



A Shock to the Status Quo:

Characteristics of Nonprofits That Make Strategic Decisions During a Crisis

A White Paper Prepared for Independent Sector

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Executive Summary

In the wake of the pandemic-induced crisis that spanned the last three years, the nonprofit sector has undergone a profound change. The rapid restructuring of nonprofit organizations in response to the pandemic's upheaval is evident across our comprehensive three-year panel survey, encompassing nonprofits in human services and arts and culture from various regions within the United States. Our study conducted an initial COVID-19 survey in April 2020, amid widespread lockdowns, followed by a subsequent survey in December 2020 to gauge progress. We also administered a third survey in April 2023 to nonprofit organizations to examine the longer-term impact. By integrating all three survey responses with the pre-pandemic financial records of corresponding nonprofit entities, we effectively contextualize the findings against their fiscal and structural backdrop.

Notably, the relationship dynamics with government partners have been influential, impacting organizations' growth or retrenchment, particularly during pandemic-induced crises. These dynamics, seen through shifts in government funding volatility, catalyzed programmatic changes. Our findings extend earlier research on organizational adaptation and interdependency theory, demonstrating that government funding significantly shapes nonprofits' strategic choices across various facets. Despite limitations, our study imparts crucial insights: the significance of government partnerships, adaptable leadership, and proactive planning for changes. The paradoxical role of proactive planning in uncertainty is also highlighted. We conclude this study by providing a roadmap for nonprofit success during uncertainty, accentuating the potency of embracing challenges for growth and impact.

Introduction

Social and economic crises due to the pandemic over the past three years have had a substantial impact on the nonprofit sector. Several scholars have described the immediate effects of the pandemic on nonprofit organizations (Deitrick et al., 2020; Fuller et al., 2023; Kim & Mason, 2020a; Kuenzi et al., 2021; Maher et al., 2020; Santos & Laureano, 2022; Stötzer et al., 2022; Worley, 2020). However, the longer-term impacts of the COVID-19 pandemic are only now starting to emerge, and any potential changes to organizational strategy or structure remain to be explored. The way many nonprofits operate has undergone profound changes due to these crises. While crises pose risks to some organizations, they also create opportunities for fostering innovation and strategic growth. In other words, crises often serve to distinguish between those who benefit from change and those who succumb to it.

This paper aims to explore whether the crises caused by the pandemic encouraged some organizations to make structural or strategic changes. If so, what specific changes were observed? Understanding the resilience and adaptation (or lack thereof) of nonprofit organizations during crises is crucial for several reasons. First, nonprofit organizations have long been partners with government agencies in delivering vital social services (Smith & Lipsky, 1993). Second, the nonprofit sector employs over 10% of the American workforce and contributes to more than 5% of the national GDP (National Center for Charitable Statistics, 2020). Consequently, the impact of any national crisis, such as a pandemic or recession, can significantly influence how the American social safety net is implemented for those most in need. Lastly, comprehending the factors that render certain organizations more resilient than others can help nonprofits better prepare for future crises.

This white paper assesses the overall resilience of the nonprofit sector and its relationship with the government. It contributes to the current knowledge of nonprofit crisis management by describing how nonprofit organizations responded and adapted to external shocks during the pandemic. Moreover, this paper identifies the factors that prompted some organizations to undergo fundamental shifts in their operations, stakeholder relationships, processes, and structures, as opposed to others who made temporary responses. For instance, which organizations strategically adjusted to challenges, and which ones merely reacted to protect funding and continuity of operations? Insights into these questions can equip organizations to be better prepared for unforeseen events.

To address these questions, we draw from two theoretical lenses. First, we utilize Lester Salamon's interdependence theory (1987b), which posits that nonprofit and government sectors are mutually reliant for service provision. Governments depend on nonprofits for public services, while nonprofits rely on government funding to meet required service levels. We extend this theoretical perspective by examining how these relationships have influenced nonprofits' implementation of strategic changes to weather the crisis during the pandemic. Second, resource dependency theory (Pfeffer & Salancik, 1978) suggests that crises can drive organizational changes as organizations strive to seize available opportunities, adapt to evolving environments, and become more attractive to funders. Building on earlier work (Mosley et al., 2012; Park & Mosley, 2017), which explored strategic decisions made by nonprofit organizations during uncertain periods, we investigate which nonprofits took strategic adaptations, such as adding or eliminating programs, identifying new constituency groups, pursuing further professionalization, and incorporating new management and governance tools such as strategic plans.

In the following section, we will discuss the existing literature on multidimensional government–nonprofit relationships, particularly in delivering human services. We will also examine the studies that document short-term impact of the pandemic on nonprofit organizations and discuss the theoretical frameworks for this study. Subsequently, we will introduce the data used in the study, followed by the presentation of empirical results. Before concluding, we will delve into the implications of government–nonprofit partnerships and crisis management, highlighting strategic changes for nonprofit resilience. Furthermore, we will address the limitations of this study and areas that warrant future research.

Multidimensional Government–Nonprofit Relationships

The role of the nonprofit sector has continued to evolve and grow. Grønbjerg (2001) documented the “creeping revolution” of nonprofit human service provision in the U.S. since the end of World War II. Following the post-war period, the nonprofit sector greatly benefited from the expansion of government spending on social services, most notably in healthcare and social services payments, through the implementation of contracts and grants to nonprofit organizations. However, since the 1980s, while tax revenues increased, the influence of the new

public management paradigm (Osborne & Gaebler, 1993) and the increased desire to shrink government through privatization and deregulation (Savas, 2000) reduced government provision of the social safety net, while simultaneously decreasing government funding to the nonprofit sector.

New public management fundamentally shifted the way that the public thought about how to best deliver social services (Kettl, 1993); it largely argued that leveraging competition in the marketplace was the best way to provide public goods. This ideology depended on entrepreneurial public managers who prioritized the values of efficiency, economy, and effectiveness (Terry, 1998). These changes significantly impacted the nonprofit sector, with a growing emphasis on the adoption of “business-like” best practices (Dart, 2004; Maier et al., 2016). The impact of these changes meant increasing demands for effectiveness and accountability for human services nonprofit organizations as the government and the nonprofit sector continued to be important partners in the delivery of services (Horvath et al., 2018; Lin & Wang, 2016). It has also brought the conflicting expectation of profitability, while being seen as an underfunded public good (Banks & O’Connor, 2021).

“Business-like” practices and demands for accountability become particularly acute during economic downturns when public expenditures for human services often decline, while the demand for such services increase, as was the case during the Great Recession in 2008 (Horvath et al., 2018; Lin & Wang, 2016) and the recent pandemic (Deitrick et al., 2020; Fuller et al., 2023; Kim & Mason, 2020a; Kuenzi et al., 2021; Maher et al., 2020; Santos & Laureano, 2022; Stötzer et al., 2022; Worley, 2020).

The Short-Term Impact of the Pandemic on the Nonprofit Sector

Over the last three years, scholars and practitioners have documented the impact of the COVID-19 pandemic on the nonprofit sector in the U.S. (Deitrick et al., 2020; Fuller et al., 2023; Kim & Mason, 2020a; Kuenzi et al., 2021; Maher et al., 2020; Santos & Laureano, 2022; Stötzer et al., 2022; Worley, 2020). Dealing with a rapidly changing environment and excessive uncertainty, nonprofit organizations were forced to shutter programs, go dark, and rapidly shift how they did their work with increased unemployment and decreased funding.

Kim and Mason (2020a) found that in the months immediately following the implementation of stay-at-home orders issued across the country, 85% of human services nonprofit organizations and 97% of nonprofit arts and culture organizations were forced to cancel events, which were often geared toward fundraising. Additionally, 83% of human services and 93% of arts and culture nonprofits were forced to suspend programs, and 57% of human services and 71% of arts and culture nonprofits saw an immediate decrease in donations. Almost half (47%) of arts and culture nonprofit organizations were forced to furlough workers, while a little over a third (37%) of human services organizations were forced to do so.

Not surprisingly, nonprofit organizations that had a higher level of operating reserves on hand (“rainy day funds”) were less likely to need to lay off their employees. Later research (Mason & Kim, 2021) also found that the implementation of federal government programs, such as the Paycheck Protection Program (PPP), was vital to helping shore up nonprofit organizations during this period of uncertainty, offering a lifeline of funding to pay salaries and keep programs running.

The pandemic also changed the shape of nonprofit employment and the commitment of nonprofit employees. Vito et al. (2023) found that nonprofit leaders in the United Kingdom (U.K.) were heavily affected by fear, feelings of vulnerability, difficult decisions, and increased workloads. They also found that U.K. nonprofit organizations faced increased strains on stakeholder relationships, safety standards, and service quality. Stötzer et al. (2022) also found that resilience mechanisms including flexibility, improvisation, pragmatism, supportive relationships with the organizations’ networks, innovation, the ability to redefine organizational identity, and a strong level of intrinsic motivation among organization leadership helped Austrian nonprofits successfully navigate the changing dynamics caused by the pandemic.

These studies suggest that organizations that had more capacity and strong leadership before the pandemic were able to withstand its initial impacts more successfully, which perhaps is not surprising. What is less understood is whether or not any of the immediate changes and responses that nonprofit organizations took at the beginning of the pandemic will remain permanent features of organizations going forward. Did nonprofit organizations make long-lasting, strategic changes in their structure or operations to allow them to be more flexible and the organization more sustainable, or were they just temporary responses? Scholars who documented governance and leadership

challenges early in the pandemic, such as McMullen and Raggo (2020) and Kuenzi et al. (2021), called for future research to uncover the long-term impact of those challenges and the changes that nonprofits made.

Conceptual Frameworks

We adopt two theoretical frameworks that help us understand how pandemic-caused crises may have inspired nonprofit organizations to adapt and not only “pivot” to new ways of running programs but also make permanent, strategic changes to the organizational structures, programs, and policies.

Interdependence Theory

Interdependence theory, articulated by Lester Salamon (1987b), helps us understand the ways that economic or social shocks may impact the nonprofit sector. As discussed above, decades-long trends in the government provision of public services have decentralized public service delivery, leading to increased contracting of programs and services (Boris et al., 2010; Grønbjerg, 2001; Lecy & Slyke, 2013). In this way, governments are dependent on nonprofit organizations to provide important features of the American social safety net. Nonprofits, on the other hand, rely upon government agencies to fund their work at the level desired by the public.

Shafiq et al. (2023) argued that nonprofits and governments can complement each other and perform where the other has a weakness. Government, for example, can rely upon the perceived higher quality, more flexible, and specialized services (Austin, 2003) that nonprofits can offer. In some cases, this may leave the nonprofit organization with a high level of autonomy in implementing contracted public services (Mason & Fiocco, 2017). Governments also can seek cost savings by contracting out public services (Smith & Lipsky, 1993), believing that the nonprofit will be able to be more efficient than a government agency.

In this scenario, nonprofits can perhaps be seen as stepping stones when government or the market fail to provide a needed or demanded service (Steinberg, 2006). However, Salamon (1995) instead suggested that nonprofits themselves were dependent on the government to intervene when the nonprofit sector fails to provide a service at the scale or quality the government wants.

The argument is that nonprofit organizations, plagued with weaknesses including amateurism, philanthropic insufficiency, and particularism, cannot achieve the scale necessary to effectively address social concerns without government support. In the face of voluntary failures, nonprofits, therefore, become dependent on governments to provide support for their programs and activities (Smith & Grønbjerg, 2006). Given this mutual dependency, organizational outcomes can differ with the increase in a nonprofit's willingness to embrace public service values and enhance civic engagement (LeRoux, 2009; Moulton & Eckerd, 2012). However, the mutual dependency may also impose certain constraints, restrictions, and regulations on the nonprofit, which could weaken autonomy and simply make the nonprofit sector an extension of the welfare state (Salamon, 2015).

Ultimately, the interdependence theory has two fundamental pillars: the growth of the nonprofit sector is largely a condition of increases in government funding (via contracts and grants), while the government can shape the outcomes of the nonprofit sector through its funding (Shafiq et al., 2023).

Adaptation, Flexibility, and Sustainability

The literature discussed above suggests that nonprofits do not exist in a vacuum. They are highly dependent on and influenced by the environments in which they operate (Pfeffer & Salancik, 1978). Nonprofit organizations that can adapt to changing circumstances are often more able to withstand exogenous shocks by protecting their stakeholder relationships, continuing to secure funding, innovating new ideas, identifying new funding, reacting to policy changes, and updating their structures, plans, and goals to adapt to new needs. Some of these changes may focus on the interminable search for funding, staff, and volunteers – best understood by resource dependency theory (Pfeffer & Salancik, 1978). Other changes may be forced out of a sense of building legitimacy and credibility among stakeholder groups (DiMaggio & Powell, 1983; Maier et al., 2016).

Such adaptation should be strategic, however (Mosley, 2012). Many organizations were forced to launch new processes and programs during the stay-at-home orders in the early days of the pandemic (such as moving all board meetings online). As the pandemic continued and restrictions were slowly eased, nonprofits had to consider whether or not changes that had been forced on them by necessity suited their own organization's needs and mission for the long term despite continued uncertainty. Mosley (2012) discusses structural,

managerial, and financial characteristics that may support an organization's ability to adapt when faced with financial pressure or a financial crisis.

Structural characteristics, such as an organization's size, capacity, and age, have been found to influence organizational adaptations. For example, larger organizations, typically measured by budget, can have more capacity to make changes than smaller organizations (Mosley, 2012). Hannan and Freeman (1984) found that older organizations may be inhibited by "inertia" that prevents them from trying new ideas or making potential changes. More recent research by Kim and Mason (2020a) found that organizations with pre-existing operating reserves (which tend to be larger organizations) may do a better job of maintaining staffing levels and continuing programs during a crisis. Building rainy day funds comes with several managerial decisions (Kim & Mason, 2020a; Sloan et al., 2016).

Meanwhile, Mason and Kim (2020b) found that nonprofit managers were often risk-averse when budgeting for both a decrease and an increase in revenue, suggesting a weaker ability to adapt or innovate quickly when times call for it. Other managerial characteristics that can influence adaptation include professional training, strategic planning processes, and using performance measurement or evaluation tools (Katsioloudes & Tymon, 2003; LeRoux & Wright, 2010). Lastly, financial characteristics that may predict adaptation include the level of financial stress felt by organizations (Alexander, 2000) or their perceptions of real or perceived financial uncertainty (Foster & Meinhard, 2002).

Park and Mosley (2017) explored which organizations fared better and grew during and after the Great Recession, which started in 2008. They found that organizations that had more diversified revenue streams and focused on political advocacy, accountability, and evaluation efforts fared better, as compared to those primarily focused on sustaining the needs of their core constituents without a long-term strategy in place. In addition, organizations that chose to expand their programs were more likely to have longer-term growth, while those that shrunk had often narrowly focused on a small number of constituency groups (retrenchment) and cut back on programming. Park and Mosley (2017) argue that successful organizations were able to more effectively disperse vulnerability and risk over a wider range of activities by diversifying revenue streams and program offerings.

There are five optional tactics organizations often use to adapt to economic uncertainty (Mosely et al., 2012): 1) add new programs; 2) discontinue programs or reduce staff (retrenchment); 3) expand or start a joint program; 4) pursue earned income; and 5) start or expand advocacy. Mosely et al. (2012), however, found that different types of organizations show different patterns of adopting these tactics. For instance, larger organizations were likely to both start and stop new programs based on fluctuations in real or perceived funding for their efforts. Organizations with strategic plans in place were more likely to add both programs and new earned income options. Facing real financial stress was also related to a nonprofit's decision to retrench and discontinue programs.

The Gap in What We Know and the Contribution of This White Paper

Overall, research has indicated that organizations that sought to grow, innovate, and adapt tended to fare much better during crises than organizations engaged in strategies of retrenchment, which may be counter-intuitive to many financially stressed nonprofit leaders. However, much less has been explored regarding whether these changes become permanent over time or are merely temporary adoptions. Do changes that organizations undergo during periods of economic uncertainty continue, or are they eliminated once the crisis has passed?

While studies have provided evidence that the nature of work has undergone a dramatic shift due to the pandemic (Kuenzi et al., 2021; Schwan-Rosenwald, 2021) – with potential permanence driven by employee demands, such as increased remote work and more flexible working hours – questions persist regarding the longer-term impact. Furthermore, did organizations of varying sizes, regions, and subsectors implement changes, or were certain organizations more likely than others to have initiated such changes? Our ultimate goal is to describe the enduring impact of the pandemic-induced crisis on the resiliency of the nonprofit sector and identify organizations that leveraged the crisis to bring about positive changes.

Data

The data for this study comes from three national surveys using a panel of organizations in two nonprofit subsectors across the U.S.: human services and arts and culture. These nonprofits are part of a university-affiliated panel that consists of organizations that have opted in to participate in two to four surveys a year. Respondents to surveys are typically an executive director or a person in an equivalent position whose organization was invited to the panel, and they are asked to respond on behalf of their organization rather than as an individual.

When a new survey is launched, each participant in the panel project (i.e., each nonprofit organization) is invited to complete the survey, and panel organizations can voluntarily choose to participate or not participate in a certain study. Since panel attrition is inevitable for multiple reasons, including a relatively high executive turnover rate in the nonprofit sector, the project team recruits new panel organizations on an ongoing basis. That means, even though we ran three surveys with the same project, the set of participants (in other words, nonprofits) for each survey differs slightly from one another given the nature of this panel project. Table 1 describes how many organizations participated in multiple surveys.

Table 1. The Count of Organizations Participating in Multiple Surveys

Survey	Number of Respondents
April 2020 Only	304
December 2020 Only	251
April 2023 Only	364
April 2020 & December 2020	198
April 2020 & April 2023	34
December 2020 & April 2023	46
All Three Surveys	78

Note: Total N = 614 (April 2020), 573 (December 2020), and 522 (April 2023)

The first survey was conducted in April 2020 when most states were under stay-at-home orders. The second survey was administered in December 2020 to follow up on the progress during the pandemic. The third survey was administered in April 2023 to the organizations in this panel, including those

surveyed in 2020 and other organizations that joined the panel project since then. Each survey invitation had two reminders. The first survey was sent to 2,652 nonprofits and 614 responded to it. The second survey was sent to 2,649 nonprofits and 573 organizations participated in it. The third survey, conducted in 2023, was sent to 3,169 organizations and 522 organizations completed it.

The final sample numbers reflect only those who fully completed each survey. We believe the relatively lower response rate of the third survey is due to 1) the widespread survey fatigue in the nonprofit sector since the pandemic; 2) panel attrition between 2020 and 2023 due to organizational and personnel changes; and 3) declined interest in surveys measuring the impact of the pandemic.

We merged all survey responses with the Form 990 records of corresponding nonprofit organizations to account for organizational financial standing before the pandemic, drawn from the 2019 NCCS 990 core files. We also drew from the census to address community conditions. We applied poststratification adjustments for revenue size, organization age, region, and type, using the 2019 NCCS 990 core files for all results reported in this study. The statistical comparison between our sample and the population suggests the weighted samples are *fairly* representative. Still, it must be noted that even though it helps make the results more generalizable, weighting does not eliminate sources of bias that are independent of the weighted variables (Pasek, 2016). Table 2 provides the general characteristics of organizations covered in each survey.

Table 2. Sample Description Across Time

	2020 Spring (N=614)		2020 Winter (N=573)		2023 Spring (N=522)		Population (N=188,915)
	Unweighted	Weighted	Unweighted	Weighted	Unweighted	Weighted	
Size (gross receipts)							
Under \$100,000	14.66%	39.28%	15.88%	39.28%	17.62%	39.28%	39.28%
At least \$100,000, smaller than \$500,000	33.39%	32.98%	34.90%	32.98%	31.80%	32.98%	32.98%
At least \$500,000, smaller than \$1 million	19.71%	9.23%	18.15%	9.23%	20.50%	9.23%	9.23%
At least \$1 million, smaller than \$10 million	28.01%	15.02%	27.57%	15.02%	25.86%	15.02%	15.02%
At least \$10 million	4.23%	3.48%	3.49%	3.48%	4.21%	3.48%	3.48%
Age (2023 - the IRS ruling year)							
Younger than 10 years	1.14%	26.57%	0.52%	26.57%	3.45%	26.57%	26.57%
At least 10 years, younger than 20 years	21.34%	23.03%	21.82%	23.03%	24.52%	23.03%	23.03%
At least 20 years, younger than 30 years	21.82%	19.10%	21.99%	19.10%	20.69%	19.10%	19.10%
At least 30 years, younger than 40 years	28.34%	12.94%	28.45%	12.94%	27.20%	12.94%	12.94%
At least 40 years, younger than 50 years	13.84%	9.12%	13.61%	9.12%	12.64%	9.12%	9.12%
At least 50 years, younger than 60 years	7.98%	5.22%	8.55%	5.22%	5.36%	5.22%	5.22%
At least 60 years	5.54%	4.02%	5.06%	4.02%	6.13%	4.02%	4.02%
Type							
Arts and culture	30.13%	30.86%	34.38%	30.86%	9.77%	30.86%	30.86%
Human services	69.87%	69.14%	65.62%	69.14%	90.23%	69.14%	69.14%
Region							
Northeast	22.80%	21.95%	21.82%	21.95%	31.42%	21.95%	21.95%
Midwest	24.92%	22.81%	23.73%	22.81%	23.95%	22.81%	22.81%
South	29.64%	31.62%	28.97%	31.62%	23.56%	31.62%	31.62%
West	22.64%	23.62%	25.48%	23.62%	21.07%	23.62%	23.62%

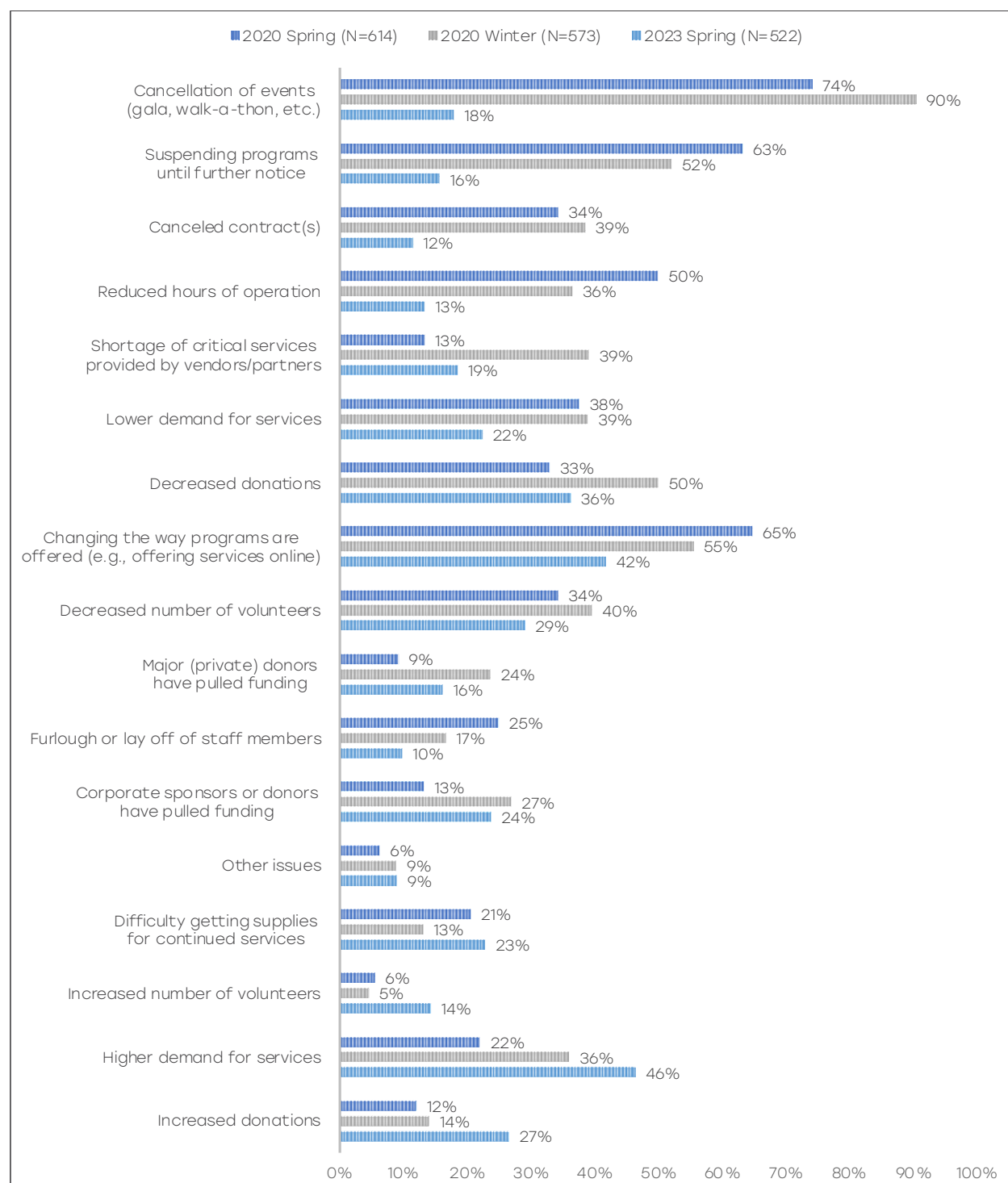
Notes: Sample weights are applied based on revenue size, organization age, region, and type using the 2019 NCCS 990 core files results.

The Impact of COVID-19 Across Time and Long-Term Changes Adopted by Organizations During the Pandemic

We compared how respondents answered the same question at three different points in time: April 2020, December 2020, and April 2023. The survey question was, “Between March 2020 and now, which of the following impacts has your organization experienced?” Figure 1 shows each response option and the percentage of those who were still experiencing the impacts at the time of each survey. The percentages reported in Figure 1 do not include the respondents that chose the answer “experienced but not anymore” at the time of the survey.

Overall, the findings demonstrate two things: 1) the early and significant impact the pandemic had on organizations and 2) that many of the changes were relatively short-lived. In this section, we discuss a few notable changes over the three surveys.

Figure 1. Challenges Across Time



Widespread event cancellations that dropped significantly over time: Most organizations experienced event cancellations by the end of 2020 as social distancing due to the pandemic continued. Nonetheless, the percentage dropped significantly over time as organizations adapted to the new reality and the pandemic restrictions eased or were completely lifted, with only 18% still experiencing event cancellations as of April 2023. This recovery from the initial impact of the pandemic reflects the resiliency of the nonprofit sector.

Shift toward online program delivery: The percentage of organizations changing the way programs are offered, such as providing services online, has been high despite some drops over time, with 42% of nonprofits still offering online programs in April 2023. This highlights a sustained shift toward virtual program delivery, even after the initial pandemic period, showing that many nonprofits reaped the opportunity to adapt to a new era.

Increase in higher demand for services: The percentage of organizations reporting higher demand for services increased significantly over time, going up from 22% to 36%, and reaching 46% in April 2023. This suggests a notable shift toward increased service needs and potentially reflects the evolving needs of communities that depend on the nonprofit sector to address them.

Recovery in staff retention: The percentage of organizations furloughing or laying off staff members decreased over time, with April 2023 showing the lowest percentage (10%). This signifies recovery in terms of staff retention and improvement in organizational stability, reflecting nonprofit resiliency.

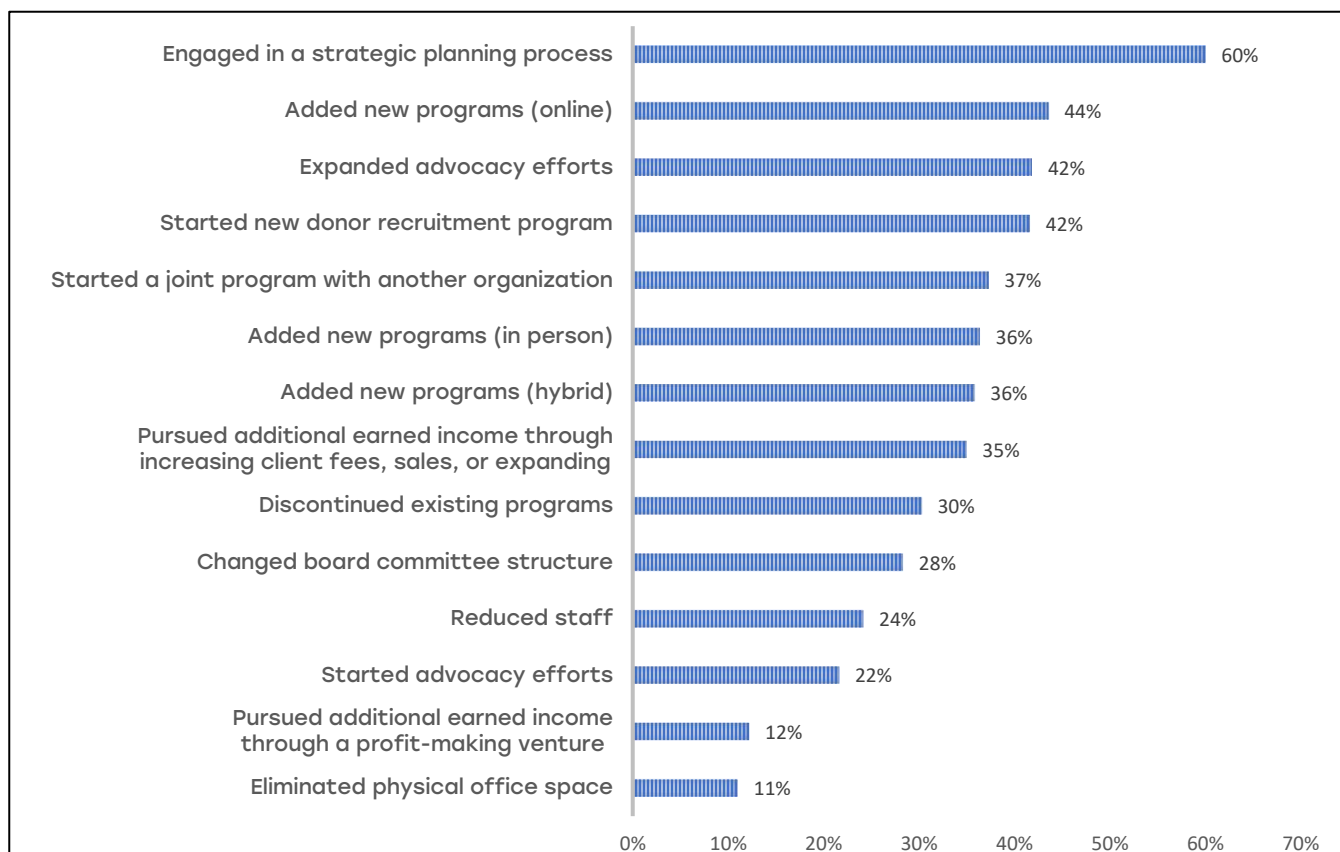
Funding challenges continue: While overall funding reductions decreased in 2023, the percentage of organizations facing funding challenges with corporate sponsors (13%, 27%, and 24%) and major donors (9%, 24%, and 16%), as well as decreased donations (33%, 50%, and 36%), remained relatively high over the three points in time. The findings highlight ongoing difficulties some organizations face in securing sufficient financial support.

Overall, these findings collectively demonstrate the resilience and adaptability of nonprofit organizations during a crisis. The decrease in the percentage of event cancellations and the positive trend in staff retention point toward a swift recovery and adjustment to new circumstances. However, challenges related to funding continue for some organizations, and increased demand for services can be both exciting and concerning, as the sample covers a wide variety of organizations from community arts centers to homeless shelters.

Longer-Term Changes (Based on the April 2023 Survey Only)

To understand the longer-term impact, we asked the following question to the respondents in the April 2023 survey: “Did your organization make the following changes since the pandemic? Please do not check if the change was temporary in the early days of the pandemic.” Figure 2 shows the percentage of respondents who answered yes to the question. In this section, we discuss the most notable and impactful changes made by organizations since the pandemic.

Figure 2. Enduring Transformations Post-Pandemic: April 2023 (Excluding Initial Temporary Adjustments)



Note: N=522

Engaging in a strategic planning process: The fact that 60% of organizations underwent a strategic planning process is highly significant. It indicates a proactive approach that the majority of nonprofits have taken to reassessing goals, strategies, and operations to adapt and thrive in the new normal and be prepared for post-pandemic years. Strategic planning demonstrates the nonprofit sector's commitment to long-term sustainability and resilience.

Adding new programs (online): With 44% of organizations introducing new programs delivered entirely online (which go beyond the temporary pivot to online), it highlights a rapid and necessary adaptation to the digital landscape. This shift demonstrates the agility of organizations in leveraging technology to continue providing services and engaging with their target audience in a virtual environment.

Expanding advocacy efforts: The increase in advocacy efforts by 42% of organizations signifies a recognition of the importance of influencing policies and raising awareness of their causes. Organizations may have actively stepped up to advocate for change during the pandemic – probably because direct service delivery was limited for some time – and, thus, advocating for their causes may have become a way to materialize their missions. It is also possible that they increased advocacy activities to bring more attention and financial support to their activities to meet increasing demands. Future research is required to test these speculations and fully understand why organizations expanded advocacy activities.

Adding new programs (in person and hybrid): Despite the challenges posed by the pandemic, the fact that 36% of organizations introduced new programs delivered either entirely in person or through hybrid models is noteworthy. It demonstrates a determination to continue providing services on site and maintain a physical presence, emphasizing the importance of face-to-face interaction and community engagement. It also demonstrates the agility of organizations in meeting new demands with new programs.

Initiating donor recruitment programs: The initiation of new donor recruitment programs by 42% of organizations is significant. It indicates a proactive approach to expanding their funding sources, which is much needed to make the strategic plan real and compelling to the organization. By actively seeking out new donors, organizations aim to strengthen their financial stability and secure sustainable support for their missions, both of which are critical to meeting growing demands.

Taken together, these notable longer-term changes highlight the resilience, adaptability, and strategic thinking displayed by organizations in response to the challenges brought about by the pandemic. Their willingness to embrace change, leverage technology, engage in advocacy, and innovate program delivery methods showcases their commitment to addressing evolving needs and ensuring their long-term viability.

Government–Nonprofit Relationships and Changes During the Pandemic

Differences Based on the Level of Government Funding

To explore the subtle yet important relationship between government funding and the strategic choices made by nonprofits, we asked the following question to the responding organizations in April 2023: “Since the pandemic started in 2020, has overall government funding (e.g., federal, state, and local level) changed for your organization?” And for those who answered yes, we asked what kind of changes to see whether they received: 1) new contracts and grants; 2) increased funding compared to previous years; 3) fewer new contracts and grants; 4) decreased funding compared to previous years; and 5) others (text input option in the survey).

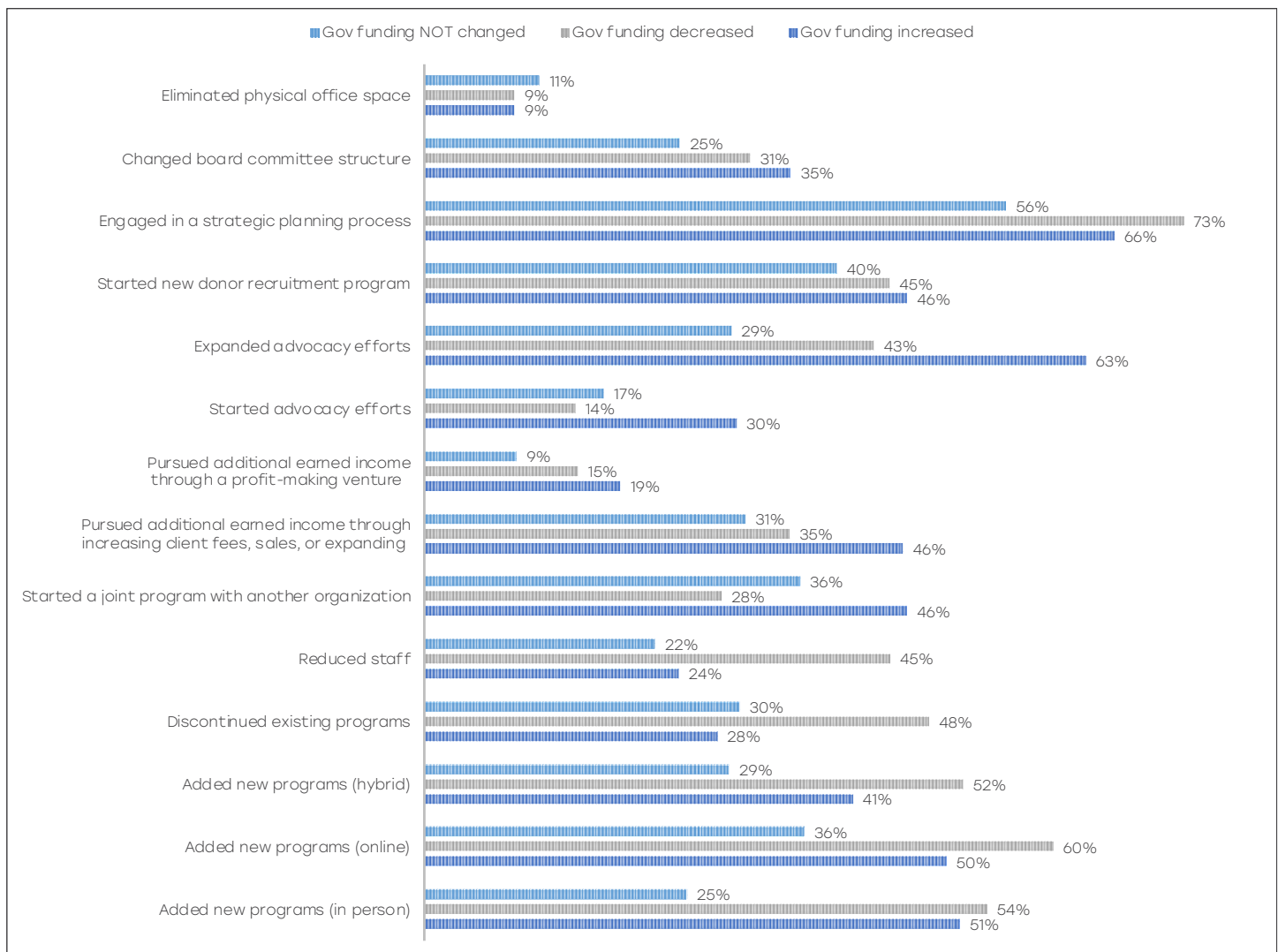
Of the organizations that completed the April 2023 survey, 54% of the organizations reported having experienced a change in government funding and 46% reported having no change in government funding. The majority (80%) have increased government funding (either or both “received new contracts and grants” and “received increased funding compared to previous years”). About one out of five organizations that had changed government funding experienced decreases (either or both “received fewer new contracts and grants” and “received decreased funding compared to previous years”). It must be noted that some organizations reported an increase and decrease in some of the government funding – for instance, they received increased funding compared to previous years but fewer new contracts and grants.

Figure 3 presents the percentage of nonprofits that implemented various long-lasting changes, categorized based on the way they experienced changes in government funding. Overall, the findings indicate that changes in government

funding made a noticeable impact on the strategies and actions undertaken by nonprofits – consistent with the adaptation strategies suggested by Mosely et al. (2012). Organizations are more likely to make adjustments, such as reducing staff, discontinuing programs, pursuing additional income streams, engaging in advocacy, and exploring partnerships, rather than temporarily pivoting their operation based on less or more government funding.

What is most interesting is that both increased and decreased government funding made nonprofits make more changes when compared to other nonprofits without changes to government funding. That is, while changes in government funding, either more or less, create disruption for nonprofit operations, changes in government funding could incentivize nonprofits to adapt and diversify their approaches to funding and program delivery. More specifically, it is possible that reduced government funding may have pushed organizations to react and search for new approaches, while increased government funding encouraged recipient nonprofit organizations to continue their strategies of change. Either way, changes in government funding are a major stimulus for organizational changes in the nonprofit sector. In the following section, we further discuss a few notable areas of changes that nonprofits made alongside government funding changes.

Figure 3. Percentage of Nonprofits Implementing Sustainable Changes Across Varied Funding Scenarios



Note: Survey Question: Since the pandemic started in 2020, has overall government funding (e.g., federal, state, and local level) changed for your organization? Yes/No

Program changes: First, nonprofits with changed government funding, whether increased or decreased, show higher percentages across all three categories of program changes. They added new hybrid, online, and in-person programs, indicating a greater inclination to innovate and diversify program offerings in response to changes in government funding. The results clearly demonstrate

that changes in government funding, whether a decrease or increase, bring about programming changes. This finding provides clear evidence for the interdependence created by close ties between government and nonprofits.

Increased advocacy efforts: We also found that the group of nonprofits with increased government funding has a significantly higher percentage of starting advocacy efforts, compared to those without changes in government funding or those with decreased government funding. They are also more likely to have expanded advocacy efforts as compared to the other two groups. These findings suggest that an increase in government funding contributes to incentivizing participation in policy discussions. It is worth noting that organizations with decreased government funding were more likely to have expanded advocacy efforts than those organizations without any government changes. This suggests that organizations facing decreased government funding may have intensified their advocacy work to protect their missions and secure support.

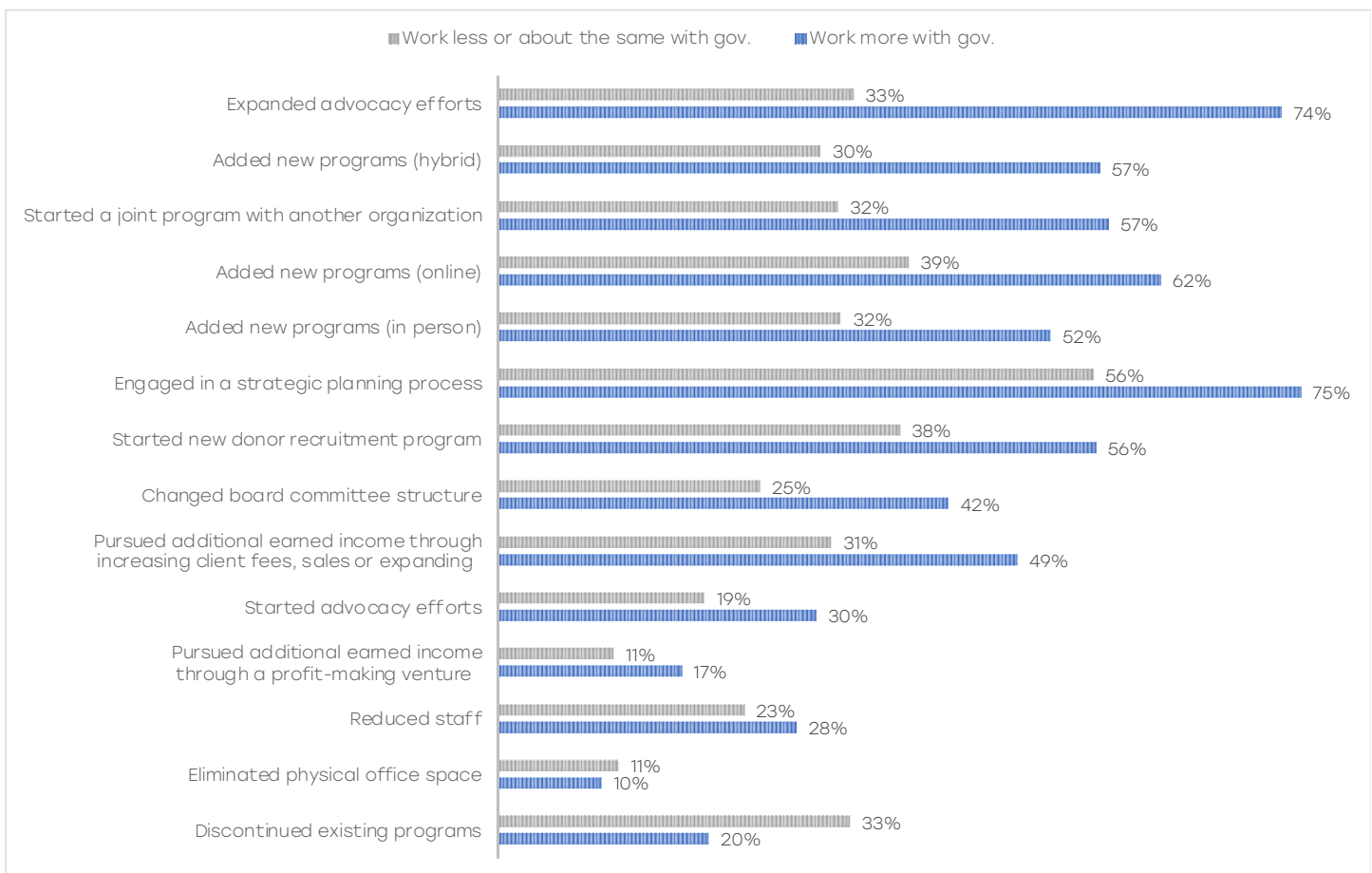
Retrenchment due to diminished government funding: Finally, a larger percentage of organizations who faced decreased government funding had discontinued existing programs and reduced staff (48% and 45%, respectively) than organizations who had increased government funding (28% and 24%, respectively) and organizations without any change in government funding (30% and 22%, respectively).

Difference in Making Changes Between Organizations That Worked More or Less With Governments

We also asked directly about their relationship with the government: “Would you say that you work more, less, or about the same with the government compared to before the pandemic? By this, we mean active, formal, or informal partnerships or agreements in which you share financial or human resources; jointly refer, recruit or manage staff, clients or volunteers; jointly deliver public services or programming or plan service delivery or programming. Examples might include coordination, joint planning, or sharing resources.”

About 26.8% of organizations answered that they work more, 4.4% said that they work less, 41.0% reported about the same, and the remaining 27.8% said that they are not applicable. Figure 4 shows the percentage of organizations that made each of the changes, depending on whether they answered “less or about the same” or “more.” We did not include those who checked “not applicable” as part of this analysis.

Figure 4. Differences in Nonprofits' Engagement Levels with Government and Their Impact on Organizational Changes



With regard to working relationships with the government, we find similar results to what we found with government funding changes. Organizations that reported working more with the government are much more likely to have added new hybrid, online, or in-person programs; started a joint program with another organization; and expanded advocacy efforts. Also, a larger percentage of organizations that work more with the government reported having engaged in a strategic planning process than that of organizations that reported otherwise.

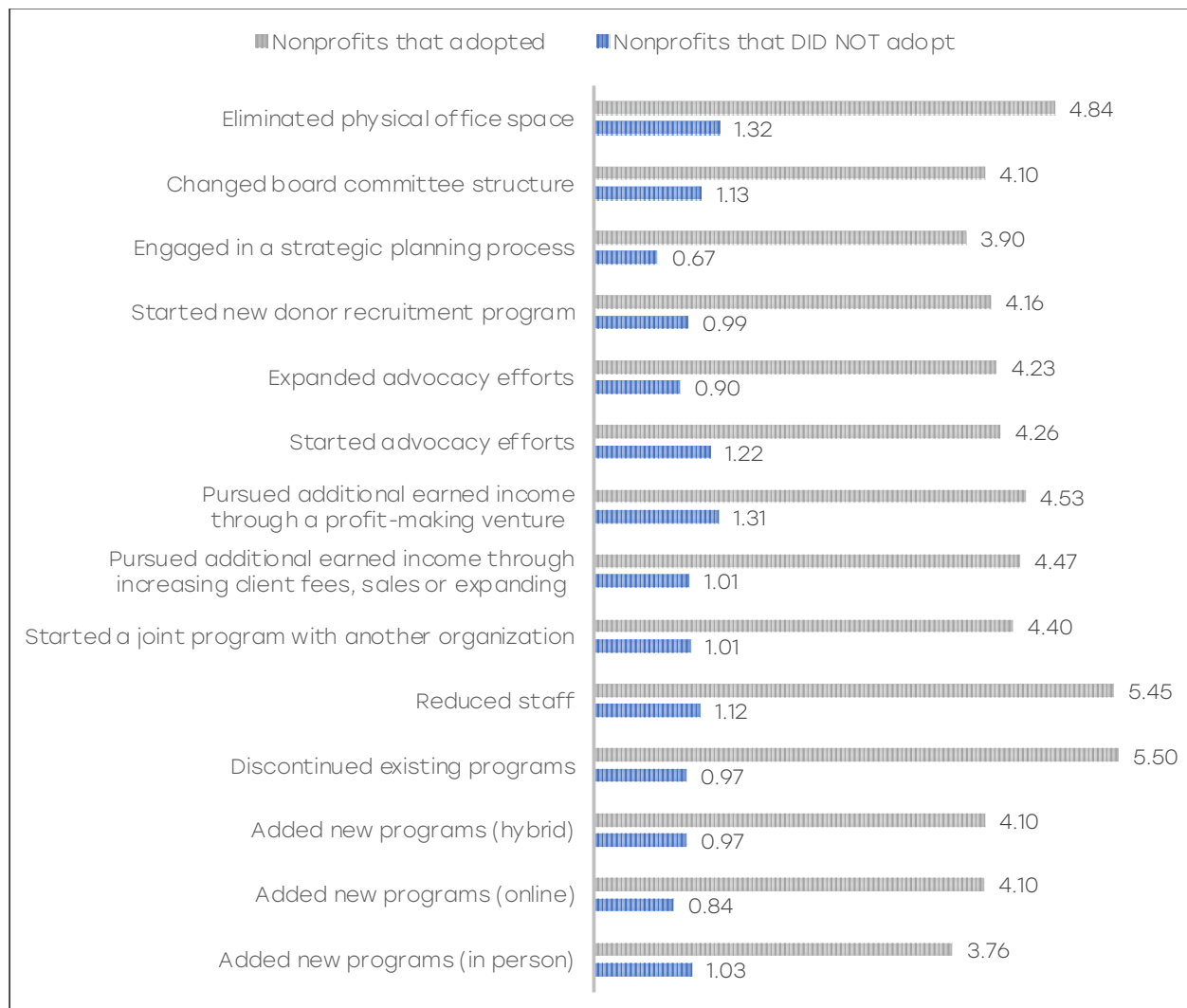
Overall, organizations that work more with the government since the pandemic are more likely to have adopted all changes except in two areas: discontinuing existing programs and eliminating physical office space, which are linked to an organizational struggle to keep afloat. The results of the April 2023 survey,

which looked at the longer-term changes due to the pandemic, show that nonprofit resiliency and innovation during and after the crisis are largely dependent on their relationship with the government. The results provide strong support for the government–nonprofit interdependent relationship.

Challenges During the Pandemic and Making Long-Lasting Changes

Following a survey fielded by Mosely et al. (2012), we asked nonprofit leaders about 14 types of changes they have adopted and compared them to the number of challenges (see Figure 1 for the list of challenges) they faced. Typical respondents chose about four areas (average value = 3.76) of challenges they faced among 17 categories. About 10% of organizations reported having no ongoing issues, even though many of them experienced issues across these areas temporarily sometime during the pandemic. For instance, 75% of those who do not currently experience any of these issues experienced the cancellation of events during the early days of the pandemic. About 5% of the organizations have reported having ongoing issues in more than 10 areas, and no organization has reported having issues in more than 13 areas. We examined whether organizations that experienced challenging issues in more areas were more likely to have adopted long-lasting changes, and whether there are common organizational factors that describe these strategically transforming organizations, versus others who made short-term changes and went back to the previous status.

Figure 5. The Average Number of Challenging Issues Faced by Nonprofits in Relation to Adoption of Proposed Changes



Note: Differences between two numbers are significant across 14 types of long-lasting changes.

We examined whether the average number of challenging issues (i.e., the 17 issues described in Figure 1) was larger for organizations that adopted each of the long-lasting changes described in Figure 5. Organizations that adopted each of these changes faced challenges in more areas. What makes this finding particularly interesting is that both numerical and statistical differences are significant across all 14 areas of long-lasting changes.

For instance, nonprofits that did not discontinue existing programs had an average challenging area score of 0.97, while nonprofits that adopted this change had a significantly higher average score of 5.50. This suggests that organizations that chose to discontinue existing programs faced more challenges in terms of adjusting their operations and addressing the potential impact of program discontinuation. Nonprofits that did not eliminate physical office space had an average challenging area score of 1.32, while those that adopted this change had a significantly higher average score of 4.84. This highlights that organizations that faced challenges in more areas transitioned to remote work or shifted away from a physical office setup, probably to save some costs and adapt to the new normal.

Further, nonprofits that did not engage in a strategic planning process had an average challenging area score of 0.67, while those that adopted strategic planning had an average score of 3.90. This suggests that organizations that faced more challenges were more likely to undergo strategic planning to set or reset priorities, providing support for the idea that facing more challenges incentivized innovation and positive changes. These notable data points also reiterate the resilience of the nonprofit sector to serve the community during difficult times.

Table 3. Analyzing Factors Influencing Long-Term Crisis-Driven Changes: A Logistic Regression Model

	Added new programs (in person)			Added new programs (online)			Added new programs (hybrid)			Discontinued existing programs			Reduced staff			Started a joint program with another organization			Pursued additional earned income through increasing client fees, sales, or expanding		
	Coef.	Robust Std. Err.	Sig.	Coef.	Robust Std. Err.	Sig.	Coef.	Robust Std. Err.	Sig.	Coef.	Robust Std. Err.	Sig.	Coef.	Robust Std. Err.	Sig.	Coef.	Robust Std. Err.	Sig.	Coef.	Robust Std. Err.	Sig.
Number of Challenges	0.04	0.06		0.18	0.07	***	0.13	0.06	**	0.49	0.08	***	0.41	0.07	***	0.27	0.07	***	0.34	0.07	***
Organization Financial Size																					
At least \$100,000, smaller than \$500,000	0.30	0.46		0.89	0.44	**	0.38	0.48		-0.07	0.52		-0.79	0.51		0.05	0.44		-1.00	0.44	**
At least \$500,000, smaller than \$1 million	0.17	0.57		0.56	0.58		0.15	0.56		-0.97	0.94		-0.35	0.75		-0.29	0.57		-0.16	0.58	
At least \$1 million, smaller than \$10 million	0.53	0.47		0.57	0.46		0.35	0.51		-0.53	0.54		-0.54	0.58		-0.36	0.49		-0.01	0.49	
At least \$10 million or more	1.16	0.66	*	-0.13	0.63		0.42	0.67		-0.49	0.94		0.38	0.79		-0.03	0.66		-1.46	0.70	**
Organization Age Group																					
At least 10 years, younger than 20 years	-0.34	0.63		1.52	0.66	**	1.23	0.77		-0.80	0.59		-0.47	0.72		0.48	0.64		1.74	0.64	***
At least 20 years, younger than 30 years	-0.26	0.67		1.06	0.64	*	0.47	0.77		1.18	0.65	*	-0.42	0.71		0.46	0.66		2.23	0.70	***
At least 30 years, younger than 40 years	-0.96	0.63		0.67	0.64		0.59	0.74		0.39	0.64		0.51	0.65		-0.21	0.68		2.14	0.65	***
At least 40 years, younger than 50 years	0.00	0.67		0.68	0.71		0.38	0.80		0.66	0.62		0.23	0.71		0.12	0.70		2.58	0.75	***
At least 50 years, younger than 60 years	0.17	0.81		1.27	0.82		1.23	0.89		-0.42	0.86		1.59	1.04		1.02	0.80		2.40	0.74	***
At least 60 years	-0.97	0.68		2.66	0.74	***	2.84	0.79	***	1.25	1.01		0.40	0.86		0.20	0.99		2.51	0.76	***
Region																					
Midwest	0.54	0.44		-0.38	0.47		-0.53	0.44		0.13	0.49		0.37	0.57		-0.47	0.52		-0.18	0.42	
South	0.03	0.48		-0.68	0.41		-0.17	0.48		-0.80	0.54		0.26	0.62		0.05	0.49		-0.48	0.49	
West	0.02	0.54		-0.32	0.53		-0.09	0.57		-1.36	0.53	**	0.33	0.56		0.31	0.53		0.37	0.46	
Finance																					
Program revenue percentage	-0.20	0.52		1.26	0.51	**	0.48	0.57		-0.68	0.61		1.83	0.61	***	-0.51	0.51		1.96	0.47	***
Equity/end-of-year assets	0.20	0.12	*	-0.31	0.13	**	-0.37	0.14	***	-0.03	0.11		-0.21	0.09	**	-0.16	0.10	*	-0.23	0.11	**
[Total revenue-total expense]/total expense	0.64	0.47		0.10	0.22		0.28	0.29		-1.26	0.65	*	0.49	0.47		0.66	0.43		0.76	0.60	
Constant	-0.92	0.59		-2.17	0.57	***	-1.69	0.61	***	-2.26	0.76	***	-3.47	0.66	***	-1.51	0.63	**	-3.76	0.67	***
Pseudo R2	0.061			0.1695			0.1212			0.3077			0.2841			0.1266			0.2708		

Note: The model is not statistically significant for “Added new programs (in person).” All other models are statistically significant at a 1% level.

***1% significance level, **5% significance level, and *10% significance level.

Table 3 (continued). Analyzing Factors Influencing Long-Term Crisis-Driven Changes: A Logistic Regression Model

	Pursued additional earned income through a profit-making venture			Started advocacy efforts			Expanded advocacy efforts			Started new donor recruitment program			Engaged in a strategic planning process			Changed board committee structure			Eliminated physical office space		
	Coef.	Robust Std. Err.	Sig.	Coef.	Robust Std. Err.	Sig.	Coef.	Robust Std. Err.	Sig.	Coef.	Robust Std. Err.	Sig.	Coef.	Robust Std. Err.	Sig.	Coef.	Robust Std. Err.	Sig.	Coef.	Robust Std. Err.	Sig.
Number of Challenges	0.26	0.08	***	0.11	0.08		0.20	0.07	***	0.23	0.07	***	0.16	0.08	**	0.14	0.06	**	0.18	0.07	***
Organization Financial Size																					
At least \$100,000, smaller than \$500,000	1.30	0.70	*	0.49	0.52		0.23	0.45		-0.08	0.48		-0.29	0.44		-0.12	0.47		-0.07	0.71	
At least \$500,000, smaller than \$1 million	2.03	0.87	**	0.13	0.58		0.31	0.60		-0.14	0.56		-0.42	0.58		0.35	0.62		-0.61	0.89	
At least \$1 million, smaller than \$10 million	2.17	0.71	***	0.81	0.53		0.77	0.41	*	0.12	0.44		0.14	0.44		-0.16	0.48		-0.82	0.69	
At least \$10 million	3.13	0.97	***	-1.65	1.20		0.73	0.61		-0.37	0.72		0.84	0.80		-0.09	0.68		1.61	0.82	*
Organization Age Group																					
At least 10 years, younger than 20 years	-0.15	0.85		0.06	0.77		-0.87	0.58		0.15	0.60		-0.46	0.59		0.01	0.65		3.50	0.76	***
At least 20 years, younger than 30 years	0.07	0.92		0.06	0.78		-1.12	0.61	*	-0.64	0.67		-1.17	0.60	*	0.32	0.68		2.88	0.80	***
At least 30 years, younger than 40 years	-0.13	0.93		0.26	0.83		-0.70	0.62		-0.76	0.64		-1.59	0.64	**	-0.61	0.67		1.47	0.80	*
At least 40 years, younger than 50 years	-1.65	1.15		-0.42	0.86		-1.03	0.67		-0.86	0.65		-0.16	0.75		-0.28	0.73		3.12	1.36	**
At least 50 years, younger than 60 years	-0.22	1.07		0.82	1.06		-0.03	0.83		-0.24	0.88		-1.64	0.73	**	-0.13	0.96		2.72	0.94	***
At least 60 years or older	-0.09	1.05		-0.36	1.03		-0.12	0.71		0.87	0.75		-0.37	0.80		-0.73	0.85		3.17	0.95	***
Region																					
Midwest	0.94	0.73		0.51	0.61		-0.71	0.44		-0.76	0.46		-0.47	0.46		0.23	0.47		-0.32	0.55	
South	0.28	0.55		-0.09	0.62		-1.45	0.55	***	-0.67	0.53		-0.29	0.49		-0.61	0.51		0.31	0.65	
West	0.90	0.66		0.16	0.56		0.17	0.46		-0.37	0.49		-0.28	0.47		-0.48	0.54		0.32	0.64	
Finance																					
Program revenue percentage	-0.26	0.56		-0.45	0.56		-0.15	0.50		-0.46	0.53		-0.34	0.52		0.37	0.53		-0.19	0.64	
Equity/end-of-year assets	1.73	0.81	**	-0.27	0.12	**	-0.24	0.15		-0.09	0.10		-0.95	0.78		0.27	0.12	**	-0.57	0.16	***
[Total revenue-total expense]/total expense	-0.36	0.23		-0.02	0.25		0.26	0.31		0.67	0.46		0.91	0.52	*	0.53	0.55		-0.42	0.16	***
Constant	-6.20	1.30	***	-1.92	0.65	***	0.05	0.60		-0.23	0.59		1.81	1.04	*	-1.48	0.62	**	-5.26	0.85	***
Pseudo R2	0.1556			0.1067			0.1734			0.1248			0.1327			0.0743			0.2617		

*Note: The model is not statistically significant for “Changed board committee structure.” All other models are statistically significant at a 1% level.

***1% significance level, **5% significance level, and *10% significance level.

As reported in Table 3, we explored whether there are certain organizational factors related to the kind of changes organizations make. Since dependent variables are the adoption of each of the 14 long-lasting changes, we employed a logistic regression model. Because we could not obtain financial information from the 2019 NCCS Core Files for 44 organizations, the number of observations for this analysis equals 478. Reference groups are “under \$100,000 in 2019 revenue” for size, “younger than 10 years” for age, and “northeast” for region.

The findings clearly show that an increased number of challenges a nonprofit organization faces is associated with higher chances of making changes across almost all areas we asked for, except for having started advocacy efforts. While not surprising, the results provide strong evidence that greater challenges bring more changes in organizations, even though some of the changes may not necessarily be positive ones, such as reducing workforce size or cutting programs.

The financial size of organizations also plays a key role in adopting changes. The most obvious finding is that the larger an organization is, the more likely that it adds a profit-making venture to generate additional revenues. This finding is significant as it reflects the continuing influx of a “business-like” approach in the nonprofit sector and the pressure to generate self-sustainable revenue to finance mission-based programs.

We also find that organizations in the largest category are more likely to eliminate their physical offices as compared to the smaller ones, probably because they are the ones that already had larger physical spaces. Somewhat similar to an organization’s financial size, a nonprofit’s age makes a difference in whether or not they make changes. Older organizations are more likely to pursue additional earned income through increasing client fees, sales, or expanding, suggesting a greater capacity to make revenue streams more sustainable.

The organization’s region has varied effects on their decision to adopt some changes. The regional difference matters as it suggests the environmental circumstances that either help or discourage making changes. This finding calls for more research.

Finally, financial factors influence organizational actions. Higher program revenue percentages are associated with increased chances of adding new online programs, reducing staff, and pursuing additional earned income. Larger equity/end-of-year assets are associated with several changes, but the impact has been inconsistent across change types.

Conclusion

The last three years have had a dramatic impact on the nonprofit sector. The onset of the pandemic prompted organizations to rapidly and, at times, drastically overhaul their organizational structures, programming, and event activities. The surveys that we conducted at three points in time show that some nonprofits were more resilient than others during the pandemic-caused crisis. Relationships with government partners have been an important factor in the growth or retrenchment of organizations, and our survey results suggest that this became even more pronounced during the crisis caused by the pandemic. For example, the volatility of government funding, for better or worse, seems to have catalyzed programmatic shifts in organizations. Nonprofits least likely to make changes were those that did not experience any changes in their relationships with the government – in terms of both their working relationships and funding. This also suggests, however, that consistent funding and support from the government may be critical to nonprofit stability. Organizations that experienced an uptick in government funding appeared to have capitalized on this support by introducing additional programs and innovative work methodologies, including hybrid programs. Conversely, entities that faced reduced funding also transformed, indicating an adaptive effort to survive during the crisis.

Our findings are consistent with earlier research on organizational adaptation by Mosely et al. (2012). As they wrote, perceived challenges in funding “predicted both expansion and retrenchment, suggesting that, if nothing else, anticipating financial difficulties led managers to make changes, if not always in the same direction” (p. 294). Our study expands on the previous studies, as we found evidence that greater challenges influence changes not only in one or two areas, but across all areas – including workforce, program offerings, advocacy work, and others.

The findings in our study also provide empirical contributions to the literature on the interdependency theory (Salamon, 1987b). The relative increase or decrease of government funding incentivized nonprofit organizations to make changes in many of our categories, from program offerings to staff sizes and advocacy. Nonprofit partnerships with the government have a significant impact on nonprofit operations, for better or worse. Far from being solely independent in decision-making and strategic choices, the funding offered by government agencies influences nonprofit strategy.

Several limitations must be noted before discussing the implications and takeaways of our findings. First, while our study tries to examine the longer-term effect of the pandemic-caused crisis, future research should examine how these challenges transform the nonprofit sector 10 or 20 years after the pandemic. Second, even though we applied survey weights to make the sample more representative, the generalizability of the sample is still limited. Further, the findings are more relevant to nonprofit organizations in arts and culture and human services, and the changes and challenges seen in other subsectors, such as healthcare and education, could have been different.

Lastly, the attrition from the first survey to the last prevented us from providing a truly longitudinal study with the available data. We were able to evaluate trends in our sample as a whole, but not the impacts felt by individual nonprofit organizations and the changes they made accordingly. For example, could nonprofits that reported more significant changes in early 2020 rebound through additional government support? Did nonprofits that were more stable at the beginning of the pandemic crisis have the needed capacity for strategic planning, thus making them able to take better advantage of innovations when needed? These questions can be further explored in future research via more qualitative approaches using the cases of 78 organizations that answered all three surveys.

Nonetheless, our study offers a valuable array of insights for nonprofit managers and leaders seeking to navigate the complex landscape of organizational sustainability, growth, and crisis management. First, the cultivation and sustenance of robust and collaborative relationships with governmental entities and other stakeholders emerge as pivotal factors in bolstering the resilience of nonprofit organizations, particularly during times of crisis. These relationships not only provide immediate support, but also serve as strategic footholds for future expansion and development.

Second, a central focus is placed on senior staff and board members who have the potential to become adept architects of organizational adaptability. When equipped with a keen awareness of stakeholder expectations and community needs, nonprofit leaders are well-prepared to orchestrate seamless adjustments in response to evolving circumstances. The ability to navigate unforeseen challenges hinges upon this comprehensive understanding, enabling timely adaptations that align with emerging needs. Such adaptable leadership and agility do not come in a vacuum and should be developed during non-emergency times.

Third, the most important lesson in our study is that an intriguing paradox emerges where proactive planning in the face of uncertainty acts as a catalyst for transformation and growth. While instinctive responses might lean toward retrenchment, our empirical evidence underscores the benefits of a comprehensive approach that analyzes challenges from various angles. Our analysis uncovers opportunities concealed within adversity, empowering nonprofits to turn unexpected crises into stepping stones for future success.

It goes without saying that to be able to benefit from uncertainty, rather than shrink from it, an organization requires strong leadership among its board of directors and senior staff. Further, organizations must continue to foster financial stability through prudent practices, such as nurturing operating reserves and diversifying revenue streams. These measures stand as pillars of resilience, equipping nonprofits to weather the unpredictable currents of uncertainty. Additionally, the imperative of a crisis management plan emerges as the linchpin of preparedness. Such a plan serves as a compass that guides organizations through tumultuous waters, offering a systematic means to assess the environment and evaluate alternative courses of action. By embedding such a strategy, nonprofits not only mitigate risks, but also harness unforeseen circumstances as platforms for innovation.

In summary, our study underscores the crucial role of government–nonprofit partnerships, adaptable leadership, and proactive planning for changes during a crisis. Our findings also emphasize the transformative potential embedded within challenges. The insights offered here illuminate a roadmap that nonprofit managers and leaders can traverse to navigate ambiguity, embrace change, and forge a sustainable path toward growth and impact.

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