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UNMASKING

PROBLEMS IN THE NONPROFIT SECTOR

By Susan Koss

The COVID-19 pandemic has created a year of unprecedented times for nonprofits who have operated under tremendous pressure due to uncertainty and disruption. State mandated shutdowns and unpredictable reopening plans have left nonprofits in a state of financial instability. A recent study by the philanthropy research group Candid and the Center for Disaster Philanthropy ("Candid Study"),[1] projects that more than one-third of U.S. nonprofits are at risk of shutting down within two years as a result of the COVID-19 pandemic. The study highlights the difficulties facing nonprofits as growing financial needs over the past year greatly outweigh the donations received from individuals and foundations.

IBISWorld anticipated a 10.1% decline in donation, endowment and grant revenue in 2020. Profit is also expected to be significantly negatively impacted while also dealing with the financial stresses due to COVID-19 and the deteriorating economic environment. The economic decline has decreased per capita disposable income, consumer spending and corporate profit while unemployment rates remain high, all of which have an adverse impact on contributions to nonprofits.[2]

Financial challenges for nonprofits include pressure on outside funding from corporations who are cutting back due to the economic environment. Also, government and philanthropic sources that many nonprofits have relied upon in the past, may now be in short supply, thereby creating further financial burdens. Unfortunately, the COVID-19 induced environment has also created unprecedented demand levels for the support of many nonprofits who now have less revenue and resources to accommodate those needs.

In an effort to reduce costs, many nonprofits have laid off or furloughed workers. Since the beginning of the pandemic, the nonprofit sector lost approximately 930,000 jobs according to the Candid Study. While many nonprofits have operated remotely since the onset of the pandemic, they redirected their efforts to social media and email campaigns. Nonprofits that have successfully navigated through the pandemic relied heavily on digital marketing and virtual fundraising tactics. To remain viable, nonprofits will need to be nimble and pivot in times of uncertainty and change in the current and post COVID-19 environments to stay in business.

The pandemic has unmasked significant problems in the nonprofit sector that existed well before COVID-19. For example, many nonprofits simply do not have internal staffing capable of providing a complex, financial strategy to stay afloat. In addition, outside board members may be more astute at philanthropy than financial strategies needed during an unexpected crisis. Furthermore, many organizations do not have the technical capabilities to gather and assess the data needed to truly understand the economic drivers of their operations. These issues can cause financial distress for a nonprofit which can lead to donors exiting and the noble cause becoming extinguished presenting additional challenges for the internal staff and board members to face.

To mitigate these challenges, it is imperative for nonprofits to have a thorough understanding of their current financial position. A more frequent review of financial information is likely needed along with a reassessment of assumptions regarding future operations and cash flows. It may be necessary to hire outside professionals to assist with strategic planning and restructuring. Additionally, outside professionals can assist the internal staff and board members in finding creative strategies to remain viable. Solutions such as merger or acquisition transactions, or creating partnerships may allow the mission to stay alive.

Strategic restructuring requires sustained dedication, resourcefulness and flexibility but will be necessary to survive the next few years and not become another victim of the pandemic. Surviving organizations will then be challenged with shifting their focus from survival mode to providing stability and growth in a new and challenging post COVID-19 environment. Implementing innovative strategies, such as pooling of technology resources with other nonprofits, will be needed for organizations to stay viable to carry out their core mission. The ability to economically consolidate essential services will better leverage the financial resources to sustain the organization. Successfully balancing risks and rewards will be critical for nonprofits while making the best use of available resources. Ultimately, those nonprofits who view the pandemic as an opportunity to reinvent themselves are more likely to survive with a better focus on their mission.

[1] https://disasterphilanthropy.org/resources-2/philanthropy-and-covid-19-in-the-first-half-of-2020/
[2] IBISWorld - Donations, Grants & Endowments in the US, November 2020, pg. 4.