

Exploring Nonprofit Managers' Response to Budgetary Constraints During the Great Recession

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Abstract

Nonprofit organizations struggled with severe funding cuts from state and Federal governments following the Financial Crisis of 2008 and the resulting Great Recession. The new reality for many nonprofits included decreased volunteerism and donations, coupled with increased demand for services. This longitudinal study uncovered the degree to which leaders of nonprofit organizations in Western North Carolina experienced and adapted to these environmental shifts. Fifteen qualitative interviews were conducted with nine informants over the course of eight months. The results reveal that prescriptive management strategies typically implemented in for-profit organizations were applied with mixed results. While some organizations experienced growth and remained firmly invested in bettering their respective communities, some informants revealed the need to downsize facilities, reduce clientele, and require fees for services that were freely available to the community in the past. Given the anticipation that these nonprofits will receive decreased state appropriations in the future, the practical implications of this study offer nonprofits organizations a roadmap towards adaptation. A variety of strategies grounded in the data presented in this study will not only help nonprofit organizations thrive in a tenuous economic reality, but also expand necessary services to their respective communities.

Keywords: nonprofits, Great Recession, strategy

1. Introduction

The financial crisis in 2008 and the ensuing Great Recession two years later forced many nonprofit organizations to adapt to fluctuations in their funding. Severe budget cuts on the state and federal levels occurred alongside decreased donations from the private sector, yet these nonprofits also experienced an ever-increasing demand for their services. Despite legislation in North Carolina to increase donations and reduce bureaucratic obstacles, state and local government agencies still hinder the ability of organizations to efficiently deliver services¹. Devolution, the “transference or surrender of powers from the central government to local authorities” has been a pattern since the 1980s, when President Reagan’s policies transferred management and responsibility of several nonprofit sectors from federal to state and local governments². This intergovernmental shift reduced federal funds in North Carolina by over \$241 million dollars in 1980-81 alone, and this pattern still continues today³. With such budgetary challenges remaining, leaders are pressed to find creative methods to grow and deliver programs with dwindling resources⁴. Such innovations to improve services and operating efficiency come at a cost: some organizations and stakeholders experience a tragic loss of services that can be damaging to agencies and communities informant to the service delivery reductions or eliminations.

Public sector investments and regulations have created what some scholars refer to as the “third sector”⁵. This third sector includes nonprofit agencies, traditional for-profit companies that support these organizations, governments (increasingly local with very little federal support and generally less state support), and stakeholders, including communities receiving and supporting services. The nonprofits themselves act as a bridge between the

community and the government in this third sector model. This shift is occurring partly because of the financial crises that began in 2008, with the continuation of devolution practices by the government. In the third sector model, nonprofits diversify their funding and depend less on governmental sources of income, thereby operating with greater control and efficiency⁶.

Another reason for this shift is the increased need for services that have resulted from the financial crises. The aging population, the transition of the economy from production to service, and increases in countless other areas from drug addiction, to homelessness, to developmental disabilities and so on place substantial demands on nonprofits⁷. Some organizations have experienced devastating reductions, while others have overcome these challenges. There is evidence that the reduction in budget support has actually encouraged nonprofits to thrive, in that “when nonprofit agencies are highly dependant on government resources, they tend to provide services as mandated by law and in keeping with government policy”⁸. The push for creative adaption to these budget changes may produce useful, sustainable new policies and services.

Many studies have been conducted that seek to define how nonprofits have changed their services in response to the budget cuts that have occurred. For instance, a recent study conducted in Adams County, Pennsylvania found that diversity of funding was key to survival of agencies during times of governmental funding uncertainty, and “nongovernmental funds were the lifeline” that kept sustained mission-critical services⁹. However, some of the negative changes undertaken by non-profits in this study included staff layoffs, postponing payments of debt, employees working without pay, and utilizing credit lines¹⁰. This study in Pennsylvania energized the community and even renewed the focus of the Pennsylvania State Government to prevent the kind of budget impasse that critically affected so many nonprofits there¹¹. Other studies have shown how different nonprofits react to budget changes; for example, a 2011 study of the YMCA suggests that as the funding from the government decreases, 28% of nonprofits will have to eliminate one or more programs¹². The study found that a down economy was a very common cause of change in nonprofits¹³.

Studies like these have been done on small and large scales all over the United States, but we know very little about the situation facing Western North Carolina, specifically the Asheville community and surrounding region. North Carolina is a leader in the nonprofit sector, ranking twelfth in the country for number of nonprofit organizations, and the state has a higher than average number of volunteers and rates of charitable giving¹⁴. According to the NC Center for Nonprofits, 11% of North Carolina’s workforce is provided by nonprofits with more than 425,000 jobs. The third sector of nonprofits and their affiliates provide services in countless areas from human and animal services, health care, home building, employment services, food services, education, and more. Statewide studies have shown that 39% of NC nonprofits have needed to cut staff, and 33% have needed to reduce services. Asheville is known for its high quality of life, yet there are serious inequalities that exist here. A community’s health is often defined by the health of service organizations. The importance of these organizations cannot be understated, and the study of nonprofit management is more important now than ever with the dynamic and uncertain nature of economic conditions.

2. Methodology

2.1 Data Collection and Sample

This study was designed to collect data longitudinally. The first phase of data collection (Part 1) occurred during between January and May 2013. The primary focus of the first phase of this exploratory study was to identify and analyze the degrees to which nonprofits in Western North Carolina have responded to fiscal pressures and how such responses resulted into operational changes. During the second phase of this study, in which data were collected between October and March 2014, the study sought to explore the relative effectiveness of adaptation strategies in responding to budget challenges post Great Recession.

The organizations represented in the sample were deliberately varied to include human service organizations, local governmental organizations, and other community organizations. Informants from both phases were executive directors or financial directors. The average length of time at their current position was 10.45 years. The most time was 27 years and the least was 2 years. The convenience sample was designed based on the author’s existing professional relationships, a network of colleague referrals in the nonprofit sector of western North Carolina, and outreach to local nonprofits outside of the author’s network.

Interviews were conducted to gather the richest data possible. A structured interview protocol was used in Part 1. The first three questions were designed to determine if the informant worked for a nonprofit and had involvement in

the budget allocation and service aspects of the organization. The funding of the organization must have changed due to governmental budget cuts. If these criteria were not met, the interview was concluded. After the qualifying section of the interview, the informants were asked about their responses to the financial crisis. Informants were asked if their respective organization made changes to their services in response to budget cuts using a series of categories of possible change strategies. These changes were noted as increased or decreased and informants were welcome to elaborate as they saw fit. Informants were also asked to add any other areas of their organizations that changed due to budget cuts, and if they would like to add anything else of relevance.

Informants were invited to voluntarily participate in Part 2 of the study. While the first phase of data collection used very structured interviews, Part 2 utilized a more open-ended interview technique. Interviews were recorded and transcribed for analysis. First, the data from Part 1 was reviewed to reacquaint both the interviewer and the informants with the managerial changes discussed. Informants were then asked a series of questions designed to determine what strategies or changes have been particularly effective or ineffective in terms of responding to budgetary constraints.

2.2 Data Analysis

The data analysis during Part 1 relied on identifying trends in responses to the structured interview questions specifically about the ways that nonprofits have changed in response to budget constraints. Analysis during Part 2 involved an inductive approach to coding¹⁵ whereby informants' stories were examined to determine patterns among the different informants' experiences¹⁶. The findings were systemically analyzed using an iterative coding technique that helped extract thematic patterns¹⁷. The initial coding was based on the areas of change specified in the first part of the study. Frequently revisiting the transcribed interviews and using both memoing and textual diagramming helped identify commonalities among the themes¹⁸.

2.3 Findings

2.3.1 part 1

The change areas that the most informants reported change were staff pay, employee benefits, and service facilities. In the organizations that reported a change in staff salary, every one reported an increase. As far as the organizations that reported a change in benefits, one third had no change, one third an increase, and one third a decrease, usually a higher cost for less valuable health insurance. Four informants reported an increase in their service facilities and two reported a decrease. The results for the category of expense allowances were two organizations with increases. The IRS, which sets the reimbursement rate for gas, mandated these increases.

Despite the many challenges facing WNC nonprofits, the informants seem to exude feelings of pride and hope for their organizations. Several informants, when first asked if their services have changed, were very quick to defend their organizations, stating that their services are as strong as ever. Once asked about the specific aspects that might have changed, most informants seemed very pleased to describe how little their services have changed and how many grew. A pattern emerged concerning the growing need for the services that nonprofits provide. With the Great Recession came an increase in a variety of societal challenges that are associated with many nonprofit organizations' missions, such as providing relief from childcare costs, homelessness, substance abuse, mental health services, and hunger services, among others.

Informants also consistently referred to the general population growth, which increased the demands on their operations. This is compounded by the fact that some organizations have needed to cut the per case service hours that they can provide. This means that some organizations are taking on more clients using fewer resources than they had before. Informants praised their staff for the way they have adapted to this stretch, trying their best to maintain their level of care and service. Others have expanded their clientele by creatively forming new ventures that both answer to the challenges the community faces and helps the nonprofit survive. While many programs have had vouchers from the state increase to expand clientele, some informants expressed the opposite.

Some agencies have had to cut the number of clients served. One informant reported that childcare vouchers from the state of North Carolina have been frozen. Medicaid funding that supported this childcare has also been cut. As result, this childcare program has been drastically reduced. One can imagine the domino effect of social problems that could be exacerbated by this reduction of service that parents and children had come to depend on. Another informant also reported a reduction in state funding for a specific program, and now that people have to pay for a service that was previously free to them, many have withdrawn.

While client growth is common and the need for nonprofit services is on the rise due to the recession, population growth, and other causes, it is logical that the number of employees will need to increase to support this growth and need. The interviews reflect this assumption, with equal numbers of informants reporting an increase of clients and an increase of employees. In addition to increases in paid employees, there were often reports of increased volunteerism. One informant said, “Community engagement is way up” and said that in the last four years their volunteer base had grown from 600 to 1600 people. This echoes other informants’ general assumption that Western North Carolina is an especially supportive environment for nonprofits.

Employee benefits proved a difficult area to measure in the simplistic way this study was designed. Focusing on health care benefits first, the results were even between increases, decreases and no change, each reported by three informants. However, the ambiguity of whether or not health care benefits increased or decreased was confusing. Most reported an increase in the employee contribution to their plan. To lower level employees, this could be argued as a decrease in their benefit even if the benefit itself has not changed. Some informants cited the rising cost of health care as a primary rationale for increasing employee contribution or a change in plans to a cheaper model with a larger deductible. One informant in particular referred to the Affordable Care Act of 2010 as a reason for increased health care costs, but this is not necessarily the reason for the increased costs of employee health care plans at their organization. This sample seems to reflect a national trend of confusion as to why health care costs are increasing. Other benefits, such as paid time off, sick leave, and retirement plans have remained unchanged relative to health care. Another informant reported that they extended some benefits to their part time employees, a move uncommon in any sector, as organizations, particularly those with budgetary constraints rarely offer benefits to part-time employees.

Service and administrative facilities that the informants reported on experienced many changes. Like others, one informant reported extraordinary, innovative changes to their facilities, resulting in savings of approximately \$100,000 per year. This organization has made significant improvements to their facility’s infrastructure. They installed special switches to control the lights, changed all the light bulbs to high efficiency LEDs, and made significant HVAC adjustments. They also changed their staffing pattern to have most staff on duty four days a week for ten hours, with only one employee on duty on Fridays. Not only has this reduced cost, but according to this informant the schedule change has improved morale as well.

Another informant told the story of numerous changes to service facilities as well. This agency uses many vehicles, a huge expense and necessity, and they were able to install regeneration equipment to their fleet. This equipment allows vehicles to burn fuel twice. It recycles the exhaust from running the engines and then burns that exhaust as fuel. Not only does this technique save money, it also reduces pollutants by 98% (according to informant 8). Some facilities have expanded due to the drop in property costs. Certain organizations rely on the acquisition of land, and the recession driven drop in real estate prices have allowed these organizations to expand by buying properties at lesser cost.

2.3.2 part 2

The follow-up interviews revealed that these organizations’ budgets either increased or stabilized post-Great Recession. While this stabilization is a welcome circumstance, the effects of the third sector model do increase uncertainty for some. Organizations that previously had received most of their income from Medicaid and other government sources are now being funded significantly by managed care organizations (MCOs), local management entities, or other third party businesses. Informants commented that these third party entities contribute to a sense of uncertainty because they often change ownership, have the power to set reimbursement rates without government standards, and generally seek to distribute funds efficiently but with little insight from service providers. One informant in particular reported significant losses when their MCO “took a nosedive”. Another informant described being at a disadvantage because their MCO was under transition, and is developing a strategic plan in order to counteract that challenge.

Because of these funding limitations and uncertainties, all informants revealed that they have identified new sources of funding. Many are employing creative techniques for new funding, including expanding their staff specifically for this purpose. One informant brought in a Vice President of Financial Development, and an Annual Campaign Manager to increase their capital development to fund new projects. Another was able to promote a part-time grant writer who was contracted into a full-time employee, noting that her work had allowed the organization to increase both their funding and the scope of their operations. In additional, another informant hired a Development Associate, who he says has brought in “significantly more revenue”, and helped their annual fundraisers bring in “significantly more money than we had planned”. Another way some informants reported acquiring additional

funding is through pursuing grants offered through private foundations, as apposed to relying so heavily on grants from governmental sources.

The informants were asked if any changes that were discussed in the first phase of data collection had since been reversed, and all indicated that they had not. Several informants said that the changes they had discussed before had since been expanded upon. Two informants described an expansion of programs that involved hiring additional staff to avoid overtime associated with longtime staff, as well as supporting new projects. Conversely, another informant reported the need to cut staff. In that organization they had exhausted the non-people resources that they could possibly cut, and were left with no choice but to cut employees.

When asked what strategies were most effective in terms of maintaining service quality while responding to budget cuts, there were several patterns that emerged. The first is to be upfront and transparent with employees and other stakeholders. As an informant remarked: "I think just in relation to strategies that may have been beneficial- the biggest thing that I think was helpful was just to stay informed, to be realistic and to be transparent with our employees about what was happening in the state service system, what the changes are and while it might not impact them and how they do their jobs, it does kind of trickle down. And being transparent, say, "we would love to offer you more money per hour to compensate for the job you do, but here's why we can't..." We did a lot of training, breaking down some real complicated situations for people in visual forms and doing all staff trainings was something that we did well, that served us well".

While some organizations depend on employees, others depend just as much on volunteers, and the same sense of transparency applies to them. One informant's organization relies heavily on the commitment and work of skilled volunteers and other stakeholders beyond employees, and has found that providing them with information and recognition is key to maintaining an ideal level of consistency and quality to their projects. "We have our donors, our volunteers and we also have our partner families. So without any one of those three groups, we could not be successful. The volunteers play such a significant role in what we do and we do try to recognize them in that regard. For example, next Tuesday, we are having our volunteer appreciation party for our...volunteers for a couple hundred of those people. We're going to have a party and provide recognition to them. They will get service rewards and so fourth. We are just very blessed that the community supports us, and we have a very loyal base of volunteers and donors".

3. Discussion

While the "third party sector" model is still considered theory, this study revealed evidence that in western North Carolina, some characteristics of the third party model are indeed both in existence and also guiding how and why organizations respond to such economic changes¹⁹. First, the informants all experienced a significant decrease in their governmental funding. Additionally, multiple forms of self-reliance have been taken on, including diversifying funding to include more private grants and donations, developing new projects that generate revenue, and a push to increase efficiency in both operations and service delivery. With these two environmental conditions, there is fear and uncertainty, but also a spirit of innovation that can help an organization react to these environmental shifts.

The innovations that the informants revealed are consistent with existing best practices for nonprofit organizations, including ensuring projects and expansions fall within the mission of the agency, and making sure adequate funds are secured to achieve sustainability²⁰. A next step for these organizations could be the formulation of new evaluation practices of their strategic decisions that fully acknowledges the Third Party Model²². "Performance measurement and evaluation is also used for a variety of purposes, such as demonstrating accountability to donors and beneficiaries, analyzing areas where performance targets are and are not met, and promoting the work of third sector organizations to potential funders and a wider public audience"²³. Future research could be useful in determining what measures of performance and/or evaluation have given organizations the most accurate picture of their adjustments in strategy, post Great Recession.

3.1 Limitations

During the interviewing process, some limitations of the study design were apparent. Some changes can easily be measured as an increase or decrease, such as purely quantitative categories like number of clients served. Other categories, most notably employee benefits, did not lend themselves to this particular method. Employee benefits are complicated to begin with, and it was evident at times that the interviewee did not necessarily understand the health

are benefits that they provide. Other benefits such as life insurance, disability, or dental/vision plans were equally difficult to define as having increased or decreased.

This study was limited due to its sample as well. Though the study was focused on nonprofits in the western North Carolina area, it was still a convenience sample. Having only nine informants is a distinct limitation; ideally the number would be far greater. Though care was taken to have a diverse sample, it is still not representative of the entire nonprofit sector. Still, this small sample was meticulously selected to obtain diversity across the nonprofit sector as subjective, retrospective, and qualitative data was collected in the interviews²¹.

4. Conclusion

Looking to the future, nonprofit organizations in western North Carolina expect to receive less funding from the state and federal government. Many informants expressed fear in what kinds of budget cuts will be next. Informant 3 stated, "because of the uncertainty, next year is very frightening". There seems to be consensus that more budget cuts are coming and it is just a question of how severe they will be. Despite this ominous forecast, there is still hope. Informant 3 said, "the 'unknowns' make it scary, but the local attitude helps with stability". This common theme has helped western North Carolina nonprofits to survive and even thrive, however, it is still extremely important to monitor how these organizations are changing, and what adaptations are most effective. Many organizations seem to making changes that counter the budgets cuts they face rather than react to them. With these successful strategies, hopefully all nonprofits can continue to stay afloat and support the important causes that they do so much to help.

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