Recession Risk: Look Back and Forward to Fortify Your Mission

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How are you sleeping these days?

Many nonprofit leaders might struggle to fall asleep due to worries about the economy. Experts believe 2023 will bring a U.S. recession, despite the economy making a stronger showing than expected at the end of the year. Fannie Mae, which finances mortgages, predicts the U.S. economy will “slip into a modest recession” in the first half of this year. Not all experts agree—but even if a recession doesn’t hit, inflation could continue to crimp economic activity.

Here’s some news that might help you rest more peacefully at night: Recent recessions haven’t done as much long-term financial damage to nonprofits as you might think. Nonprofits cut spending and took other cost-saving measures in response to recent recessions. But many nonprofits recovered, often sooner than expected—even in the Great Recession. In this article, we’ll explore what nonprofits can learn from those downturns to help prepare for the upside and downside risks they face this year. (And don’t miss our stories from risk professionals about what they learned from previous recessions.)

How the Great Recession Impacted Nonprofit Health and Hiring

The economy has changed a lot in the past 15 years, so let’s take a moment to brush up on our understanding of the Great Recession.

This phrase describes the sharp decline in economic activity that started in 2007 and lasted several years. Economic experts consider the Great Recession the most significant U.S. economic downturn since the Great Depression in the 1930s.

Why did it happen? The government failed to regulate the financial industry, and that failure enabled banks to extend mortgages to people who couldn’t repay them, according to a 2011 report by the U.S. Financial Crisis Inquiry Commission. Too many financial firms took risks that were beyond their capacity to manage. When some of those financial firms neared failure, credit to consumers and businesses dried up, sending the U.S. economy into a deep freeze.

The Great Recession dealt the nation a huge, complex, devastating economic blow. Yet many nonprofit organizations came through the Great Recession of 2009 without major long-term losses, according to Nonprofit Quarterly. Larger nonprofits tended to make gains during and after the recession, likely driven by growth in the health and educational sectors, while smaller nonprofits lost ground. Public charities closed at a slightly higher rate during the Great Recession than before or after, but new nonprofits kept forming as other nonprofits closed, Nonprofit Quarterly reported.

In the past 40 years, most recessions have not had a major impact on philanthropic giving, according to research from Blackbaud. Total charitable giving steadily increased over the last four decades, even when adjusted for inflation. During that time, only the Great Recession had lingering effects on charitable donations. It took more than three years after the Great Recession for charitable giving to return to previous levels.

Multiple sources report that most nonprofit organizations kept their employees during the Great Recession. Nonprofit employment, unlike total private employment, actually grew during and after the Great Recession, according to research from the Federal Reserve Bank of Minneapolis.

Research from Baruch College shows that the demand for nonprofit services rose every year during the Great Recession (2009-2011), while nonprofits' ability to meet that demand declined every year. The largest number of nonprofits surveyed reported hiring freezes in 2009; fewer reported taking that action in 2010, and fewer still in 2011. Every year of that period, more nonprofits reported salary freezes, with over half of nonprofits surveyed imposing a salary freeze in 2011.

Nonprofits increasingly reduced service delivery and programming in 2011, according to Baruch College. And in each year from 2009 to 2011, more organizations reported decreasing employee benefits.

Many nonprofits tapped into their reserves during those years, which may have played a role in their ability to keep hiring, the Minneapolis Fed reports. Some nonprofits may have also accessed funding made available from foundations or governments to meet the surge in basic needs due to economic hardship.

The 2009 federal stimulus bill, the American Reinvestment and Recovery Act, might also have temporarily driven employment growth as nonprofits received stimulus money. But the Minneapolis Fed notes that nonprofit employment data didn't change drastically during the period of stimulus funding, which means the stimulus likely did not produce long-lasting effects on employment.

Surveys show that Americans hope nonprofits will expand their activities as the need for public assistance grows during economic downturns, Christine Exley, Nils Lehr, and Steven Terry report in the working paper "Nonprofits In Good Times and Bad Times." But nonprofits tend to act in lockstep with the economy, the authors found. Nonprofit revenue, assets, and liabilities all fall during economic downturns and rise in times of economic prosperity. External financing opportunities like foundation money and government grants often decline during downturns. Nonprofits do not spend more money during downturns, despite the public's wishes, according to the authors.

Still, many nonprofits rebound from recessions before too long. Nonprofits across the country have added enough jobs to exceed their pre-COVID employment totals, new estimates from the George Mason University Nonprofit Employment data project show.

Nonprofits lost at least 13 percent of their workforces in 2020, shedding at least 1.6 million jobs. But nonprofits now employ over 100,000 more people than they did in 2017, the most recent year for which comprehensive data exists, according to George Mason. The COVID-induced recession of 2020, the shortest in recorded U.S. history, lasted only two months.

How to Survive the Next Great Recession (Whenever That Is)

Now you know that the majority of nonprofits feel real pain from economic downturns, but are able to recover. Consider how that could motivate and inspire your organization to act.

You don't know exactly when the next economic decline will hit, how severe it will be, or how long it will last. But you know the nation will face economic decline again, probably soon. How can you prepare for that reality without panic? How can your organization envision where you want to be after the next economic downturn and take steps to get there?

Nonprofits become unusually vulnerable to surprising, unexpected events in a recession. They could take an extra hit if an unanticipated loss arises during a downturn, such as an accident like a fire, flood, or staff injury. Nonprofits could also face new uncertainties as mission-critical opportunities arise during a downturn—for example, a unique opportunity to merge with another similarly focused nonprofit.

In the past, experts often advised nonprofits facing economic stress to cut expenses to the bone. That may or may not be the right strategy for your organization at this moment of great community need and social change—especially when history tells us many nonprofits will be in a healthy place reasonably soon after a recession ends. That said, you'll need to get and keep your organization financially healthy in order to best serve your community.

If your organization has a larger financial reserve, you will be in the best position to avoid making drastic service cuts if income streams stall. If you haven't been working to build that reserve, make that goal a top priority in 2023. Don't wait until you're faced with difficult choices; start prioritizing strategies on the revenue and expense sides of your Statement of Activities today.

Here's how to get ready for whatever the economy does next.

Craft a risk action plan to prepare your organization for uncertainties that could materialize during a downturn.

Outline what you would do if your organization's income decreased by a third. What programs or services would you pause or scale back? How would you approach staffing?

What types of mission-critical opportunities might arise during tough times? How could you fund those efforts?

Consider which revenue streams offer the most promise for expansion. Could you ask your most loyal donors to contribute 10% more this year? Could you develop new revenue streams with existing resources, such as staff and board expertise?

What expenses could you trim with the least negative impact on operations and service delivery? Could you delay any items in the approved budget without short-term repercussions? Could you delay new programs until 2024 if revenues don't match projections? Could you share costs or consolidate back-office operations with peer nonprofits?

Whatever risk action plan you undertake, know that it can't sit in a drawer (or an unopened computer file.) Economic conditions will likely change rapidly this year and beyond. Revisit your contingency plans frequently and make adjustments as needed.

Keep Mission and Community in Mind

Nonprofit Quarterly notes that the people the nonprofit sector serves fared much worse in the Great Recession than nonprofits themselves did. People with low and moderate incomes emerged worse off financially from the recession than they were before. Charitable organizations coming out of the Great Recession may have focused too much on their long-term financial health and too little on the long-term financial health of the people they serve, *Nonprofit Quarterly* says.

That's a sobering thought. And it's an area where nonprofits can and must do better the next time we face a significant downturn. Current economic conditions warrant financial prudence—but the unmet needs of our constituents warrant extra care, too. As you work to ensure your nonprofit has the resources it needs, pursue creative ways to meet the needs of your community. Look toward the future. How could you partner with others in your ecosystem to provide more assistance, and to advocate for change that will benefit your whole community?

A well-crafted risk action plan will help prepare your organization to respond to mission opportunities as well as challenges, and help you invest with care in your community even as you carefully weigh real-time resource decisions. Your risk action plan should recognize that all these issues are intertwined. You can't provide the best service to community members if you don't recruit and retain a talented staff and pay them a living wage.

No organization will survive for very long without making careful investments in its future and the needs of the community around it. With thoughtful planning, you can navigate risk—economic and otherwise—as you do so.

We never said meeting this year’s economic and risk challenges would be easy. Get plenty of sleep. You’ll need it.

Rachel Sams is a Consultant and Staff Writer at the Nonprofit Risk Management Center. In her previous career as a business journalist, she saw the many ways recessions affect nonprofits and those they serve. Reach her with your thoughts and questions about how nonprofits can emerge strong from recessions at rachel@nonprofitrisk.org or 505.456.4045.

Resources

“Take Action on Risk: Make a Plan, Not a List,” RISK eNews