

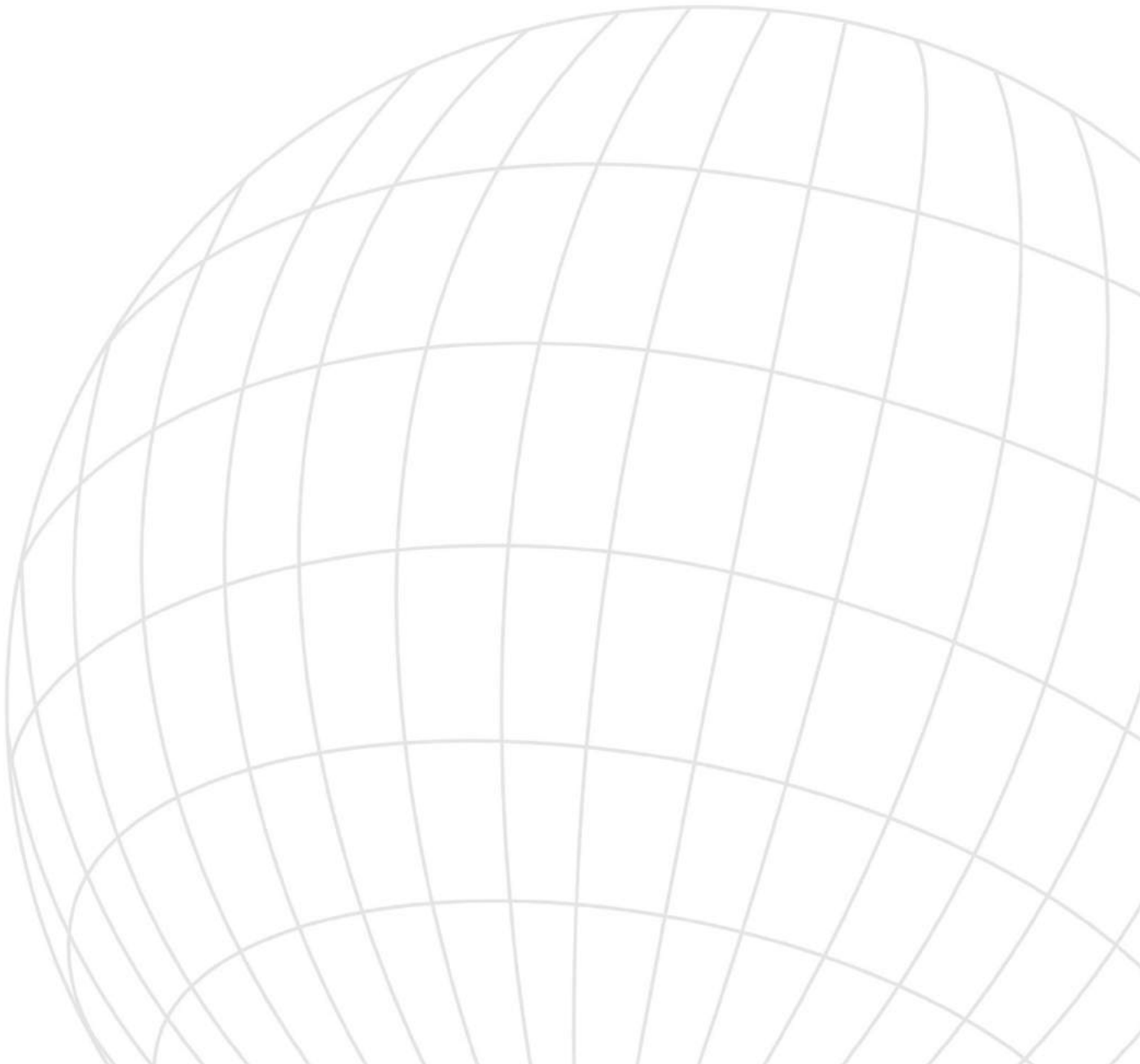


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2020 Nonprofit Forecast:

8 Predictions for the Decade Ahead

JAMES ABRUZZO, GLOBAL NONPROFIT PRACTICE LEADER



Executive Summary

It's the turn of a new decade, and several social, technological, economic and political forces promise to shape the future of the nonprofit sector. Some are already in play – or have been for some time – and are already challenging nonprofit organizations. They have the potential to fundamentally transform the sector. I've outlined eight predictions here; a convergence of these factors will alter the landscape, necessitating a major shift in the way nonprofit organizations operate.

Prediction No. 1

Current Tax Law to Change Philanthropy

The Tax Cuts and Jobs Act of 2017 largely [reduced the charitable giving incentive](#) for American taxpayers by raising the standard deduction amounts for [individuals and married couples](#). Though it's too early to gauge the law's full effect on the nonprofit sector, initial predictions that it would negatively affect fundraising have merit. [According to Giving USA](#), charitable giving by individual Americans decreased by 1.1% from 2017 to 2018, this after years of steady growth in overall contributions.

Unlike other nations, the U.S. government assumes only a marginal – and dwindling – responsibility for the social, cultural, and educational well-being of Americans. Rather, the tax laws had incentivized individuals, foundations and corporations to support the nonprofit sector by allowing for “rebates” on those contributions through tax deductions. Many fewer individuals are now itemizing their returns and, therefore, not contributing. And with changes in corporate and estate tax – particularly, the quadrupling of the estate tax deduction limit – fewer foundations will be formed. As economist and scholar of philanthropy Patrick Rooney predicts, [“bequests from estates could decline by about \\$7 billion a year.”](#)

Conversely, the new tax law has brought a very positive effect on the stock market, thereby increasing endowments, a major source of operating income for the larger nonprofit organizations. And colleges, particularly, are relying more on [endowment returns to fund operations](#). The historic bull market will unquestionably end in the coming decade, causing significant declines in endowment assets, and because of three- to 10-year averaging, will significantly reduce operating income for many years.

Prediction No. 2

Low Unemployment to Compound Nonprofit Talent Shortage

In recent months, the U.S. unemployment rate has hit at a 50-year low, creating a highly competitive job market and exacerbating the talent shortage in the nonprofit sector. According to the [Johns Hopkins Center for Civil Society Studies](#), the number of jobs U.S. nonprofits created increased by 16.7% from 2007 to 2016. In contrast, for-profit job growth over that same time period was only 4.6%.

Nonprofit organizations traditionally attract those who place greater personal satisfaction (psychic reward) over salary and benefits. This is a tougher sell in a thriving job market. As we continue to see strong job growth within the nonprofit sector, there will be a dearth of candidates for executive-level positions. Without the professionals to raise funds, manage

costs and address extraordinary disruptions (see predictions five, six and seven), the sector will be in crisis. And, as one immediate outcome of the gap between demand and supply for talent, expect to see a boost in executive compensation, which leads me to my next prediction.

Prediction No. 3

Nonprofit Executive Compensation Increases Will Outpace Inflation and Cost of Living

Traditional compensation benchmarks aren't holding up for today's nonprofit executives, which can be attributed to a confluence of factors – chief among them, the talent shortage. I was asked to comment on this trend for a recent [Broadway Journal](#) article on rising executive compensation in the theater industry. Put simply, it's a lot of work to run a theater company: Attracting and retaining capable leaders is a top priority for boards in a candidate-driven market. According to DHR International's proprietary surveys, the rate of increase in salary for nonprofit CEO positions has grown by an average of 6% per annum since 2015.

And many of today's nonprofit leaders are receiving unprecedented compensation, with increases far [surpassing the rate of inflation](#). In New York City, for example, dozens of directors of top cultural institutions are earning over \$1 million annually, and salaries for health care and academic executives are also in the seven-figure range. For fundraising positions, we will see higher-than-ever compensation levels as nonprofit organizations compete for contributions.

Prediction No. 4

Nonprofit Performing Arts Organizations – Except Performing Arts Centers – to Face Continued Financial Instability

Nonprofit performing arts organizations, such as symphonies, ballet and dance companies, and opera companies, have struggled to remain viable over the past several years, as bankruptcies, strikes and layoffs plague the industry. Touring Broadway productions continue to thrive, however, with national touring raking in even more money than the billions generated on Broadway in New York ([\\$1.63 billion](#) versus [\\$1.43 billion](#) during the 2018/2019 season, according to Statista). With this pipeline of product, the nonprofit performing arts centers in the U.S. – the touring network for Broadway shows – are winning the competition for entertainment dollars. What's more, the pipeline for touring Broadway has at least four more years of "hits."

We're also seeing high leadership turnover across the classical performing arts sector. As part of a recent executive search, I examined orchestras in the U.S. and found that many of them are without CEOs or have just hired a CEO. Furthermore, the pipeline for leadership is not there to meet the demands. Changing tastes, an oversupply of product and the delta between the availability and demand for leadership will lead to bankruptcies and dissolutions of many of the classical arts organizations.

Prediction No. 5

#MeToo movement and broader ethical issues to necessitate a collective and cogent sector response.

Performing and visual arts organizations – long dominated by male leaders, overseen by male boards and presenting (mostly) works by men – have been roiled by scandals related to the #MeToo movement.

The symptoms of this are evident. Within one year, the heads of Lincoln Center, the Metropolitan Opera, the Metropolitan Museum of Art and the New York City Ballet lost their positions because of a #MeToo-related issue – and this is scratching the surface. Beyond the arts, the Boy Scouts are losing national membership because of the organization’s inadequate and confusing response to social and ethical issues around homosexuality. Meanwhile, some of the largest nonprofits and universities are confounded by the question of dirty money as mega contributions from the Sackler family to Jeffrey Epstein are being returned (or not), while board members are undergoing background purity tests.

The composition of board leadership is also being challenged. [In one recent example](#), Warren B. Kanders resigned from his position as vice chair of the board for the Whitney Museum of American Art following artist protests over his ownership of companies that produce tear gas allegedly used at the U.S. southern border.

These ethical dilemmas and moral questions will continue to press on all areas of the sector, which will either be forced to come together around a unified, professional code of ethics or continue to undergo these disruptions.

Prediction No. 6

Innovation and other disruptive forces to transform operating models for disease and health foundations.

A search for “disease organizations” on the U.S. nonprofit information site GuideStar yields almost 20,000 results. Some of these organizations, like the American Cancer Society and National Multiple Sclerosis Society, are among the largest and most established brands in the world, while others, like the Huntington’s Disease Foundation, serve a smaller, specialized community.

Just as the rise and proliferation of the internet disrupted the newspaper and retail industries, the spread of Facebook and other social media is having a similarly insidious effect on disease organizations and the communities they serve. Those who are diagnosed with and affected by diseases can now connect through online support groups and consult sources for medical and treatment information, which is changing the relationship between disease organizations and the communities they serve. Over the next 10 years, these organizations must change their business models to stay relevant – and the infrastructure to serve the national affected population will change, likely resulting in the downsizing and elimination of the local chapter model.

On a related note, the way disease organizations have traditionally funded their operations (e.g., walk-a-thons and local galas) are proving less effective, as people seek more meaningful and emotionally connected ways to engage. This trend will accelerate, moving away from event-related donations toward major gifts fundraising.

In addition, cell and gene therapies are likely to cure or make many of today’s most serious diseases manageable, thereby reducing the exigency of the “finding-the-cure” fundraising approach.

Finally, established relationships between disease organizations and the global pharmaceutical industry may disappear as Big Pharma consolidates, which would effectively eliminate one major source of funding for these nonprofits.

Prediction No. 7

Global unsettling resulting from climate change to put further undue stress on nonprofits.

Scientists have long been predicting an increase in natural disasters as a result of climate change, and we're seeing it come to pass in the form of more frequent and intense hurricanes, wildfires, droughts and other extreme weather events. Concurrently, we're in the midst of a global refugee crisis, with Doctors Without Borders reporting [70.8 million forcibly displaced people](#) worldwide. This convergence undoubtedly has and will continue to put enormous strain on the management of humanitarian organizations, such as the Red Cross, Salvation Army and Doctors Without Borders. The response to these growing tragedies is more funding and more volunteers, but there is a larger issue of infrastructure – or lack thereof. These escalating global crises will profoundly affect the ability of the nonprofit relief organizations to provide adequate logistics, account for how they spend their contributions and manage what are now significant business operations. Many of these organizations will be forced to divert service delivery into building larger and more effective businesses – or they will ultimately lose the trust of donors.

Prediction No. 8

Growing conservatism to challenge nonprofit sustainability.

Most nonprofit organizations are “liberal.” They support human rights, freedom of ideas, personal expression and choice. There is no doubt that the '20s will see an intensification of a geopolitical trend toward conservative government control – notably, in countries like Hungary, in the fomenting of conservative parties in Italy and France, and in a toxic mix of religious, economic or social orthodoxy in the superpowers of India and China. There are many warning signs even in the U.S.

This broad conservative movement will put great pressure on the thousands of civil society organizations worldwide, as governments, courts and public sentiment turn against nonprofit organizations that support causes, including education, public health, prison and voting rights. From well-known organizations like Planned Parenthood to small international organizations providing education for young girls in Pakistan, the typical challenges of nonprofits (e.g., lack of funding and infrastructure) are being overwhelmed by this growing conservatism.

These and other environmental, political, social and economic forces will challenge the nonprofit sector. Those that prepare will become stronger and more relevant, while those that ignore the changes may not survive the decade.



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DHR International

Worldwide Headquarters

71 South Wacker Drive • Suite 2700

Chicago, IL 60606

P 312.782.1581 • F 312.782.2096