Nonprofit Sustainability During Times of Uncertainty

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Nonprofit organizations in the United States depend on a diverse set of funding streams to sustain their operations. This study examines the ability of nonprofits to leverage funds from the private sector during the current economic downturn within four areas receiving federal funding for community and economic development. Both survey research and individual interviews were used to examine how nonprofits within these areas are incorporating their board members and community leaders to continue services during a time of resource scarcity.

Keywords: *economy, finance, fundraising, nonprofit, philanthropy*

THE RECESSION MAY BE OVER, but as of this writing, the national unemployment rate continues to hover around 10 percent during the current "jobless recovery." Nonprofit organizations are not sheltered from this downturn by any means. According to the Philanthropic Giving Index (PGI), fundraisers' assessment of the current giving environment fell to its lowest level since the Center on Philanthropy began the study in 1998. "The steep decline in confidence in current fundraising conditions confirms that nonprofits are still encountering difficult times and anticipate that they are facing more ahead," said Patrick Rooney, executive director of the Center on Philanthropy. "There is an increasing dichotomy between the decrease in fundraisers' perceptions of the

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present situation and the increase in their expectations for the future. This is likely a reflection of continued uncertainty about where the economy may be headed" (Davis and Sprunger, 2009, p. 1).

This study, which examines nonprofit financial sustainability within four regions in the American South and Midwest, was undertaken at the Center on Community Philanthropy, Clinton School of Public Service, during the fall of 2009. We devised a theoretical framework for examining financial sustainability by integrating the main points of institutional and population ecology theories. In utilizing institutional theory, we concurred with institutional analysts in assuming that an organization's life chances are significantly improved by organizational demonstrations of conformity to the norms and social expectations of the institutional environment (Meyer and Rowan, 1977; Meyer and Scott, 1983). Components of population ecology theory that were used in the study's analytical framework included the assumption that financial sustainability is the result of environmental pressures that differentially select adaptive forms for retention in an organizational population (Hannan and Freeman, 1977). The primary emphasis of population ecology is on the influence of selection processes on the dynamics of organizational diversity. Most variability in organizations is seen to come about through the creation of new organizations and organizational forms and the demise of existing ones (Hannan and Freeman, 1977). Baum and Oliver (1991) used these complementary approaches to investigate the impact of organizations' institutional linkages to legitimized community and public institutions on their mortality rates. In tandem with previous studies which show that diversification of resources (for example, Gronjberg, 1993) enhances financial sustainability, analysis is provided on how successful agencies have been in leveraging funds from a variety of sources over the past five years. This research also seeks to build upon previous studies in exploring the influence of networking with community leaders (i.e., Galaskiewicz and Bielefeld, 1998) in financial viability. This article incorporates the main points of these previous studies in defining financial sustainability as the ability of nonprofits to diversify their funding base and subsequently grow their operating budget over a five-year period. In light of the substantial cutbacks in both federal and state funds with the current recession and subsequent declines in philanthropic giving, best practice strategies on sustaining nonprofit organizations are timely and necessary to avoid cutbacks in community-based services.

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Several questions guided this analysis: Are nonprofit organizations within areas that have received relatively large sums of federal and state funds becoming more or less reliant on government funds to sustain their operations? What role is played by board members in fostering organizational sustainability? How will the next generation of philanthropists within the areas examined be different (or

similar) to the current generation? Do regional differences play any role in the organization's financial viability?

The Study

This study focuses on twenty-six health, human services, and community and economic development organizations operating within the Mississippi River Delta (Central City, New Orleans; St. Francis and Phillips Counties, Arkansas). These two areas served by the Clinton School were paired with comparable areas in the Midwest and South (Fall Creek, Indianapolis; Park DuValle, Louisville, Kentucky). All of the communities selected receive federal and state funds, often from the federal department of Housing and Urban Development (HUD), to revitalize blighted neighborhoods and downtown areas in rural and urbanized communities. Subsequently, all of the communities selected are predominately African American and Hispanic with median family income below the respective state's average (Federal Financial Institutions Examinations Council, 2009). All but two of these organizations describe themselves as nonprofits without a religious affiliation. Nineteen (73 percent) are health or human service organizations, and seventeen (65 percent) have been in operation from five to twenty years. The operational budget size of the organizations ranged from five reporting budgets less than $100,000 during the fiscal year, to three with budgets of more than $5 million during the same period. The average budgetary size is between $501,000 and $999,000; nine agencies (35 percent) reported this information. All of the organizations operating within urban areas (New Orleans, Indianapolis, and Louisville) were selected from membership lists of area nonprofits filing 990 forms. These agencies included eleven from Indianapolis/Fall Creek, four from Louisville/Park DuValle, six from St. Francis and Phillips Counties, and five from New Orleans/Central City. Because relatively few nonprofits served the two rural counties selected (St. Francis and Phillips Counties), surveys were distributed to all fifteen organizations on the local nonprofit association membership list. Although random selection was utilized within the urbanized regions, efforts were also made to maximize variation in the selection process within the urban settings so that these agencies could be compared with their rural counterparts.

The study used three data sources: (1) surveys administered with agency directors; (2) agency financial reports, including annual fiscal reports between 2003 and 2008; and (3) key informants. Surveys were administered by phone or e-mail between August and December of 2009 with agency directors or fiscal officers. These agency officials utilized annual fiscal reports in completing the surveys, as well as answering more general questions about dependable

funding sources, and the role of board members in fundraising strategies. The key informant interviews were based on a semiformalized questionnaire and were conducted mainly in person between October and December of 2009. The eighteen individuals selected for this part of the research included agency directors from organizations that had experienced substantial revenue growth over the past five years (over 25 percent) as well as directors of large community foundations, and elected officials, including city mayors. Efforts were made to select at least two key informants from each of the four regions. Information gleaned from these in-depth interviews was combined with qualitative data collected from surveys. Often these qualitative data were employed to provide background information for each of the regions analyzed, as well as providing a detailed explanation for differences between the areas assessed. In some cases, agencies declined to participate in the survey but provided general information on nonprofit funding trends. Because previous studies such as Bryson, Gibbons, and Shaye (2001) demonstrate that nonprofit funding is often "deeply affected by formal and informal coalitions and networks," this article seeks to provide analysis of general trends on nonprofit sustainability, as well as why these trends may differ within the regions examined.

Most agencies, regardless of budgetary size, were able to financially sustain a diverse funding base over the last five years.

Reliance on Government Funding

An analysis of survey results along with interviews with key informants shows that the agencies in general exhibited more similarities than differences with regard to funding diversity, and reliance on government funding and contracts. Table 1 depicts how most agencies, regardless of budgetary size, were able to financially sustain a diverse funding base over the last five years. Subsequently, fifteen nonprofits (58 percent) reported "funding sources have remained the same over the past five years." These general funding sources included government grants/contracts, fee for service, as well as donations and foundation grants within and outside of an agency's service area. In tandem with these findings, this table also reveals that most organizations during this same period (seventeen, or 65%) received funding from at least four sources.

Table 1 demonstrates that nonprofits serving areas receiving federal funds for urban or rural redevelopment are generating streams from a variety of nongovernment sources. These revenue sources included fee-for-service programs, annual fund drives, and individual donations. Although most agency directors report that they strategically utilized board members in fund development strategies, and some actually required board member participation in fundraising activities, Table 1 also shows that most agencies (fifteen, or 58 percent), view government funding or contracts as being their "most dependable source of revenue." Agency directors attributed this

Table 1. Funding Changes, Diversity, and Most Dependable Sources over the Past Five Years

	Total Revenues for Most Recently Completed Fiscal Year				
	Less than 100,000	*101,000–500,000*	*501,000–999,000*	*1–5 Million*	*Over 5 Million*
Funding Sources					
Have remained the same over the past 5 years	4	4	2	3	2
Agency has added 1 over the last 5 years	0	0	5	0	0
Agency has added more than 1 over the last 5 years	0	1	1	1	1
Agency has lost a funding source over the last 5 years	1	0	1	0	0
Number of Funding Sources					
One	0	1	2	0	0
Two	0	0	1	1	0
Three	0	2	2	0	0
Four	2	1	2	1	3
Five	0	0	1	1	0
Six	3	1	1	1	0
Most Dependable Funding Source					
Governmental grants/contracts	1	2	6	3	3
Client fees	0	2	1	1	0
Private foundations	0	0	1	0	0
Donations	4	1	1	0	0

Note: $n = 26$.

reliance on government funds/contracts to the inability of their clients to pay even a nominal amount of money for services, as well as the substantial hit community foundations experienced in their endowments beginning in 2007. Most key informants viewed the current economic downturn and subsequent declines in philanthropic giving as marking the end of large gifts to local nonprofits. "Gone are the days when Barry Bingham (prominent Louisville philanthropist) would get on the phone and get his friends to raise enough money for the symphony after he got the ball rolling by initiating a large gift. The days of big giving are over," according to one of the directors at the Louisville Community Foundation. This trend was echoed by one of the directors of the Louisiana Association for Nonprofit Organizations (LANO), who stated "all the Fortune 500 companies have moved away from New Orleans" and therefore most of the larger gifts and redevelopment projects following Katrina have come from outside of the region. Key informants within both New Orleans and Louisville emphasized a trend away from larger corporate gifts and a subsequent move towards securing smaller gifts in a more strategic, targeted fashion. In some cases, such as New Orleans Central City community, the absence of prominent donors may have fostered an environment of greater social entrepreneurship. LANO's director was quick to point out that Louisiana "was one of only five

states that deals with social entrepreneurship at the Governor's level."

Key informants across the board expressed reservations about their organization's reliance on government funding for their operations. These reservations included considerable restrictions on how public funds can be utilized, and relatively large amount of time and resources consumed in complying with state and federal requirements. Nonetheless, most directors perceived government funding as essential for their organization's financial viability. Subsequently, six of the eight agencies reporting substantial budgetary increases over the past five years possessed operating budgets exceeding $500,000. Some of the directors of larger nonprofits also pointed to the importance of hiring staff members whose primary purpose was to lobby state and federal officials for continued agency funding. In light of the continued dependency nonprofits exhibit on government funding for their operations, larger organizations that are already staffed to maintain these current funding streams are at a definite advantage over smaller nonprofits that have never secured government funding, especially during a time when some state funding institutions are at or near insolvency.

Some of the agency directors interviewed reported that a "formalized relationship with a government institution" was more important than the securing of government funds for their sustainability.

Some of the agency directors interviewed reported that a "formalized relationship with a government institution" was more important than the securing of government funds for their sustainability. Subsequently, the existence of a government contract for a fee-for-service program, or consultation services, constituted a primary source of organizational funding. These institutional linkages provide a substantial amount of organizational legitimacy for nonprofits, especially smaller ones that may not have the resources or staffing to apply for government funds. Subsequently, several key informants discussed how some state and local funding institutions are moving away from renewing government grants in favor of requiring agencies to provide detailed cost breakdowns for specific services provided for a government department. The following story provided by a director of a statewide nonprofit is an example of this paradigm shift from a grant-based to a fee-for-service-based funding strategy within some regions: "Our agency had been providing mentorship training for volunteers to work with juvenile offenders for a number of years. Funding had always been provided by the state Department of Corrections in the form of an annual grant. After property tax reform was passed in Indiana, this funding source dried up. In response to the loss of this contract, we initiated a training institute and began to provide the same service by negotiating with state officials to continue the training through a fee-for-service program. They still needed the training, so we were able to continue the program." This quote captures how many of the directors interviewed were compelled to become more entrepreneurial in working with government funding institutions since grant-based contracts are being eliminated.

Regional Differences

Our analysis found that although both urban and rural nonprofits shared a dependence on taxpayer dollars for their financial sustainability, these agencies exhibited substantial differences with regard to community philanthropy. Table 2 reveals that nonprofits within all of the regions studied viewed government funding/contracts as their most dependable funding source over the past five years. Although agencies within both rural and urbanized areas all reported the important role government institutions played in their long-term financial sustainability, differences were noted between the two rural Arkansas counties and their more densely populated counterparts with regard to local philanthropy. In contrast to key informants within urban communities that perceived a move toward securing smaller donations and subsequent greater numbers of partnerships with smaller businesses instead of Fortune 500 companies, agency directors within St. Francis and Phillips Counties were more skeptical about the possibility of generating sustainable funds through these approaches. The following statement made by the Director of the St. Francis County Development Corporation captures this viewpoint: "From a historical perspective, we have relied on state and federal dollars to do community development within this area. The private sector views this as a government responsibility. When the people in this county do give, it goes to Fayetteville for a building. Somebody from here just gave 14 million for just that. These wealth-holders don't see our agency as worthy of their investment. . . . Blacks in this area are more likely to give to their churches. In both cases, they probably get more ego satisfaction giving to these institutions [universities and churches], instead of us." This viewpoint was mirrored by two other rural Arkansas directors who stated that the relative absence of donations made to local nonprofits was more of a matter of "willingness to give" than "ability to give."

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This quote sheds light on differing patterns of giving with regard to race, as well as how rural nonprofits feel outmatched by religious institutions, and institutions of higher learning, when it comes to fundraising. Essentially, the potential for fostering greater levels of community philanthropy exists within these rural counties. Nonetheless, nonprofit directors in rural areas reported substantially more obstacles in cultivating relationships with potential donors than their urban counterparts.

Board Involvement and the Next Generation of Philanthropists

Fostering either a funding or contractual relationship for services was viewed by most agencies to be a key to long-term financial

Table 2. Most Dependable Funding Sources Across Regions

	Region Served			
Funding Source	*Indianapolis/ Fall Creek*	*Louisville/ Park DuValle*	*Rural Arkansas/ St. Francis and Phillips Counties*	*New Orleans/ Central City*
Governmental grants/contracts	7	1	5	2
Client fees	2	1	0	1
Private foundations	0	0	1	0
Donations	2	2	0	2

Note: $n = 26$.

sustainability. Although few agency directors reported utilizing board members to initiate or perpetuate government funding/contracts, most nonprofit leaders that depended upon private sector funding articulated specific strategies for board recruitment and retention. Table 3 shows that a statistically significant relationship exists between the percentage of budgetary funds from individuals within an agency's service area and fundraising requirements for board members. Thus, four of the nine agencies that required their board members to participate in annual fundraising drives secured over 50 percent of their operating budget from individuals within their service area. Subsequently, all seven of the agencies that did not emphasize fundraising for board members received less than 10 percent or no funding from this source. In some cases this lack of effort put into fundraising was probably a function of necessity; some of the larger health care agencies received considerable revenue from Medicaid and Medicare and therefore probably deemed it unnecessary to pursue prospective donors.

Thus, four of the nine agencies that required their board members to participate in annual fundraising drives secured over 50 percent of their operating budget from individuals within their service area.

It is important to note that the six agencies that only "encouraged" board members to be involved in fundraising were "moving toward making this a requirement." Many agency directors that required board member fundraising spoke about this volunteer responsibility "increasing levels of shared governance." An agency director whose organization was recently awarded a substantial donation for a building project stated, "When board members gain more responsibility through fundraising requirements, they want to have more of a voice in agency decisions. Being a director of a nonprofit agency requires one to be more open and willing to build constituents than our for-profit counterparts." In tandem with this director's observation of differences between nonprofits and proprietary organizations, agencies within this study that were more closely aligned with their for-profit counterparts as a result of their large fee-for-service and third-party payment programs were more likely to report that their agency did not require board member involvement in fundraising strategies.

Table 3. Board Involvement in Fundraising

	Requires members to raise money each year	*Requires members to participate in annual fundraising drives*	*Encouraged to approach individuals for donations*	*Very little emphasis placed on fundraising*	*One-way ANOVA with df = 4*
% of Budget from Individuals Within Service Area					4.568*
None	0	1	1	4	
Less than 10%	1	2	4	3	
10–50%	1	2	0	0	
Over 50%	0	4	1	0	
Total	2	9	6	7	
% from Client Fees					0.159 (NS)
% from Individuals Outside Service Area					0.937 (NS)
% from Governmental Sources					1.357 (NS)
Budget Size					1.070 (NS)

*$p < 0.01$; NS = not significant.

Note: $n = 26$.

As discussed previously, most key informants viewed the days of substantial corporate involvement on agency boards as fundraisers as coming to a close with the economic downturn. Some exceptions to this viewpoint were Indianapolis informants who "saw a balance between corporate involvement and smaller businesses." The New Orleans directors seem more likely to discuss in detail how the "next generation" of philanthropists would differ from the current generation. One of these directors seemed to capture the sentiments of her fellow agency leaders with these words:

> A lot of twenty-something's came to New Orleans after Katrina since they saw a huge mission and purpose here. These young people came along with middle-aged people that also saw in our city a huge calling. They worked alongside people from this area in rebuilding organizations that had been stripped of everything they had, personal assets, and even their legal identity in many cases. Many of these organizations showed great resilience and are viable today. Other nonprofits were born of Katrina, never completed the legal process, and collapsed. Others received great media attention and cash nationally but were not good stewards; many of these agencies became part of larger ones. Others have raised substantial amounts of money, but have not produced that much. Others have literally produced astounding things with nothing. Some of these directors and leaders were great visionary people who walked away to maintain their health and sanity. I believe New Orleans is a great case study for

> how the next generation will be involved with nonprofits. Like New Orleans, they are attracted to innovation, entrepreneurship, ease, and informality.

This quote speaks to the cross-generational nature of nonprofits that expanded their operations after Katrina, as well as many that were initiated following this natural disaster. It also echoes the entrepreneurial spirit of these endeavors, and how their success and failure rates mirror what it found within the for-profit sector. It is also significant to note that this poignant synopsis of the post-Katrina nonprofit experience does not discuss corporate sponsorship of New Orleans–based agencies. The opportunities for a wide variety of smaller-scale projects and service delivery strategies went in tandem with the diminished role of larger corporations in financially sustaining local nonprofits. This theme was found not only in New Orleans, but also within the other regions examined within this study.

Discussion and Implications

The opportunities for a wide variety of smaller-scale projects and service delivery strategies went in tandem with the diminished role of larger corporations in financially sustaining local nonprofits.

The relatively small sample size of this study places limits on our ability to generalize these findings. Nonetheless, this study represents an initial look at how nonprofits serving communities targeted for revitalization are financially sustaining their operations through the current economic downturn. Our analysis shows that though most of the organizations examined have been able to maintain and grow a diversified funding base, in general the agencies studied still depend mainly on government funding or contracts for long-term financial sustainability. This finding is nothing new, as noted by Baum and Oliver's (1991) study on the importance of institutional linkages between nonprofits and government funding. Nonetheless, the findings of this study demonstrate that greater levels of community-based philanthropy are needed for nonprofits to financially sustain their operation in the long term. Subsequently, overreliance on government revenue can jeopardize an agency's service delivery strategies in a number of ways. Much of the nonprofit literature has concluded that reliance on public sector institutions for financial viability comes with a cost, including mission distortion, loss of autonomy, and increased bureaucracy (Frumkin and Kim, 2002). However, some researchers have suggested that public funding creates the conditions for a mutually advantageous relationship between the sectors. Salamon (1987a, 1987b, 1995) has argued that the nonprofit sector is not secondary and derivative of other sectors, but rather is a primary response mechanism to public problems. Instead of filling gaps, nonprofits must take the lead in many areas. The regions examined within this study manifested considerable limitations in generating local funding, especially from the private sector. As previously mentioned, the resulting dependence on government funding is nothing new, but this dependence is being exasperated by the loss of a strong corporate

base in cities such as New Orleans and Louisville, in addition to the economic downturn. These limitations seemed more pervasive within the two rural Arkansas counties, where a strong culture of corporate and small business involvement in sustaining nonprofits has never developed. Subsequently, agency directors within these areas report "partnering more with government institutions and other nonprofits" than with proprietary entities. Essentially, higher levels of community philanthropy were reported within urban areas than rural ones. As witnessed by the large donations given by members of St. Francis and Phillips Counties to the University of Arkansas, potential exists for cultivating more local philanthropy within these rural areas. Survey responses and interviews with informants in New Orleans and Louisville revealed that while a viable and dynamic culture of philanthropy continues to grow despite stock market declines, the loss of Fortune 500 companies within these cities has catalyzed a paradigm shift in fundraising. Thus, agency directors who have been currying favor with corporate leaders to build agency endowments and related resources have to develop different fundraising strategies. One constant in this changing fundraising climate is the necessity of partnering with board members in generating private sector revenue. Agency directors who work in tandem with board members in fundraising, to the point of requiring member participation in fundraising drives, are more successful in sustaining this private sector funding base, according to our findings. It is important to note that while some studies reveal difficulties with role clarity when board members become overly involved in fundraising (for example, Carver, 1997), our findings show that board members can contribute to the financial sustainability of a nonprofit for certain philanthropic endeavors such as soliciting donations from local residents. Subsequently, board members who happen to be lifelong members of a particular community may be better suited for approaching potential agency benefactors than agency directors who may lack these community connections. In contrast to targeting Fortune 500 managers as board members to accomplish these fundraising tasks, a common theme echoed by many agency directors was the absence of corporate gifts. As corporations have moved their headquarters away from cities such as New Orleans and Louisville, nonprofit directors have turned more to the small business entrepreneur for board leadership in this area.

"New Orleans will be a test model for how the next generation will engage in philanthropy."

In light of the radical changes that have occurred within New Orleans following Katrina, we concur with the informants interviewed from this city that "New Orleans will be a test model for how the next generation will engage in philanthropy." As these organizations rebuild themselves from the wreckage of Katrina, they have no choice but to be creative and innovative in recruiting and retaining board members who will provide the resources and time necessary

to sustain and grow their programs. Subsequently, the New Orleans agencies were more likely to report higher levels of small business owner involvement on their boards than their Indianapolis and Louisville counterparts. Many agency directors within these former cities reported they wanted to "attract more small business owners and young professionals," but often reported limited success in these endeavors. If these Delta City organizations manage to perpetuate this board member vitality over the next few years, New Orleans may have a lot to teach the country about financially sustaining nonprofits.

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