

*The following is an exploration of how foundations have been affected by the economic crisis and how they view its potential long-term effect on the philanthropic and nonprofit sectors. It is part of an ongoing Foundation Center research series on the impact of the economic crisis.*

# Foundations' Year-end Outlook for Giving and the Sector

*By Steven Lawrence, Senior Director of Research*

The economic “crisis” may be abating, but prospects for a recovery remain mixed. Reports of a resurgent U.S. stock market are tempered by stories on continued, albeit more modest, declines in overall domestic consumer demand and the nation’s highest unemployment figures in more than a quarter century. The near-term outlook for foundation giving and the nonprofit community appears even less optimistic, with the fallout from the recession likely to lower support and revenue through 2010.

To gauge how foundation thinking has evolved since the Foundation Center’s January 2009 giving forecast survey, the Center resurveyed leading funders in September 2009 (see “About the Survey” on page 3 for details). Based on their responses, foundation giving will likely be down by more than 10 percent from 2008. Many funders expect that they will come out of the downturn being far more strategic than they were before the crisis, and a majority expect that the nonprofit sector will emerge stronger but that there will be fewer organizations.

## What Will Foundation Giving Look Like Through 2010?

### Outlook for 2009

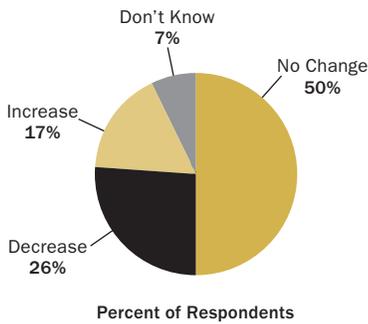
No one expected U.S. foundation giving to rise in 2009, after an estimated 22 percent drop in foundation assets in 2008. Earlier this year, the Foundation Center estimated that 2009 giving by the nation’s more than 75,000 grantmaking foundations would “decrease in the range of the high single digits to low double digits,” or roughly 8 to 13 percent.<sup>1</sup>

It now appears likely that the decline will be on the steeper end of that range. Among respondents to the September 2009 survey who established a grants budget at the start of the year, the vast majority (70 percent) expect to distribute roughly what they budgeted earlier this year. However, one in five funders (20 percent) expect to give less than the budgeted amount; only about 11 percent anticipate giving more.

### Key Findings

- ◆ New survey of leading grantmakers suggests a steeper than anticipated reduction in 2009 foundation giving.
- ◆ Indicators point to a continued reduction in foundation giving in 2010.
- ◆ More than two-thirds of respondents have reduced their operating expenses to shore up giving and for other purposes.
- ◆ Grantmakers expect that the field of philanthropy will become more strategic as a result of the economic crisis.
- ◆ Most funders expect the nonprofit community to emerge stronger from the economic crisis, although some express doubts.

## Anticipated Changes in 2010 Foundation Giving Compared to 2009



SOURCE: The Foundation Center, 2009. A total of 583 foundations responded to this question.

### Outlook for 2010

The Foundation Center's prediction that overall foundation giving will likely decline further in 2010 is also holding true. Consistent with findings from the January 2009 survey, a larger share of respondents expect that their giving will be lower next year (26 percent) than higher (17 percent). Larger foundations—those giving over \$10 million—are more likely than smaller foundations to reduce their giving further next year.

This finding may in part reflect the practice of some, often larger foundations to determine their grants budgets each year based on an average of their asset values over the prior three to five years. While asset averaging generally limits the impact of modest economic fluctuations on annual giving, the extreme 2008 asset losses will not be balanced out by 2007 asset growth and the 2009 turnaround in the market. Consequently, foundations that engage in this practice will most likely need to reduce their

giving further until consistent annual market gains begin to balance out the dramatic 2008 asset losses.

### How Has the Economic Crisis Affected Foundation Operations?

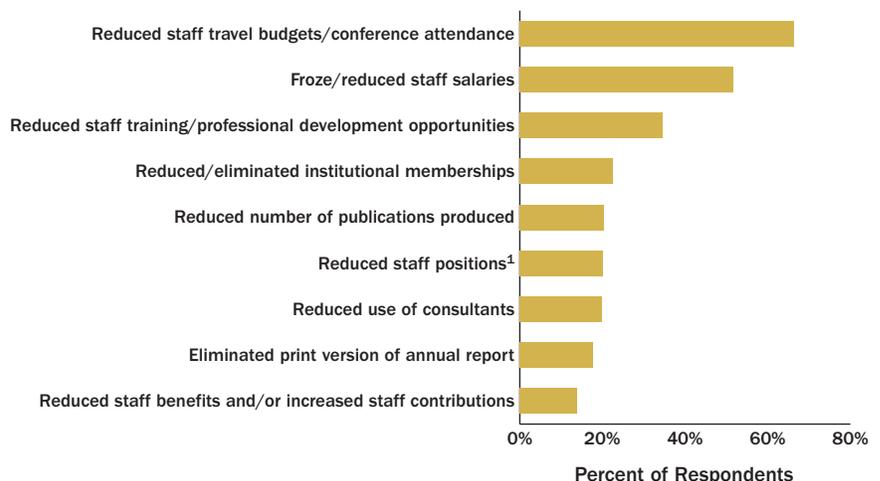
Nonprofits and their constituents have understandably been the focus of most coverage on the impact of the economic crisis. But foundations have also been forced to adjust their operating costs in response to economic pressures. More than two-thirds of respondents to the September 2009 survey indicated that they have in some way reduced operating expenses since the beginning of the economic crisis.

Why would foundations choose to cut administrative costs when they still have endowments? For a number of these foundations, their goal is to shore up the funds that they have available to support

nonprofits. "In Their Own Words" at [foundationcenter.org/focus/economy](http://foundationcenter.org/focus/economy) documents the public statements of a number of these grantmakers.<sup>2</sup> Some foundations are trying to preserve the value of their endowments, so that they will not permanently diminish their grantmaking capacity. Others have concluded that they will be smaller institutions going forward and are making necessary adjustments in their staffing and other expenses.

Among the ways that foundations have reduced operating expenses since the onset of the economic crisis, the most common have been to reduce staff travel and freeze or reduce staff salaries. Two-thirds of the respondents that cut expenses reported reducing staff travel budgets and/or limiting staff attendance at conferences. Just over one-third indicated that they had also reduced staff training and professional development opportunities.

### Selected Ways Foundations Have Reduced Operating Expenses



SOURCE: The Foundation Center, 2009. A total of 407 foundation respondents indicated that they had reduced operating expenses.

<sup>4</sup>Includes foundations that eliminated staff positions, laid off staff, and/or offered voluntary staff buyouts/early retirements.

Just over half of respondents that cut expenses reported that their foundations have frozen or reduced salaries. Roughly one in nine foundations that cut expenses indicated that they have reduced benefits and/or increased staff contributions. In the more extreme cases, 20 percent of foundation respondents reported having reduced the number of staff they employed by eliminating open staff positions, laying off staff, and/or offering staff buyouts or early retirement packages.<sup>3</sup> Community foundations were nearly twice as likely to have reported staffing reductions compared to independent and corporate foundations (29 percent versus 15 percent). The area most affected by foundation staff reductions has been administrative and support, followed by communications and programs.

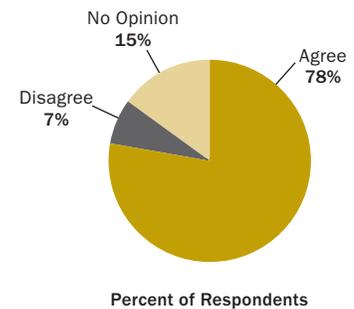
All totaled the 82 respondents that reported reducing their staff size eliminated 203 full-time-equivalent

staff, with the largest number of staff positions eliminated at a single foundation being 50. While substantial, these figures do not include the many and sometimes very large foundations who did not respond to the survey that are known to have reduced their staffing, foundations that have closed their doors in the past year, and foundations that may yet eliminate staff positions in the coming months.

### What Will Be the Long-term Impact of the Economic Crisis on Foundations?

There is a clear expectation among grantmakers that the field of philanthropy will become more strategic as a result of having weathered the economic crisis. More than three-quarters of respondents agreed with this conclusion. When asked about the long-term impact of the crisis on their own foundations, many respondents described engaging in

### The field of philanthropy will become more strategic as a result of the economic crisis



SOURCE: The Foundation Center, 2009. A total of 567 foundations responded to this question.

“more robust strategic planning,” “more focused use of the foundation’s capabilities,” and being “more focused and disciplined in executing our strategy.”

The focus of other types of long-term changes cited by survey respondents ranged from governance to grantee relations to investments. “The board has allowed more flexibility in their grantmaking to ensure many struggling organizations are equipped to weather the storm,” one respondent said. “I believe this attitude will remain a characteristic of the foundation.” Another noted that their foundation will be “more responsive to grantee needs.” One community foundation indicated that it expects to “emerge as a stronger force in the community, with an enhanced reputation for stability, influence, and service.” On the investment side, several respondents expect to be “more risk-averse in investment selections” and move toward “more conservative investments.”

### About the Survey

In September 2009, the Foundation Center launched a special online update of its annual Foundation Giving Forecast Survey and made it available to approximately 5,000 large and mid-size U.S. independent, corporate, and community foundations. The survey included questions on the outlook for foundation giving in 2009 and 2010, changes in their strategies and operations as a result of the economic downturn, and the impact of the crisis on the foundation and nonprofit communities. A total of 593 foundations provided useable responses as of early October 2009. By foundation type, 429 independent, 110 community foundations, and 54 corporate foundations responded.

The Foundation Center’s next Foundation Giving Forecast Survey will be conducted in January 2010, with results released in the March 2010 edition of *Foundation Growth and Giving Estimates*.

Yet quite a few respondents indicated that they expected the economic crisis to have little or no impact on their foundations, beyond some acknowledging a near-term reduction in their giving. As one funder explained, the impact will be “nothing beyond the years required to regain our 2007 asset value.” This finding most likely reflects a belief on the part of these foundations that they already have clearly defined missions and pursue strategies that are effective in fulfilling their missions.

### Grantmaking Strategies Remain Consistent

The September 2009 update of the Foundation Giving Forecast Survey repeated questions on changes in grantmaking strategies from the January 2009 survey to determine whether foundations' had revised their expectations for the number of grantees they planned to support in 2009, the number of grants they will make, and other factors. In fact, findings remained very consistent, including the expectation of approximately 80 percent of respondents that they will maintain their current number of program areas. For more details on the original survey findings, see *Foundations Address the Impact of the Economic Crisis* at [foundationcenter.org/focus/economy](http://foundationcenter.org/focus/economy).

### How Do Foundations Expect the Economic Crisis to Affect the Nonprofit Sector?

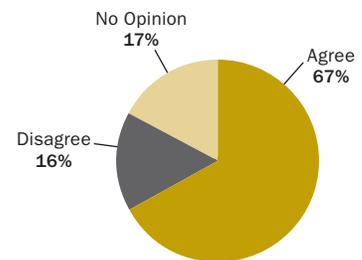
The majority of grantmakers responding to the survey believe that the nonprofit community in general was not sufficiently prepared to weather the economic crisis, although most think that the nonprofits that do survive will emerge stronger than before. One funder's comments were echoed by many: “The long-term impact of the economic crisis on the nonprofit sector will be that only the strongest, smartest, and most strategic will survive.” Another anticipates that there will be a “weeding out of marginal programs and services or those not closely aligned to an agency's core mission.” Other respondents suggested that there will be the potential for “new organizations to supplant weaker ones” and for “collaborations among creative groups to produce more effective programs.”

Respondents offered specific suggestions and cautions for organizations currently weathering the crisis. Among them, grantmakers recommend pursuing more creative fundraising strategies and exploring less traditional sources of support, such as revenue-generating activities. In seeking support, prospective grantees “will need to show more concrete sustainability plans in order to compete for limited dollars” and “be transparent about how they do business and the costs of doing business.”

Funders also emphasized collaboration as a “key to solving problems, meeting the needs of constituents, and delivering lasting impact,” while suggesting that “nonprofits revisit their mission statements and assess whether their activities truly reflect their missions.” One respondent pointed out that foundations “asking nonprofits to create special programs that take them away from their original mission or what they do well serves no one.”

While many funders believe that the economic crisis will ultimately yield a stronger nonprofit sector, some remain skeptical. “While the ‘shake-out’ concept is attractive,” noted one foundation, “in a weak sector like the not-for-profit sector, crisis creates more weaknesses rather than increased strength.” Another concluded that “more organizations will close, especially smaller, more specialized organizations” and the “capacity to meet needs will diminish.” Consolidation is also not necessarily a panacea according to one grantmaker, who concluded that it could “lead to less creative and ambitious organizations.”

### The nonprofits that survive the economic crisis will emerge stronger than before



Percent of Respondents

SOURCE: The Foundation Center, 2009. A total of 568 foundations responded to this question.

Finally, another funder remarked that nonprofits “will lose good people with years of experience and will not be able to replace them, which will impact the quality of their services for years to come.”

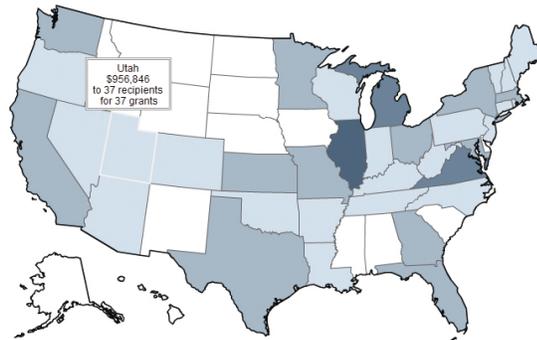
Other foundations expressed concern that nonprofits are not using the economic crisis as an opportunity to review and rethink their activities. As one grantmaker put it, “I’m not sure whether nonprofits are really learning strategic lessons or are just keeping their fingers in the dikes. Many groups still act like they are being forced to look at change against their will and will ‘revert’ to old ways as soon as the resource flow allows.” Another noted, “Many nonprofits have not used the crisis as an opportunity to plan, review their missions, or expand fund development. Some boards just bailed out and let organizations fold or move to volunteer operations. Their motto in this crisis has been ‘make me.’” These foundations also have no expectation that all of the weak organizations will be closed down as a result of the economic crisis. “I see many organizations hanging on by a shoestring as always and unwilling to explore options [for collaborations or mergers],” said one funder. “But they will probably survive, albeit with a very limited capacity.”

## Endnotes

1. See Lawrence, S., and R. Mukai, *Foundation Growth and Giving Estimates: Current Outlook*, New York: Foundation Center, 2009.
2. See also McGill, L.T., and S. Lawrence, *Grantmakers Describe the Impact of the Economic Crisis on Their Giving*, New York: Foundation Center, 2009.
3. Since the September 2009 survey was conducted, additional foundations have announced staff reductions, suggesting that grantmakers continue to be affected by the economic downturn.

## Mapping the Safety Net in Real Time

The Foundation Center is constantly monitoring and collecting the most recent data on U.S. foundation and corporate support in response to the economic crisis. This information is easily accessed at [foundationcenter.org](http://foundationcenter.org) on an **interactive map** displaying grants and program-related investments (PRIs), which is updated weekly and supplemented by a daily **RSS grant feed**. The map details more than \$427 million in support to date. To submit grants data for inclusion, please contact Matthew Ross, manager of special data projects, at [mr@foundationcenter.org](mailto:mr@foundationcenter.org).



### About the Foundation Center

Established in 1956 and today supported by close to 550 foundations, the Foundation Center is the nation’s leading authority on philanthropy, connecting nonprofits and the grantmakers supporting them to tools they can use and information they can trust. The Center maintains the most comprehensive database on U.S. grantmakers and their grants — a robust, accessible knowledge bank for the sector. It also operates research, education, and training programs designed to advance knowledge of philanthropy at every level. Thousands of people visit the Center’s web site each day and are served in its five regional library/learning centers and its network of more than 400 funding information centers located in public libraries, community foundations, and educational institutions in every U.S. state and beyond. For more information, please visit [foundationcenter.org](http://foundationcenter.org) or call (212) 620-4230.

### Source for all data:

[The Foundation Center](http://TheFoundationCenter.org)

For more information about this advisory, contact [communications@foundationcenter.org](mailto:communications@foundationcenter.org).

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- ◆ Enhance out-of-school learning opportunities
- ◆ Build appreciation and demand for the arts

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