

8-2011

The Financial State of the Sector A Report on Michigan Nonprofits

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The Johnson Center, "The Financial State of the Sector A Report on Michigan Nonprofits" (2011).
Research, Reports, and Publications. 28.
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The Financial State of the Sector

A Report on Michigan Nonprofits

August 2011

I. Introduction

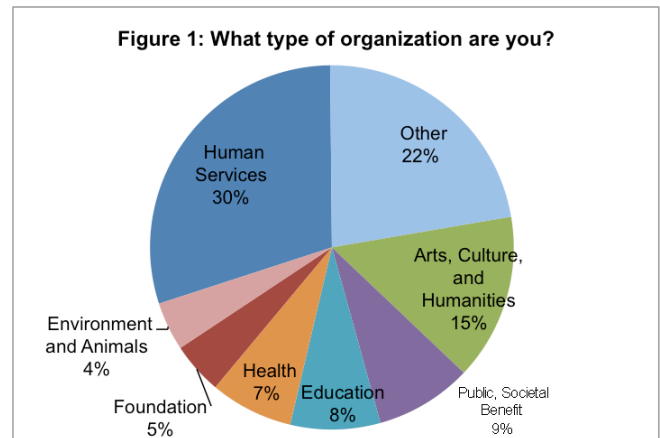
This study was commissioned by the Michigan Nonprofit Association (MNA) and conducted by the Community Research Institute (CRI) at the Johnson Center for Philanthropy in collaboration with the Nonprofit Finance Fund (NFF). For the past two years, NFF has conducted a national *State of the Nonprofit Sector Survey*, which examines the financial health of nonprofit organizations and other related issues. For this study, the CRI adopted the *State of the Nonprofit Sector Survey* instrument. This collaboration allows for the comparison of Michigan nonprofit sector data to those at the national level.

II. Getting to Know the Respondents

Respondents¹ were asked several background questions about the organization for which they work. Results indicate a wide variety of nonprofits participated in this survey.

- When asked what type of organization they represent, the largest proportion of respondents (30%) indicate Human Services. The “Other” category is also quite large (22%) and contains a very diverse range of nonprofit types.²

- Results also indicate most survey respondents represent small- to medium- sized nonprofits in terms of budget. The majority (about 55%) represents organizations with operating budgets under \$500,000; 22% represent those with operating budgets from \$500,000 to \$2 million; and the remaining 23% represent those with budgets over \$2 million.



- In addition to organization type, respondents were asked whether they consider their organization to be a Critical Service Organization.³ Fewer than half (44%) of respondents think of their organization as such. This provides insight into which organizations are working to meet immediate, pressing needs of clients and, in turn, which may have experienced unique pressures during the recent recession.

¹ The survey was conducted in February and March 2011. A link to the survey was sent to 1,879 people; 326 responses were received for a response rate of approximately 17%. (This includes a small number of respondents who had responded to the NFF national survey prior to CRI sending the survey to Michigan nonprofits.)

² Examples include responses such as “youth development,” “free tax services,” and “recreation programming.” Additionally, 15 respondents in this category identified themselves as some type of foundation. Thus, a separate category was created specifically for foundations. No other responses were frequent or similar enough to warrant their own category.

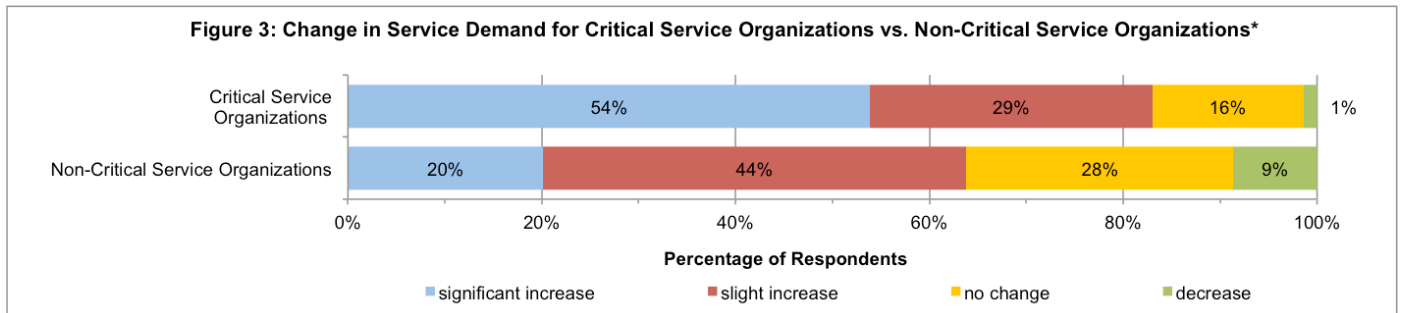
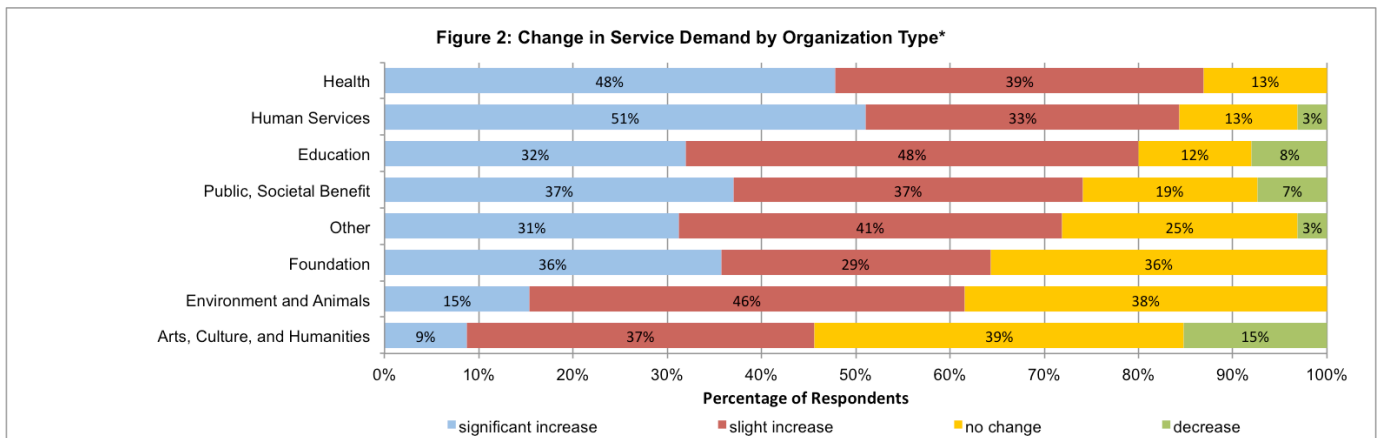
³ The survey instrument asked respondents whether they consider their organization a “lifeline organization,” that is, one that provides “critical services to people in need.” The question was intended to identify which organizations provide basic needs assistance or emergency services in times of crisis. However, respondents were not provided a definition of “critical services to people in need.”

III. Financial Stress

Participating nonprofits were financially stretched in 2010 due to increasing demand for services.

- Most respondents (73%) report an increase in service demand, nearly half of which reported “a significant increase.”⁴ In addition, roughly half of respondents were unable to fully meet their demand for service.
- Some types of organizations experienced a larger increase in demand than others. As shown in Figure 2, Health and Human Service organizations were most likely to experience an increase in demand.

- Figure 3 indicates that Critical Service Organizations were more likely to experience an increase in demand for services in 2010. Notably, 54% of such organizations experienced a significant increase in demand, as opposed to only 20% of non-Critical Service Organizations.
- Critical Service Organizations were less likely to fully meet their demand for service in 2010. Only 43% of Critical Service Organizations succeeded in fully meeting demand. In contrast, 66% of non-Critical Service Organizations fully met demand.



⁴ The question asked respondents whether their organization experienced a significant increase, a slight increase, a decrease, or no change in demand for services. These terms were not defined.

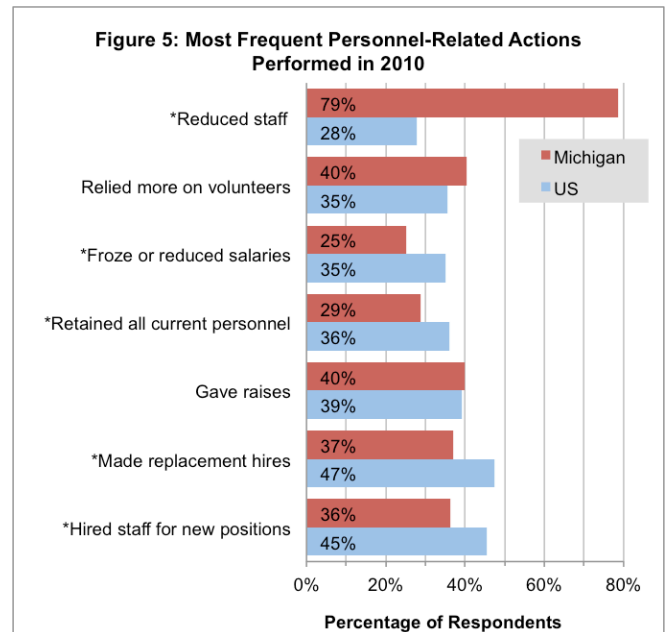
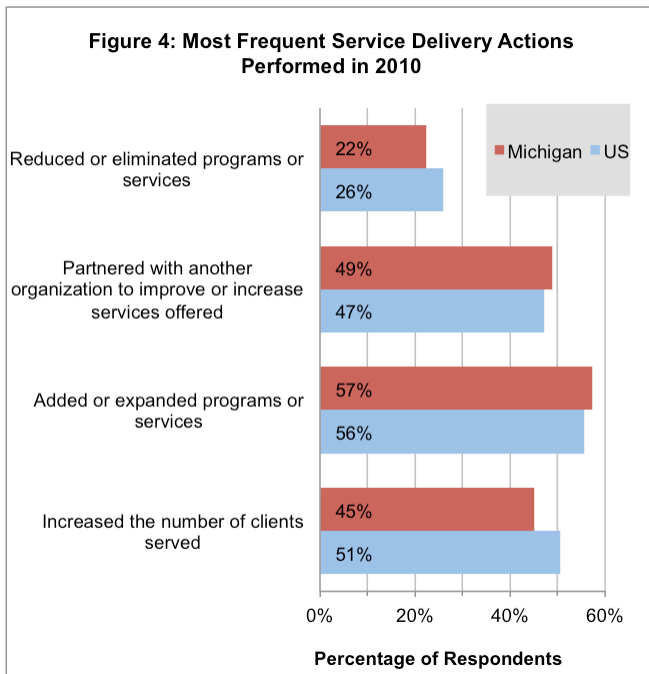
* Statistically significant difference between categories (Chi Square test, $p < .05$).

IV. Taking Action

Most actions taken by Michigan nonprofits in response to the recession are comparable to those taken by nonprofits across the country. The most frequent actions taken by nonprofits are displayed in Figures 4, 5, and 6.

- Figure 4 shows the four most frequent actions taken related to service delivery. Despite the recession, 57% of Michigan nonprofits added or expanded programs or services in 2010.
- About half (49%) of Michigan respondents partnered with other organizations to increase services, allowing them assistance in meeting the increased demand for services.

- Figure 5 reveals the only large discrepancy between Michigan nonprofits and nonprofits across the nation: nearly 80% of Michigan nonprofits reduced staff, while only 28% of nonprofits nationwide reduced staff.
- Figure 5 shows the percentage of respondents who took various actions related to financial management. Respondents developed contingency budgets (36%), added to reserve funds (30%), and collaborated with other organizations to reduce expenses (27%).
- Despite the difficult economic environment, most nonprofits in both Michigan (60%) and the US (65%) were able to pay their vendors on time.

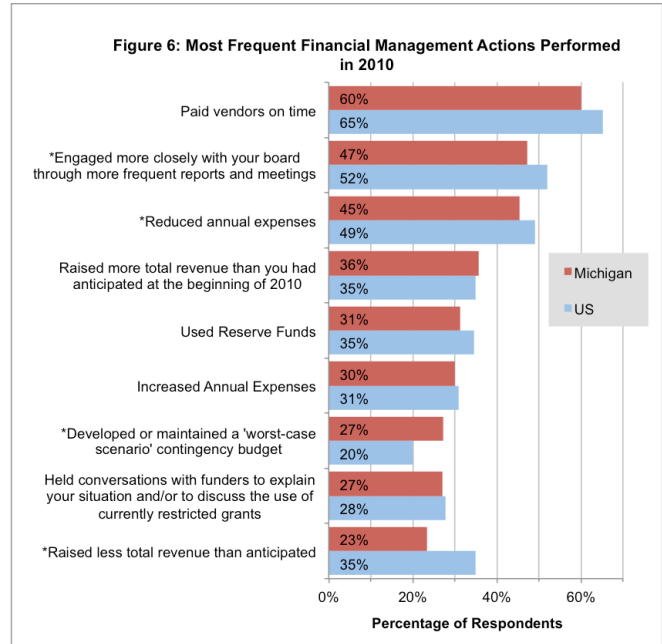
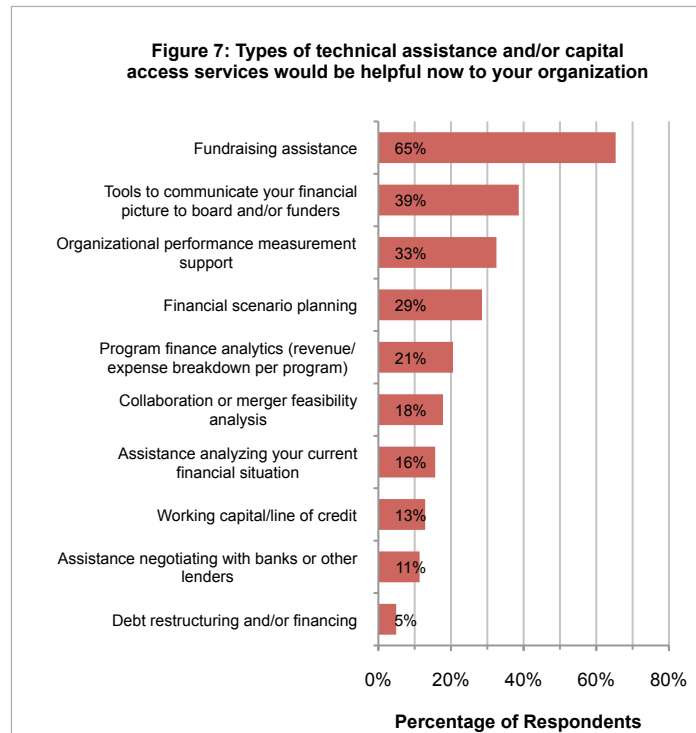


* Statistically significant difference between categories (Chi Square test, p < .05).

V. Grantmaker-Grantee Relations

Respondents were also asked about the types of technical assistance and/or capital access services they would find helpful. Figure 7 shows the percentage of respondents who answered positively to each service. This information could be helpful to grantmakers desiring to tailor services to the needs of nonprofits.

- The largest proportion of respondents (65%) express a desire for fundraising assistance. The second most frequent answer, assistance in communication with board and/or funders, trails behind fundraising assistance with 39% of respondents choosing this option.



VI. Conclusions

Michigan nonprofits are clearly under financial stress. Nearly three quarters of respondents reported an increase in service demand (73%), and the rates are even higher among Critical Service Organizations (83%). However, organizations are employing innovative tactics to overcome difficult challenges, such as collaborating with other organizations to reduce expenses and increasing reliance on volunteers.

Nonprofits could benefit from increased technical assistance regarding fundraising and financial planning and management. Figure 7 clearly reveals nonprofits desire to grow their expertise in these areas.

Finally, nonprofits in Michigan are similar to those across the country in the way they have been impacted by the recession. Aside from the notable difference in the reduction of staff, results from Michigan respondents generally accord with national figures.

* Statistically significant difference between categories (Chi Square test, p < .05).