

## Nonprofit Sector Trends to Watch

Nonprofit organizations operate to fulfill their missions, benefit the community and serve the public. They are essential for maintaining a thriving society and contribute greatly to health care, higher education, environmental stewardship, human services, religious services, arts and culture, and other vital services.

However, in the months and years ahead, the nonprofit sector could face several challenges posed by industry trends, including economic uncertainty, labor shortages and heightened cybersecurity risks. These factors may lead to a drop in fundraising and rising operational costs.

As such, it's important for nonprofit organizations to closely monitor these sector concerns and adjust their risk management practices as needed. This article provides more information on nonprofit sector trends to watch.

### Economic/Recession Concerns

Numerous nonprofit organizations—especially those in the health and human services sector—experienced an increased demand for their services during the COVID-19 pandemic and may have seen an accompanying surge in federal funding and private donations. However, federal support and other funding streams appear to be tapering off due to concerns about an impending recession and high inflation.

Many economists and business analysts agree that a recession is likely to happen within the next year. As a result, many organizations will be challenged with

changing consumer behaviors, increased costs, labor market changes and increased reputational risk. For nonprofit organizations specifically, economic downturns often result in a decline in private contributions from individual, corporate and foundation donors, decreased funding from the government and reduced endowments.

Data from the Chronicle of Philanthropy found that the recent significant reduction in donations may signal serious financial trouble for nonprofit organizations as the recession hits. According to the report, donor numbers fell 7% in the first half of 2022 compared to the first half of 2021, with the number of people making contributions of \$100 or less dropping more than 17%. In fact, nonprofits are experiencing compounding donor loss each quarter, and the most significant concern these organizations face is an uncertain economic year.

Since U.S. nonprofit organizations are valuable contributors to society and the economy in general, it's important they focus on innovative solutions and effective risk management to ensure short-term survival as the economic downturn leads to a loss of funding. Best practices include diversifying funding sources, aligning with partners across the nonprofit sector to maximize the pool of potential donors and developing a communication strategy to reach target audiences.

### Labor Shortages

The nonprofit sector has the third-largest workforce in the United States, employing over 12 million people. However, employment fell by 1.6 million during the

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pandemic and decreased even more during the Great Resignation—an unprecedented mass exit from the workforce spurred by the pandemic. As a result, a tight labor market and a shrinking pool of workers have increased talent competition, leaving many nonprofit organizations understaffed. Since these organizations may struggle to offer competitive salaries and benefits, they often lose employees and candidates to better-paying jobs elsewhere. Even volunteerism remains below pre-pandemic levels—dropping 7% between 2019 and 2021, according to a U.S. Census Bureau and AmeriCorps survey—as people continue to worry about their health, vaccine protocols and sanitation practices.

Inadequate staffing at some nonprofit organizations may lead to delays or a complete loss of needed services, causing the communities they serve to suffer. A survey from the National Council of Nonprofits found that 26% of nonprofit organizations have a waitlist more than a month long, and 21% don't even have a waitlist because they are currently unable to accept new clients. In addition to issues with providing services, inadequate staffing can lead to financial instability, damaged reputations, data breaches, insufficiently trained staff and board member liability issues.

To attract and retain staff, some nonprofits have started to offer better pay and benefits as well as improved workplace advancement opportunities and flexibility. Many nonprofits are also making an effort to increase the diversity of leadership and staff, which can have a positive impact on employee and client relationships and help attract and retain top talent. Nonprofit insurance coverage—including general liability insurance, commercial property insurance and business income insurance—can also help organizations ensure the continued protection of people and assets while they fulfill their missions.

## Heightened Cybersecurity Risks

Cybersecurity risks are becoming increasingly severe, targeted and frequent across all sectors. However, nonprofits are particularly at risk since many organizations don't have the funding to implement adequate cybersecurity protocols. In addition, nonprofits often collect and store highly valuable information about their clients, donors and employees, making them a prime target for cybercriminals. The shift to remote work during the COVID-19 pandemic also significantly increased exposure to data breaches and cyberattacks for several reasons, including expanded attack surfaces, less oversight by security staff and unsecured hardware and networks.

Unfortunately, the way many nonprofit organizations conduct business makes them vulnerable to cyberattacks. For example, while technology has made it easier to accept donations online, it has also made it easier for cybercriminals to steal from them, especially if the website is unsecured. Technology has also allowed for simpler communication processes, but clicking a bad link, downloading a file or opening a malicious PDF can result in a cybersecurity incident with potentially devastating consequences. And while volunteers may have good intentions for volunteering their time, there may be cybercriminals who slip through quick onboarding processes and leave organizations at risk of a cyberattack.

Since nonprofit organizations tend to operate on a limited budget, investing in robust cybersecurity measures or recovering from a data breach may be more difficult than it is for other organizations. However, many cyberattacks can be prevented by locking down the digital donation system, securing email communications, and obtaining a criminal background check on all staff and volunteers.

## Conclusion

Overall, there are several trends currently impacting the nonprofit sector. By staying on top of these

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developments and taking steps to mitigate their associated exposures, nonprofit organizations can effectively position themselves to maintain long-term growth and operational success.

For additional, industry-specific risk management guidance, contact us today.

