otherwise experimenting with new giving vehicles. More than four of every five respondents reported such expanded private fundraising efforts. Even more dramatically, 84 percent of the organizations reported increasing their attention to commercial sources of support, including expanded marketing and increased or expanded fee-for-service activities. Nor did these organizations give up on government as a source of revenue. To the contrary, 69 percent reported pursuing new sources of government support, particularly from state and local sources.

Different types of agencies varied somewhat in their reliance on these different funding strategies. Thus, museums and theaters tended to focus more heavily on private fundraising and community development, and family and children service agencies tended to focus more heavily on government support. Except for the community and economic development organizations, substantial proportions of all the types of organizations focused on commercial sources of support in response.

Table 7: Agency Coping Strategies: Funding Initiatives

Type of Initiative	All	Elderly Housing and Services	Children and Family Services	Community and Economic Development	Museums	Theaters
Private Fundraising	**82%**	**80%**	**77%**	**56%**	**86%**	**95%**
Expanded individual fundraising	64%	49%	56%	24%	77%	82%
Sought new foundation support	69%	49%	67%	60%	75%	81%
Increased corporate fundraising	55%	26%	49%	40%	70%	68%
Increased fundraising expends	73%	57%	72%	48%	86%	81%
Established new giving vehicles	27%	26%	25%	16%	28%	34%
Commercial Income	**84%**	**86%**	**79%**	**68%**	**82%**	**95%**
Improved/expanded marketing	63%	60%	61%	40%	63%	76%
Introduced/raised fees	56%	77%	42%	16%	46%	82%
Borrowed money	27%	29%	25%	44%	14%	32%
Started profit-making subsidiary	5%	11%	7%	12%	0%	2%
Government Revenue	**69%**	**74%**	**82%**	**68%**	**65%**	**58%**
Pursued new government sources	47%	34%	74%	68%	44%	23%
Other						
Used reserves or endowment funds	37%	40%	33%	32%	46%	32%

Source: Johns Hopkins Listening Post Project
N=236

Program initiatives. Funding was not the only arena where new initiatives were launched. While some organizations were forced to terminate programs, reduce their geographical reach, or slow the rate of innovation, even larger numbers reported expanding programs, broadening their reach, and speeding up innovations. One children's service agency, for example, reported expanding its core services through the acquisition of a program formerly run by another agency, and several theaters reported "increasing our product" as a way to counter revenue short-falls. More generally, as Sandy Halonen of the Neighborhood Economic Development Corporation in Eugene, OR put it: "We constantly re-evaluate what we do and how we do it."

Table 8: Agency Coping Strategies: Program Initiatives

Type of Initiative	All	Elderly Housing and Services	Children and Family Services	Community and Economic Development	Museums	Theaters
Pared down programs	36%	11%	51%	32%	33%	40%
Eliminated programs	28%	20%	44%	28%	23%	23%
Added new programs	44%	40%	63%	48%	40%	29%
Slowed program innovations	17%	17%	19%	12%	12%	23%
Accelerated program innovations	20%	26%	23%	16%	18%	18%
Reduced geographic reach	10%	6%	19%	8%	14%	2%
Expanded geographic reach	25%	29%	19%	36%	25%	26%
Reduced or eliminated outreach	8%	3%	7%	0%	12%	11%
Increased outreach to new patrons	49%	63%	42%	32%	46%	56%

Source: Johns Hopkins Listening Post Project
N=236

Belt-tightening. At the same time that organizations launched new initiatives in funding and programming, they sought ways to cut their costs. "We have ruthlessly looked at ways to cut operating costs," reported Jeanne Donado, vice president of the Ella Sharp Museum Association, Jackson, MI. Most participants seem to have followed suit. Thus, over half of the respondents reported freezing salaries, decreasing benefits, or increasing staff hours; and nearly 70 percent reported postponing hiring, eliminating vacancies, or increasing reliance on part-time staff. In addition to drawing down their reserves of "human capital" by increasing pressures on existing staff, over 50 percent of the respondents also drew down their reserves of financial capital by dipping into reserves and endowments, selling real estate or other assets, and/or by borrowing in the hope of future gains. As part of this belt-tightening, organizations turned increasingly to collaborations and partnerships, with over half citing this as a strategy for coping with fiscal distress.

Table 9: Agency Coping Strategies: Belt-Tightening

Type of Initiative	All	Elderly Housing and Services	Children and Family Services	Community and Economic Development	Museums	Theaters
Postponed new hires, eliminating vacancies, or increasing reliance on part-time staff	72%	63%	84%	56%	75%	69%
Froze salaries, cut benefits, increased staff hours	56%	57%	46%	40%	60%	66%
Increased contract or part-time work	31%	20%	33%	36%	30%	32%
Tapped reserves or endowments, borrowed, or sold off real property	52%	33%	47%	52%	83%	0%
Collaborated with other nonprofits	56%	34%	63%	64%	54%	58%
Collaborated with other organizations	34%	29%	39%	52%	39%	21%

Source: Johns Hopkins Listening Post Project
N=236

Expanded advocacy. Finally, in addition to adopting defensive measures in response to cuts, those surveyed also took pro-active actions to avoid projected cuts. Thus, 56 percent reported implementing or expanding advocacy activities at the local, state, or national level. One agency, for example, reported a successful advocacy campaign to resist proposed state Medicaid cuts and another displayed the growing sophistication required by new forms of government funding by mounting a well-researched challenge to state reimbursement rates for children's protective services.

Table 10: Agency Coping Strategies: Advocacy

Type of Advocacy	All	Elderly Housing and Services	Children and Family Services	Community and Economic Development	Museums	Theaters
Increased advocacy for organizational funding	40%	46%	40%	36%	40%	37%
Joined advocacy coalition	26%	29%	39%	36%	14%	21%
Increased advocacy on behalf of clients or field	20%	29%	25%	28%	7%	19%

Source: Johns Hopkins Listening Post Project
N=236

Effectiveness of Approaches

The popularity of an approach, however, was not always a measure of its effectiveness. When asked to list the two strategies that proved most effective, pursuit of private philanthropic funding did not rank among the top ten approaches mentioned. Rather, cost cutting measures were most commonly mentioned as effective in meeting agencies' objectives in 2003, particularly eliminating both program-specific and overhead positions. Also cited frequently were increased advocacy and the formation of coalitions. The only revenue enhancements that a significant number cited as effective were those that focused on commercial sources of income, including fees, expanded marketing, and increasing "profit" margins.

Table 11: Top 10 Most Effective Strategies

Strategy	Percent Who Claimed It Effective
Cut costs	27%
Reduced program jobs	16%
Fee-for-service/margins	15%
Reduced admin. overhead/jobs	14%
Advocacy	12%
Marketing - targeted	11%
Coalitions	11%
Marketing - general	10%
Productivity enhancements	10%
Cut programs/program capacity	8%

Source: Johns Hopkins Listening Post Project N=236

The Costs

By responding with energy and creativity to the prevailing economic circumstances and shifting government budget priorities, surveyed organizations were thus able to avoid some of the effects of fiscal stress and to grow their revenues and their services. At the same time, however, these efforts were not without their costs. For one thing, a number of respondents reported what one called "the tension among staff members as the burden of getting a week's worth of work completed in four days has become felt."

For others, the consequences have been more subtle. Thus, several theaters reported having to scale back the artistic content of their programming and shift to what one termed "a more 'commercially' appealing season."

More generally, nonprofits were finding it necessary to pay more attention to the requirements of survival in a market environment than to the special qualities that make them distinctive as nonprofit organizations. Thus, when asked to identify their two major operational priorities, the vast majority of participants cited "preserving the quality of our key services and programs," followed by "positioning for the future" and "increasing financial self-sufficiency." By contrast, fewer than 10 percent cited "preserving our ability to reach or serve those least able to pay," and fewer than 5 percent cited "maintaining our advocacy/civic engagement role."

Table 12: Agency Operational Priorities

Operational Priority	All	Elderly Housing and Services	Children and Family Services	Community and Economic Development	Museums	Theaters
Preserving quality of key services	64%	71%	49%	40%	75%	73%
Positioning for the future	45%	43%	67%	52%	37%	31%
Increasing financial self-sufficiency	42%	46%	40%	40%	44%	39%
Serving or reaching least able to pay	7%	14%	12%	4%	0%	6%
Maintaining advocacy role	4%	6%	0%	12%	2%	5%

Source: Johns Hopkins Listening Post Project
N=236

Finally, even with concerted effort, some organizations found it hard to cope. As one theater reported: "In spite of all our efforts, there was a point at which it was just like watching a train wreck happen…. We had done everything we could to cushion the impact but it didn't stop the crash from happening."

Future Prospects

These costs appear all the more important in view of agency expectations about the future. Generally speaking, the organizations that responded remain guardedly optimistic about the future, with 46 percent expecting continued revenue growth as against 34 percent expecting revenue declines, though these expectations are considerably more muted in the case of the elderly service agencies. Similarly, over 40 percent of the participants expect that their services and activities will grow over the next year as opposed to only 20 percent that expect they will shrink, and here the elderly service agencies are more in line with the rest of the sample, though the family and children service agencies are less optimistic. More generally, a resounding 80 percent of these organizations expect either that conditions will improve over the next year or that they have made, or will make, the changes necessary to see their organizations through.

Table 13: Revenue Change Expected by Organizations in 2004

Expected Change in Revenue	All	Elderly Housing and Services	Children and Family Services	Community and Economic Development	Museums	Theaters
Increase by 10% or more	11%	0%	4%	21%	10%	10%
Increase by less than 10%	35%	67%	23%	25%	27%	35%
No change	19%	21%	27%	25%	24%	17%
Decrease by less than 10%	24%	12%	29%	13%	29%	31%
Decrease by 10% or more	10%	0%	17%	17%	10%	8%

Source: Johns Hopkins Listening Post Project
N=236

But nonprofit organizations are also keenly aware that achieving this level of success in the year ahead will require considerable effort. Thus, while over 40 percent expect growth in revenue, only 17 percent expect growth in revenue from government sources and 52 percent expect declines in their government revenue. This is especially significant in view of the fact that these organizations receive 43 percent of their total revenue from government sources. To make up for the expected shortfall, therefore, organizations will have to turn to other sources and pursue other strategies.

Among the other sources of support, the two most commonly targeted are individual and corporate fundraising. However, these are relatively small sources of organizational support overall. Significant shares of those surveyed also expect to broaden the range of activities for which they charge fees, and to increase the fees on activities for which there are already charges.

Organizations are also anticipating a full agenda of other responses to fiscal stress as well. These include more active pursuit of partnerships and collaborations (68 percent of organizations), more aggressive advocacy (49 percent of respondents), and continued staff reductions (25 percent of respondents).

Table 14: Projected Consequences of Anticipated Budget Changes

Consequence	All	Elderly Housing and Services	Children and Family Services	Community and Economic Development	Museums	Theaters
Increase clients/patrons served	42%	34%	28%	56%	46%	48%
Decrease clients/patrons served	20%	9%	35%	8%	14%	23%
Increase waiting lists	20%	37%	30%	32%	7%	8%
Decrease staff	25%	17%	35%	12%	28%	24%
Increase staff	22%	20%	19%	36%	19%	21%
Increase use of partnerships	68%	46%	74%	80%	75%	65%
Increase advocacy	49%	54%	56%	48%	37%	52%
Increase range of activities with fees	29%	14%	21%	48%	35%	31%
Increase individual fundraising	89%	86%	93%	56%	98%	94%
Increase corporate fundraising	79%	54%	82%	60%	91%	87%

Source: Johns Hopkins Listening Post Project
N=236

No Significant Differences by Size of Agency

The data reported here on organizational fiscal stress, income changes, and changes in activity level do not turn out to vary much by the size of the organization. If anything, the mid-sized agencies seem to be under more pressure than either the small or large agencies, though the differences are not dramatic. Thus 51 percent of the smallest agencies in our sample and 49 percent of the largest reported severe or very severe fiscal stress over the past year as compared to 55 percent of the mid-sized agencies. Similarly, 64 percent of the small organizations and 66 percent of the large organizations reported revenue growth compared to 60 percent of the mid-size agencies.

Table 15: Impact of Size of Organization on Stress, Income, and Activity

	All	Less than $1.5 million	$1.5 million to $4 million	Over $4 million
Percent reporting severe or very severe stress	51%	51%	55%	49%
Percent reporting increased income	64%	64%	60%	66%
Percent reporting increased activity	65%	70%	62%	61%

Source: Johns Hopkins Listening Post Project
N=236

For further information on the Johns Hopkins Listening Post Project or on this Sounding, contact: Dr. Lester M. Salamon, Director (lsalamon@jhu.edu) or Mr. Richard O'Sullivan, Assistant Director (rosullivan@jhu.edu), Center for Civil Society Studies, Institute for Policy Studies, Johns Hopkins University, 3400 N. Charles Street, Baltimore, MD 21218, 410-516-8473.

[1] The *Listening Post Project* is a collaborative undertaking of the Johns Hopkins Center for Civil Society Studies and seven partner organizations--the Alliance for Children and Families, the Alliance for Nonprofit Management, the American Association of Homes and Services for the Aging, the American Association of Museums, the National Council of Nonprofit Associations, the National Congress for Community Economic Development, and the Theatre Communications Group. Working through the partner organizations, the Project has identified a national sample of over 500 nonprofit organizations in five fields—children and family services, elderly services, community development, museums, and theaters. These organizations have agreed to respond to a series of web-based surveys about key trends affecting them and major coping strategies they have adopted. Support for the project has been provided by the Carnegie Corporation of New York, the Ewing Marion Kauffman Foundation, the Rockefeller Brothers Fund, and the Surdna Foundation.

[2] Includes art galleries, botanical gardens, zoos, and science centers.

[3] The survey was distributed via the Internet to senior executives at the 505 agencies in our panel on October 14, 2003, and the survey closed on December 10, 2003. Of these, 16 email addresses were invalid. Altogether, 236 organizations, or 49 percent of those who received questionnaires, responded. Respondents were distributed widely across the categories of agencies, with a slight over-representation of theaters and museums (see Table N-1 below). Because agencies self-selected into our sample from among member agencies of national umbrella organizations in their respective fields, we do not present the results as necessarily representative of the entire nonprofit sector. However, the sample agencies are distributed broadly across the nation and reflect reasonably well the known characteristics of the organizations in their fields. As such, we believe the results provide a reasonable basis for understanding trends in this sub-sample of organizations that belong to national umbrella groups. The *Listening Post Project* is now in the process of extending its sample to a parallel random sample of agencies in the same fields.

Two other recent studies have focused on the impact of economic and budget changes on nonprofit organizations, but in a more limited way than the present survey. Thus, an October 2003 report completed by Dr. Woods Bowman of DePaul University for the Aspen Institute Nonprofit Sector Research Fund surveyed recent state and federal budget changes but stopped short of being able to trace the consequences of these changes for actual nonprofit organizations, relying instead on an indirect survey distributed to 27 state associations of nonprofit organizations. A November 2003 study by Guidestar directly surveyed over 600 charitable organizations but focused only on revenues from charitable giving, which comprises a relatively small portion of total nonprofit receipts. The present survey reached out to a broad sample of actual organizations and focused on all sources of revenue in addition to examining agency coping strategies and consequences for those served. See: Woods Bowman, "Fiscal Crisis in the States: Its Impact on Nonprofit Organizations and the People they Serve," (Washington: The Aspen Institute Nonprofit Research Fund, October 2003); Guidestar, "Giving Season Review: Guidestar Survey Charitable Organizations and the Economy, October 17-31, 2003," (n.p.: Philanthropic Research, Inc./Guidestar, 2003).

Table N-1: Distribution of Sounding Responses by Field

Type of Organization	Respondents	Share
Theaters	62	26%
Children and Family Services	57	24%
Museums	57	24%
Elderly Housing and Services	35	15%
Community and Economic Development	25	11%
TOTAL	236	100%